

**REVIEW OF  
BUILDING CODE ENFORCEMENT  
FUND REVENUES**

**NOVEMBER 2010**



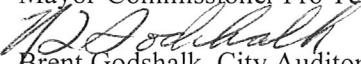
**CITY AUDITOR'S OFFICE  
CITY OF GAINESVILLE, FLORIDA**

*City of*  
**Gainesville**

*Inter-Office Communication*

November 30, 2010

**TO:** Audit, Finance and Legislative Committee  
Mayor Craig Lowe, Chair  
Mayor-Commissioner Pro Tem Jeanna Mastrodicasa, Member

**FROM:**   
Brent Godshalk, City Auditor

**SUBJECT:** Review of Building Code Enforcement Fund Revenues

**Recommendation**

The Audit, Finance and Legislative Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

**Explanation**

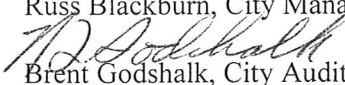
In accordance with our Annual Audit Plan, we have completed a Review of Building Code Enforcement Fund Revenues. Our report, which includes a response from the City Manager, is attached for your review.

We request that the Committee recommend the City Commission accept our report and the management response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

*City of*  
*Gainesville*

*Inter-Office Communication*

October 26, 2010

**TO:** Russ Blackburn, City Manager  
**FROM:**   
Brent Godshalk, City Auditor  
**SUBJECT:** Review of Building Code Enforcement Fund Revenues

In accordance with our Annual Audit Plan, we have completed a Review of Building Code Enforcement Fund Revenues. During our review, we interviewed key personnel, analyzed financial and operating information and tested management controls. The primary objective of this audit was to evaluate the adequacy of management controls over the billing and collection of Building Code Enforcement Fund revenues.

Based on our review, we believe that the Building Inspection Department has adequate internal controls in place over the billing and collection of Building Code Enforcement Fund revenues. Management has also established documented policies and procedures related to Building Code Enforcement Fund collections and have implemented initiatives related to computerization of the processes related to building permitting, plan review and inspection services.

The attached draft report provides several recommendations we believe will assist management in strengthening the process of billing and collecting Building Code Enforcement Fund revenues. Our recommendations for improvement were reviewed with Building Official Doug Murdock during our exit conference held on October 4<sup>th</sup>. Since that time, Doug has worked with my office to finalize any necessary edits to our report and to provide written management responses to our recommendations. I would like to acknowledge Doug and the members of the Building Inspection Department for their cooperation during our review.

Please review the attached written report, which documents our audit recommendations and the responses from the Building Inspection Department, and let me know if you have any questions, comments or concerns with the information presented. Our final report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next meeting is currently scheduled for November 30, 2010. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process.

cc: Erik Bredfeldt, Planning and Development Director  
Doug Murdock, Building Official

## **OBJECTIVES, SCOPE AND METHODOLOGY**

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Building Code Enforcement Fund Revenues. The primary objective of this audit was to evaluate the adequacy of management controls over the billing and collection of Building Code Enforcement Fund revenues and to test associated transactions for compliance with applicable laws, policies and procedures. Our procedures included interviewing key personnel, analyzing billing and collection information and testing management controls. The scope of our review was generally for Building Code Enforcement Fund Revenues during fiscal years 2008 and 2009.

As for all of our audits, 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.

Based on the results of our review, we have prepared several recommendations for improvement in the process of billing and collecting Building Code Enforcement Fund revenues, which were discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

## **BACKGROUND INFORMATION**

The Building Inspection Department is responsible for issuing building permits, performing inspections and providing plan review for all new and remodeled construction performed in the City of Gainesville.

### ***First Step Center***

The First Step Center is the City of Gainesville's permit and development assistance center. Building Inspection Department staff coordinate the Center, which provides a convenient, one-stop location where business owners, developers, and other interested persons receive development and permitting information from several city departments at one time. By meeting with First Step staff, interested parties can find out about the regulations that apply to their development or building activity, issues of concern they should address and whether their development is consistent with the City's comprehensive plan. During First Step meetings, City staff from the Building Inspection Department, Planning Division, Public Works Department, Gainesville Regional Utilities and Fire Protection provide preliminary information to help facilitate the development process. Information provided can relate to the process of obtaining building permits, submitting development plans for review, availability of utilities at the site, sign regulations, parking requirements, transportation issues, comprehensive plan issues, fire safety requirements, zoning regulations such as setbacks and allowable activities within zoning districts, stormwater management and environmental protection requirements.

### ***Plan Review, Permitting and Inspections***

Plan review is one of the most important functions in the construction permitting process. Before construction begins, Building Inspection Department staff review and return an approved set of plans to the contractor or "owner-builder." This approved set of plans is then kept on the construction site for all of the inspectors to access when performing their inspections. The approved set of plans lets inspectors know that plan review staff has checked the plans for Code compliance and released it to the contractor or builder with or without construction notes.

Inspections are the quality assurance part of the process. A passed inspection means that an inspector, certified by the State of Florida, has checked the work of the contractor or builder and determined that the work performed complies with the codes in effect at the time of the inspection.

### ***Annual Revenues***

The Building Inspection Department is primarily funded with permit and inspection fees collected by the department that are accounted for within the City's Florida Building Code Enforcement Fund, an enterprise fund first established for fiscal year 2007. As noted in the following Issue #1, fund revenues have varied considerably during the first four years of operation, ranging from a high of \$5.4 million in fiscal year 2007 to a low of \$1.7 million in fiscal year 2009.

## ISSUE #1

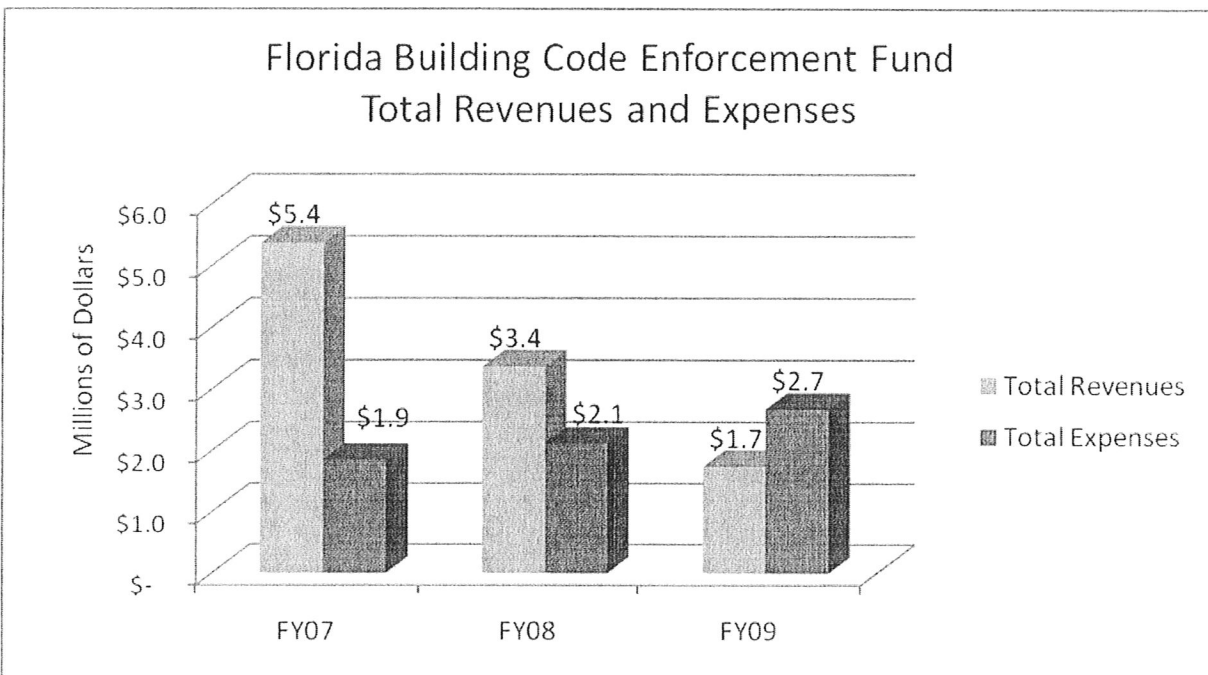
### Revenues, Expenses and Cost Recovery Methodology

#### Discussion

Florida Statute 166.222, Building Code Inspection Fees states: “The governing body of a municipality may provide a schedule of reasonable inspection fees in order to defer the costs of inspection and enforcement of the provisions of its building code.”

Further clarification is provided in Florida Statute 553.80(7), which states: “When providing a schedule of reasonable fees, the total estimated annual revenue derived from fees ... may not exceed the total estimated annual costs of allowable activities. Any unexpended balances shall be carried forward to future years for allowable activities or shall be refunded at the discretion of the local government.”

The following chart shows revenues and expenses of the Florida Building Code Enforcement Enterprise Fund for fiscal years 2007, 2008 and 2009, utilizing the new fee structure established in fiscal year 2007.



As displayed by the chart, fiscal year 2007 and 2008 revenues greatly exceeded expenses, resulting in total fund net assets of approximately \$4.7 million at the end of fiscal year 2008. During fiscal years 2008 and 2009, revenues dropped significantly, resulting in a reduction to total fund net assets to approximately \$3.8 million at the end of fiscal year 2009. For fiscal year 2010, no significant change in net assets is expected for this fund.

#### *Fee Methodology*

The fees currently used by the City of Gainesville are generally based on project valuation methodology taken from the Building Safety Journal, a publication produced by the International Code Council (ICC). The ICC is a standard-setting body that develops building codes. However, the City does not use part of the methodology prescribed by the ICC regarding establishing a “Permit Fee Multiplier” based on the budgeted expenses of the department and the total annual construction value for the past year. Instead,

the City of Gainesville generally utilizes a methodology applying a cost per thousand dollars of building valuation calculated with the ICC methodology.

The City's Building Official indicated that prior to the implementation of the newly established fees during fiscal year 2007, analysis was performed confirming the City's fee structure would reasonably fit a cost-recovery standard and that after these new fees were established, a subsequent analysis was performed to make sure that costs were being properly recovered. However, no documentation could be provided regarding these analyses.

### **Conclusion**

The City's Building Code Fund has experienced significant fluctuations in the revenues generated during its first few years of operation, due primarily to an unstable economy's impact on building activity. A significant fund balance was established during the first two years of operation, which is required to be maintained within the Fund. Management could not provide adequate documentation regarding linking the established fee methodology to the expected costs within the Fund and has no documented plan for managing the current Fund balance.

### **Recommendation**

We recommend management:

- Evaluate the methodology utilized to establish permit fees, taking into account the ICC methodology on linking total annual construction value for the past year to budgeted Fund expenses for the following year.
- Establish a management policy regarding balancing the appropriate level of Building Code Fund balance with the fiscal environment within the construction industry. The healthy fund balance established within the first few years of operation can be utilized to moderate any permit fee increases during periods of suppressed economic activity.

### **Management's Response**

- The methodology the City has used has always been the cost per square foot calculation based on the occupancy type and construction type from the ICC publication. This gives us a calculated cost of construction; the valuation table analyzes this amount to get the total fees for the permit. We found that this method is simpler to understand for our staff and our customers.
- We have been discussing a management policy concerning the fund balance for a few months. Based on revenue collections over the last three fiscal years we feel that a \$2,000,000.00 minimum surplus needs to remain in the fund to be able to offset any revenue losses we may incur over the next few years. This written policy will be put in our management plan and monitored on a quarterly basis.

## ISSUE #2

### Accuracy and Timeliness of State Fees Payable

#### Discussion

The State of Florida levies two surcharges based on the square footage of many building projects. The City charges builders these amounts at the time of permit application and later remits the fees to the State.

During our review, we noted one building permit receipted in two separate payments of approximately \$82,000 each. Based on the size of the project, the State should have received approximately \$3,300 in surcharges. However, the amount required for the surcharge was only identified and properly recorded as surcharges payable for the first payment. For the second payment, the entire payment was inadvertently recorded as fee revenue, resulting in \$1,630 due the State not being recorded as a payable. We also noted a considerable lag between the collection of surcharge monies and their payment to the State.

#### Conclusion

All surcharges payable should be recorded when they are incurred and remitted to the State in a timely manner. The error noted within our review resulted in building permit revenues being overstated and the surcharge payables account being understated by the same amount. Management indicated that it is very unusual for a single project to be divided into multiple payments and that the customer service specialist receiving the second payment would not know to use any special classifications other than revenue unless they retrieved the original documentation from the first payment. Management also indicated that they would adjust the erroneous entry and note the adjustment in the file.

#### Recommendation

We recommend management ensure that staff are properly trained and informed on how to handle split payments for building permits and that payments due to the State of Florida are remitted in a timely manner.

#### Management's Response

- The department has implemented a procedure to make sure the State Surcharge fee is calculated correctly and 100% of the Surcharge is collected with the Pre-Plan Review application. We have created a spreadsheet to be filled in at the application stage, scanned and attached to the preplan review application. When a contractor applies for the building permit, staff will print the attachment and charge the fees from the spreadsheet payable with the building permit application. A note will be placed in the "comment" field of the Pre-Plan application that states, "See the attachment tab for fees due upon Building permit application." Also quarterly reports and payments will be remitted to the State timely.

We have enclosed a copy of the spreadsheet for clarification (see Attachment A).



## ISSUE #3

### Other Operational and Procedural Improvements

#### Discussion

During our review of Building Code Enforcement Fund revenues, we noted the following areas where we believe operational and procedural improvements should be implemented:

#### Re-inspection Fees

During our review, we did not observe any re-inspection fees (or other penalty items) applied to customers and there is no separate tracking for such items. Building inspection staff and management indicated that inspectors treat re-inspection fees as a tool of last resort. Other municipal audit departments we surveyed noted similar non-utilization of re-inspection fees.

There is little economic pressure to apply re-inspection fees at the current time, due to the significant fund balance generated over the past few years. However, as inspection fees become more closely balanced with cost recovery, it becomes unclear whether those customers in compliance by the first inspection are subsidizing the additional costs related to those customers requiring re-inspections. In addition, there are risks that different inspectors may apply re-inspection fees inconsistently to customers or that inspectors would inappropriately pressure customers with the threat of re-inspection fees.

#### Fax Machine Physical Security

The Building Inspection Division maintains a facsimile machine that receives sensitive client data such as credit card information in a non-secure location. Additionally, the fax machine is left on at all times and faxes can accumulate overnight or on the weekends. The form used contains fields for providing credit card information, which is utilized by the cashier for payment. This control weakness represents a large exposure to the City both monetarily and in the trust of its business partners. Sensitive client data such as credit card information should be safeguarded, with only a limited number of personnel permitted access.

#### Software Issues

During our review, we noted the software system utilized to record building inspection activities assigned sequential permit numbers automatically. However, we also noted that the software allowed the sequentially generated permit numbers to be overridden. While our testing did not indicate any breaks in permit number sequence, we would prefer that this feature be eliminated to enhance control. If a permit needs to be voided, this can be accomplished leaving a documented audit trail of the voided transaction. Since the end of our audit testing, management has implemented a new software system for recording and processing permit activity. We were unable to determine if the new software allows for overriding sequentially assigned permit numbers.

We also noted the following issues related to standard naming conventions of the data within the building permit software:

- Addresses for properties that have unit or suite designations have those numbers included in the same field as the street address. Including a separate field for entering a suite, apartment or unit number would simplify address searches.
- There is a great amount of variability in the way data is entered into the permitting software. Different users of the software use different types of descriptions and abbreviations in entering data into the system. For example, all permits have a field for "Structure Description", a common entry being for that of a single family dwelling. We noted several variations as to how the entry

for this type of structure appeared: Sing Fam Dwell, SF Dwelling, SFD, etc. Since many fields such as "structure type" have a large degree of homogeneity, the use of a drop-down menu for item selection may be appropriate to increase efficiency and facilitate consistency when entering permit information.

- Fields requiring proper names should also be structured for greater uniformity and ease of query. Inconsistent data entry of names included listing last name first, including an initial instead of an entire first name, capitalization differences, punctuation differences, use of suffixes, etc. These differences lead to inconsistent and inefficient queries of permit data.

### Vehicle Tracking

Inspectors spend a considerable part of their day in City vehicles, driving to and from their offices and construction sites. Implementation of vehicle tracking utilizing GPS technology could be used to effectively increase safety, promote efficiency, improve control over assets and limit liability. The City of Gainesville has employed this technology in other departments with beneficial results.

### Conclusion

In our opinion, management controls over Building Code Enforcement Fund revenues would be enhanced through implementation of the following recommendations.

### Recommendation

We recommend management:

- Consider clarifying their policy on when re-inspection fees will be charged.
- Enhance physical security over the departmental fax machine and ensure any sensitive information, such as credit card data is protected from unauthorized use.
- Evaluate whether software issues noted in the utilization of the previous building permit software exist in the current software application and implement noted standardization methodology.
- Evaluate the costs and benefits of installing tracking devices in inspection vehicles.

### Management's Response

- We have an internal procedure for when to charge a re-inspection fee, the steps are:
  1. If the job is locked and we cannot gain access to do the inspection, a fee will be charged.
  2. If we have failed an inspection and we left a list of corrections and are now returning to do a re-inspection, we will charge a fee if all or some items on the correction slip have not been completed.

This is a written policy given to each inspector and on file in the Building Official's office.

- Our fax machine is now inside a lockable metal container. Only the two-customer support specialist's and the building official have access to this secure area. It is locked at the end of the day and unlocked in the morning.
- The concerns in the report have been addressed with the implementation of our new software database. Assigned permit numbers cannot be overridden; proper addressing is done using the master parcel system controlled by planning; all data, with the exception of notes, are done using drop-down lists for selection.
- We will evaluate the costs and benefits of installing tracking devices in our inspection vehicles.

Attachment A

Pre-Plan Review		Fees Paid With Pre-Plan		Building Permit Application Fees Due		
Calculated cost of the entire proposed project:						
Example:	Commercial new.	Occupancy	Construction Type	II-A	Sq/Feet	
		M			30000	
	Square footage					
		30000				
	Permit fee			5,386.13		5,386.13
		10,772.25				
	Plan review fee			2,154.45		2,154.45
		4,308.90				
	3% State Surcharge			476.21		
		476.21				
	Interium Fire Assessment Fee					788.6424
		788.6424				
	Factured FPU					
		10.1108				
	<b>TOTALS</b>			8,016.79		8,329.22
		16,346.00				16,346.00



Staff Input

Once completed place this spreadsheet in the "Attachment Tab" of the Pre-Plan application. Place a note in the "Comment" field "See Attachment Tab for fees due upon permit Application"