Performance Audit

Inspection Tag Inventory Controls

Planning Department

Report No. 18-102

CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT

PERFORMANCE AUDIT REPORT
INSPECTION TAG INVENTORY CONTROLS
REPORT NO. 18-102

Although the audit was initiated to help the Planning Department (Planning) ensure the accuracy, accountability and safeguarding of the department's inspection approval tags, the Office of Internal Audit (OIA) discovered that Planning considers the inspection results documented on POSSE as the official record for City inspections. As a result, the audit finding was modified to address Planning's current practices and the assurance misconception between Planning and stakeholders who receive the inspection approval tags.

Executive Summary

Planning's Building Safety Division is responsible for ensuring construction work within the City complies with approved plans and building standards. This responsibility lies with City inspectors who perform inspections for permitted projects. If an inspector deems the permitted work to be compliant with approved plans and building standards, an inspection approval tag is issued and the result is entered into the City's electronic permitting and inspection database known as POSSE.

Inspection approval tags are not the City's official record for successful building code inspections, which may provide a false sense of assurance to stakeholders. The City's official record for successfully passing code inspections is maintained in the POSSE system. However, Planning has not updated the City's website and *Development Process Manual* to align with current practices or informed stakeholders about the insignificance of the inspection approval tags.

Ultimately, a misconception exists between Planning and stakeholders about the assurance inspection approval tags provide. To Planning, the inspection approval tags carry no value. To the stakeholders, the tags signify that work has been completed according to applicable regulations and approved by a certified inspector. This misconception must be addressed by Planning, which would mitigate the risk of stakeholders placing false reliance on the physical inspection approval tags.

By aligning inspection regulations with current practices and ensuring all stakeholders are informed of such changes, Planning will be able to address the assurance misconception that exists for inspection approval tags.

Planning will begin the implementation of OIA's recommendation to disclaim the approval tags by October 1, 2019.

Recommendation

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Planning should:

- Align the City's website, *Development Process Manual*, and other applicable regulations with current inspection practices.

- Inform all stakeholders of Planning's current inspection practices and clearly communicate that inspection approval tags are not the City's official record for the successful completion for permitted work.

- Revise all inspection approval tags to include a disclaimer informing the stakeholders that inspection tags are not the official City record and verifications must be validated with the information in POSSE.

- Consider researching other cities practices to identify and determine the most advantageous inspection practices.

City of Albuquerque
Office of Internal Audit

October 24, 2018

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Inspection Tag Inventory Controls
                    Planning Department
                    Audit No. 18-102

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit to evaluate the effectiveness of the internal controls used by the Planning Department (Planning) to ensure the accountability, accuracy and safeguarding of the inventory of inspection approval tags. The audit was included in OIA's fiscal year (FY) 2018 audit plan. Information pertaining to the audit objectives, scope, limitations, and methodology can be found in **Appendix A**.

On December 9, 2015, the Office of Inspector General (OIG) released a report citing improprieties committed by a former Planning inspector. The inspector performed contract plumbing work for several projects and subsequently issued inspection approval tags on the work he completed. The report states, "The former inspector also inspected the contract work that he performed and inappropriately issued green approval tags." The invalid approval tags were discovered because a mechanical contractor contacted Planning and learned that none of the previous inspections had been entered into the department's database. OIG recommendations for the Building Safety Division (Building Safety) include:

- Creating and implementing a directive which addresses the entry of all information related to inspections into the database, and
- Having inspection tags that are pre-numbered so they can be tracked and reconciled with Division records. Each inspector should check out tags so there is a record for who issued each tag.

The New Mexico Administrative Code (NMAC) requires permits to be obtained before new buildings are constructed or existing buildings are altered, improved, or removed. It also requires
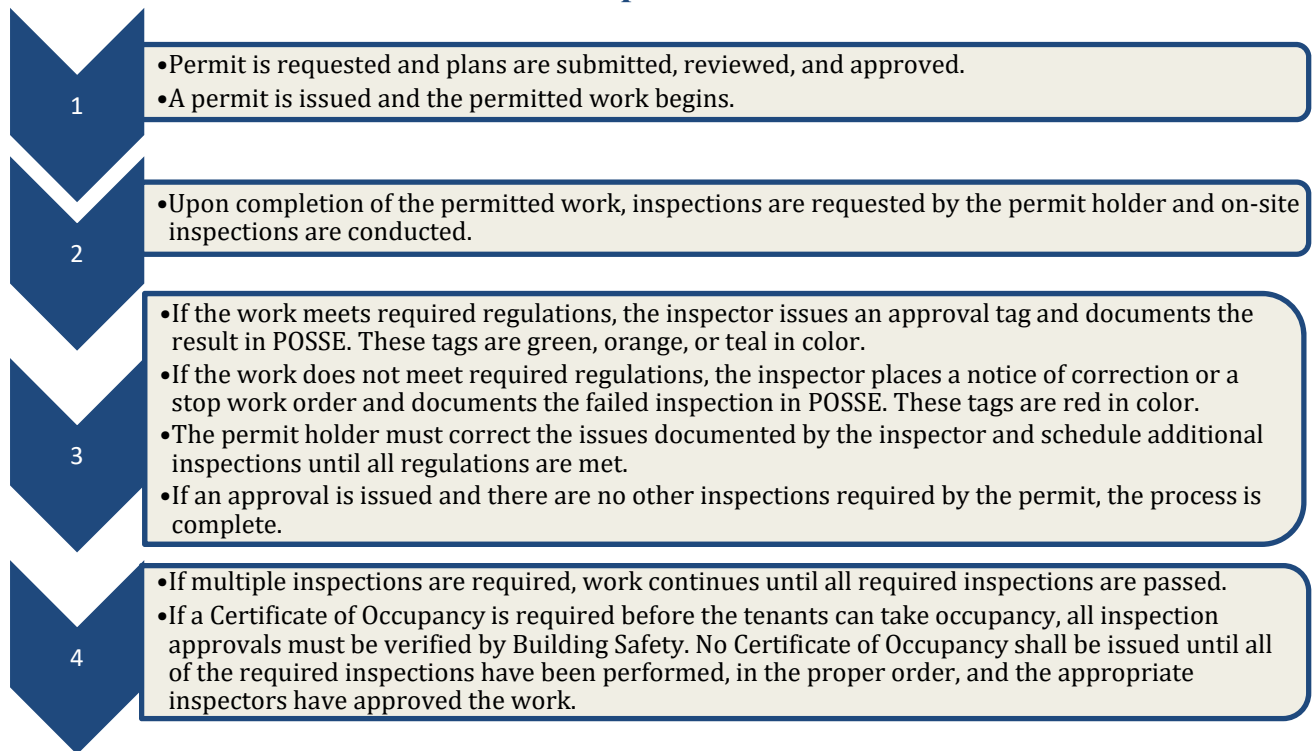
that all work, for which a permit is issued, be inspected to ensure the work complies with applicable code.

Building Safety is responsible for ensuring construction work within the City complies with approved plans and building standards. Building Safety is comprised of three sections representing four trades, which are explained below.

- The Building Section conducts inspections on structural slabs and foundations, seismic components, framing, wallboard, insulation and related construction elements to ensure compliance with all applicable building codes and regulations.
- The Plumbing and Mechanical Section conducts inspections on plumbing and or mechanical systems to ensure compliance with applicable building codes and regulations.
- The Electrical Section conducts inspections on electrical systems to ensure compliance with applicable building codes and regulations.

The following graphic provides a high-level detail of the building permit and inspection process.

Permit and Inspection Work Flow

1
- Permit is requested and plans are submitted, reviewed, and approved.
- A permit is issued and the permitted work begins.

2
- Upon completion of the permitted work, inspections are requested by the permit holder and on-site inspections are conducted.

3
- If the work meets required regulations, the inspector issues an approval tag and documents the result in POSSE. These tags are green, orange, or teal in color.
- If the work does not meet required regulations, the inspector places a notice of correction or a stop work order and documents the failed inspection in POSSE. These tags are red in color.
- The permit holder must correct the issues documented by the inspector and schedule additional inspections until all regulations are met.
- If an approval is issued and there are no other inspections required by the permit, the process is complete.

4
- If multiple inspections are required, work continues until all required inspections are passed.
- If a Certificate of Occupancy is required before the tenants can take occupancy, all inspection approvals must be verified by Building Safety. No Certificate of Occupancy shall be issued until all of the required inspections have been performed, in the proper order, and the appropriate inspectors have approved the work.

According to the City's approved budget for FY2019, Planning estimates they will issue 5,994

permits and conduct 80,416 inspections. The table below details the permit and inspection estimates by section.

Estimated Permits and Inspections for FY2019 by Section

Building Safety Section	Estimated Number of Permits to be Issued	Estimated Number of Inspections to be Conducted
Building Section	4,563	24,485
Electrical Section	924	21,510
Plumbing/Mechanical Section	507	34,421
Total	**5,994**	**80,416**

Source: City of Albuquerque FY2019 Approved Budget

In September 2016, Planning began using an electronic permitting and inspection database known as POSSE Land Management System (POSSE) to manage and maintain building permit and inspection information. POSSE can be accessed by permit holders and the general public to search for permit and inspection activity. However, information within POSSE does not contain historical data prior to September 2016.

The information within POSSE is the official City record for inspections. Prior to POSSE, the City used a less dynamic system as the official City record for inspections named KIVA.

**Note: Although the audit was initiated to help Planning ensure the accuracy, accountability and safeguarding of the department's inspection approval tags, OIA discovered that Planning considers the inspection results documented on POSSE as the official record for City inspections. As a result, the audit finding was modified to address Planning's current practices and the assurance misconception between Planning and stakeholders who receive inspection approval tags.**

FINDING

The following finding addresses areas that OIA believes could be improved by the implementation of the related recommendations.

1.   <u>PLANNING SHOULD ALIGN INSPECTION REGULATIONS WITH CURRENT PRACTICES AND ENSURE ALL STAKEHOLDERS ARE INFORMED OF SUCH CHANGES.</u>

     Inspection approval tags are not the City's official record for successful building code inspections, which may provide a false sense of assurance to stakeholders. The City's official record for successfully passing code inspections is maintained in the POSSE system. However, stakeholders have not been informed that there is little to no assurance value with the issued inspection approval tags by the City's Building Safety inspectors.

     The City's Chief Building Official stated that inspection approval tags can be easily counterfeited and placed at job sites throughout the City. This is a key reason why the official inspection records reside in the POSSE system and internal controls for ensuring the accountability, accuracy, and safeguarding of inspection approval tags have not been implemented and enforced. Planning considers the issuance of inspection approval tags as a service that is used to communicate the results of an inspection.

     However, Planning has not updated the City's website and *Development Process Manual* to align with current practices or informed stakeholders about the insignificance of the inspection approval tags. For example, the "How It Works" section of Planning's website and Chapter 7 of the City's *Development Process Manual* states that the applicant needs to request a certificate of occupancy after all green tags have been secured. The Chief Building Official stated that this is not the current practice. Consequently, the aforementioned public documents to guide stakeholders through the process have not been updated to reflect Planning's current practice.

     In addition, New Mexico Gas Company technicians who are responsible for connecting natural gas utilities solely rely on the City inspection approval tags to verify code compliance prior to connection and do not access the POSSE system to verify inspections. This also demonstrates that stakeholders are not aware that inspection approval tags serve as a communication tool and should not be relied upon as the City's official record of inspection.

     In an effort to identify common building code inspection practices, OIA surveyed the State of New Mexico and 16 regional and comparable cities' of which 10 responded**.** The

information derived from these surveys will provide Planning with valuable insight of other inspection operations.

The table below illustrates that the official record of inspection for all surveyed cities and State of New Mexico reside in electronic systems/databases. Four cities have discontinued the use of inspection tags and only provide inspection results electronically. In addition, six of the ten respondents have implemented electronic notifications for communicating the results of inspections.   Three cities and the State of New Mexico continue to issue inspection approval tags as the primary means to communicate the results of inspections.

Regional/Comparable City and State of New Mexico Inspection Practices

City	Official Record of Inspection	Use of Inspection Tags
Albuquerque, NM	City system / database	To communicate inspection results.
Austin, TX	City system / database	Inspection tags are not used. Results are communicated electronically.
Dallas, OR	City system / database	Only used for approval of gas utility connections. All other results are communicated electronically.
Dallas, TX	City system / database	To communicate inspection results.
Las Cruces, NM	City system / database	Inspection tags are not used. Results are communicated electronically.
Lubbock, TX	City system / database	To communicate inspection results. Uses physical inspection tags and electronic communication concurrently.
Phoenix, AZ	City system / database	To communicate inspection results.
Provo, UT	City system / database	Inspection tags are not used. Results are communicated electronically.
Roswell, NM	City system / database*	To communicate inspection results.
Salt Lake City, UT	City system / database	Inspection tags are not used. Results are communicated electronically.
State of New Mexico	City system / database	To communicate inspection results.

* Roswell maintains a spreadsheet of inspection results, and enters results into a database each month.   Source: OIA surveys

The Chief Building Official stated that when building permits are issued, the requirements for inspections and the Certificate of Occupancy are verbally communicated to the permit holder. Planning does not issue tags or approvals to homeowners unless the home owner is the permit holder. Planning does not consider it its responsibility to notify third parties of

the meaning of inspection tags, which are ultimately issued to permit holders. Since contractors or permit holders have never informed Planning of a misconception that the tag is not an official document, Planning does not believe it to be a widespread problem.

The Chief Building Official also stated that he was unaware that the website indicated false information and the website will be corrected as soon as possible. The City's *Development Process Manual* is not updated because it is just a guide for developers, and is not the code they enforce. Planning has adopted City Ordinance Section 14-1-3 ROA 1994.

Ultimately, a misconception exists between Planning and stakeholders about the assurance inspection approval tags provide. To Planning, the inspection approval tags carry no value because the official record resides in POSSE, while to the stakeholders, tags signify that work has been completed according to applicable regulations and approved by a certified inspector. This misconception must be addressed by Planning, which would mitigate the risk of stakeholders placing false reliance on the physical inspection approval tags.

RECOMMENDATIONS

Planning Should:

- Align the City's website, *Development Process Manual*, and other applicable regulations with current inspection practices.
- Inform all stakeholders of Planning's current inspection practices and clearly communicate that inspection approval tags are not the City's official record for the successful completion for permitted work.
- Revise all inspection approval tags to include a disclaimer. This disclaimer will mitigate the risk to the City by informing the stakeholders that inspection tags are not the official City record and verifications must be validated with the information in POSSE. The disclaimer should include the following:
    - Clearly identify that inspection approval tags are not the City's official record, and
    - Include sufficient information and instructions to confirm the validity of inspections such as the City's website address to POSSE and Planning's contact information. Reference **Appendix B** for a potential example.
- Consider researching other cities practices to identify and determine the most advantageous inspection practices.

Should Planning management forego the implementation of the recommendation

above; we recommend that Planning:

- Establish and document policies and procedures that provide clear communication, and comprehensive instructions and guidelines for the physical count and control of inspection approval tags. They should generally include everything an employee needs to know to complete the requirements of a specific task for the physical count;
- Update policies and procedures to establish accountability and responsibility for the overall physical count of inspection tags. Identify the level of personnel responsible for the overall inventory. Set performance expectations and hold personnel accountable for those expectations. Outline procedures for maintaining accountability for tags distributed to Planning personnel;
- Ensure only pre-numbered inspection approval tags are used by Building Safety, and discontinue the use unnumbered tags;
- Ensure each of the Chief Inspectors maintains a detailed log documenting the release of tags to the inspectors in their section. Ensure each of the entries is approved and validated;
- All inspection approval tags issued on job sites by inspectors should be entered into POSSE, and the entries should be monitored for completeness and accuracy. They should also be reconciled to the logs kept by the Chief Inspectors; and
- Consider standardizing the data entry format to increase the efficiency of researching and reconciling data entered in the comments field.

RESPONSE FROM PLANNING

"The Planning Department believes that the communication offered to the permit holder by the approval tag has value and convenience. Although the tag is not the official document of record, it does offer an effective communication to many of those that request over seventy five thousand inspections annually. The Department agrees that there is a possibility that someone other than the permittee may misunderstand the meaning of an approval tag and will begin implementation of the Office of Internal Audit's recommendation to disclaim the approval tags issued by the Building Safety Division.

"The Auditor's findings refer to a misconception from stakeholders. Those stakeholders that are referenced may not be those that were issued a permit or those the jurisdiction regulates. However, the Department recognizes that changing the approval tags and reconciling all the

information on the various Planning documents with the Building Safety Division's adopted ordinance would limit the chance of confusion from those impacted by the permitting and inspection process."

ESTIMATED COMPLETION DATE

"October 01, 2019"

CONCLUSION

By aligning inspection regulations with current practices and ensuring all stakeholders are informed of such changes, Planning will be able to address the assurance misconception that exists for inspection approval tags. Planning can further mitigate the risk of inspection approval tags being perceived as official City records by placing a disclaimer on each tag that notifies and guides stakeholders to the official City record in the POSSE system.

We received excellent cooperation and assistance from Planning's management and staff during the course of our interviews and fieldwork. We greatly appreciate their assistance, involvement and cooperation throughout the audit process. They were a pleasure to work with.

PREPARED:

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Chad Mantelli, Principal Auditor
Office of Internal Audit

REVIEWED:

_____
Lawrence L. Davis, Internal Audit Manager
Office of Internal Audit

APPROVED: APPROVED FOR PUBLICATION:

_____   _____
Jim Thompson, City Auditor   Chairperson, Accountability in
Office of Internal Audit   Government Oversight Committee

APPENDIX A

OBJECTIVE

The audit objectives were to determine:

1. Are Planning's inventory controls effective for ensuring the accountability and accuracy of the inventory of inspection approval tags?
2. Are Planning's physical controls effective for safeguarding the inventory of inspection approval tags?

SCOPE AND LIMITATIONS

The audit did not include an examination of all functions, activities, or programs within Planning, but rather focused on the inventory and physical controls in place for the inventory of inspection approval tags, and was limited to the objectives listed above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on September 25, 2018 and does not reflect events after that date.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) and existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist. Accordingly, we do not express an opinion on the effectiveness for Planning's inclusive internal controls.

As part of the performance audit, we tested the City's compliance with certain provisions of laws and regulations that could directly and significantly affect the objectives of our audit. However, opining on compliance with those provisions was not an objective of our performance audit and accordingly, we do not express an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:
- Obtain and review the most current, up-to-date policies and procedures regarding inspection approval tags;
- Review applicable regulations such as New Mexico Administrative Codes, New Mexico Commercial Building Codes, and City of Albuquerque Development Process Manual;
- Interview key Planning employees regarding inventory processes concerning the inspection approval tags;
- Interview key Planning employees regarding physical controls over the safeguarding of inspection approval tags;
- Obtain and review documentation pertaining to the physical count of inspection approval tags;
- Obtain and review copies of inspection tag logs;
- Compare information from the logs to the information in POSSE;
- Statistical, judgmental or other sampling methodologies were not performed for this audit;
- Survey regional and comparable cities, and the State of New Mexico to gain insight and best practice information for inspection tag practices;
- Summarize all findings and provide auditee with recommendations that will help to strengthen internal control, cost savings, and operating efficiency and effectiveness; and
- Other methodologies as needed.

APPENDIX B

Potential Example for Revised Inspection Approval Tags

Front

Building & Safety Division
City of Albuquerque
□ Building □ Plumbing □ Electrical □ Mechanical

Permit No. _____Date: _____

Location:_____

Approved By: _____

DISCLAIMER - This tag is not an official record of inspection. To
verify the result of this inspection please see the reverse side of this tag.

Back or lower portion of front

To verify the result of this inspection please visit:
http://posse.cabq.gov/posse/pub/lms/Login.aspx
1. (Specific instructions for the search should be added by Planning
   Management)

OR

Call Building and Safety at 924-XXXX or 924-XXXX
   ⇨ Please have the following information when calling
      • (Insert what you would like the stakeholder to provide)