

Board of County Commissioners
Development Department

CASH RECEIPTS & PERMITTING OPERATIONS
FOLLOW-UP AUDIT (PHASE I)
April 6, 2004

HERNANDO COUNTY CLERK OF CIRCUIT COURT
Audit Services Department
MEMORANDUM

TO: Grant Tolbert, Development Department Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court and

FROM: Peggy Prentice, CIA, CISA, Audit Services Manager

DATE: April 6, 2004

SUBJECT: Development Department Cash Receipts & Permitting Operations Follow-Up 1 Audit

The Audit Services Department's (ASD) Audit Projects Schedule included a follow-up of the Development Department's cash receipts, permitting, and inspection operations audit which was issued November 30, 2001. The original audit was divided into two phases. This project is the follow-up to the Phase I that focused on only cash receipts and permitting operations. The follow-up to Phase II, inspection operations, is currently being reviewed.

Although we exercised due professional care in the performance of this follow-up audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud/abuse will be detected. Specific areas for improvement are addressed later in this report.

The purpose of the follow-up audit report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235 or just stop by my office in Room 201.

ATTACHMENT

copy: CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

BOARD OF COUNTY COMMISSION:

Commissioner Mary Aiken

Commissioner Thomas Mylander

Commissioner Hannah "Nancy" M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Richard "Dick" Radacky, County Administrator

Frank McDowell, Interim Deputy County Administrator

Kurt Hitzemann, Senior Assistant County Attorney

Larry Jennings, Growth and Development Director

George Zoettlein, Office of Management and Budget Director

OTHER:

Chip Jones, Partner, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

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ACKNOWLEDGMENT

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ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. We thank the management and staff for their cooperation throughout the audit.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Manager

Development Department management responses were provided by:

Grant Tolbert, Development Department Director

Development Department management responses were reviewed and authorized by:

George Roussos, former Deputy County Administrator

This audit report was reviewed and authorized by Karen Nicolai, CPA, Clerk of the Circuit Court, on April 6, 2004.

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PURPOSE AND SCOPE

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PURPOSE AND SCOPE

PURPOSE:

The Audit Services Department (ASD) addressed management's corrective action in response to audit recommendations reported in the Development Department Cash Receipts & Permitting Operations Audit, issued November 30, 2001.

SCOPE:

The ASD requested and reviewed management's response to the recommendations included in the November 30, 2001, report. The ASD addressed whether management implemented corrective actions which effectively addressed the original findings and recommendations. The ASD determined if the corrective actions were implemented timely (partially or fully), as stated in management's response. For each recommendation, the ASD evaluated the corrective action, or lack of the same, under current conditions and determined what corrective action, if any, is still needed.

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BACKGROUND

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BACKGROUND

Demographics

The Development Department, commonly referred to as the Building Department, has two locations, one on Providence Boulevard in Brooksville and the second on Forest Oaks Boulevard in Spring Hill (called the west side office). The Department has a staff of approximately 58 permanent employees.

The Department's main functions include permitting for residential and commercial building construction; inspecting work performed on construction sites; contractor licensing; providing citizens with flood and local zoning information; and collecting impact fee revenue. The Department processed approximately 12,250 building permits during FY 2000/01 and it is estimated that the Department will process an estimated 16,000 permits during FY 2003/04.

Changes That Have Taken Place Since November 2001

The Department has undergone several changes since November 2001:

- < During FY 2002/03, the Development Review Committee (DRC) was dismantled. The DRC members continue to review commercial permit packages/plans but not as a committee. The permit documents are forwarded from one department/individual to another until the package is reviewed by all applicable parties. Development staff track and coordinate this review process.
- < During early FY 2003/04, the Department began to revamp its file room and file maintenance system. Implementation of new software allows for the tracking of permit packages and for imaging documents. This has enhanced efficiency.
- < During FY 2003/04 the Department upgraded its automated permit tracking system from DSI to LION. LION is similar to DSI, but unlike DSI, LION is a windows-based program.
- < During FY 2003/04, the Department began an on-line permitting system for contractors requiring "walk-through" permits.

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**DISCUSSION POINTS,
MANAGEMENT'S RESPONSE, AND
RECOMMENDATIONS**

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DISCUSSION POINTS, MANAGEMENT'S RESPONSE, AND RECOMMENDATIONS

FEE SCHEDULE

Summarized Comment - November 2001: Based on a sample of cash receipts tested, it appears that fees charged to builders are generally consistent with the approved fee schedule. However, controls that would safeguard the automated fee rates are inadequate. Cashiers are able to void transactions and staff is able to override automated fee amounts. However, there are controls in place, via segregation of duties, which help to detect irregularities and to ensure the consistency of fees charged and completeness of data.

Recommendation November 2001: Automated fee rates can be modified; therefore, consideration should be given to instituting additional technology based controls that ensure that the database fee schedule cannot be modified without adequate supervision and/or authorization. All such changes should be approved in advance and also be well documented.

Summarized Management Response - November 2001: The automated fee rate tables were placed in the computer to assist the plans examiners in pricing out permit fees, and were never intended to replace the experience of the plans examiners in costing out fees. However, we have become more and more reliant on the computer in evaluating fees. Currently, senior management staff is studying the Department fee schedule, and one of the prime objectives is to simplify the fee schedule. Once the revised fee schedule is approved by the Board of County Commissioners (BCC), which should be presented within 60 days, adjustments from the fee schedule should be less necessary.

Further, staff is preparing a policy on adjusting the "costing of permits" to require that at least two staff members be involved in any adjustment to an automated fee schedule when a plans examiner is not available to consult with. These adjustments will be well documented as to the reason for the adjustment along with the names of the staff members responsible for the adjustment. The policy will be completed immediately after adoption of the final fee schedule.

Management Response - February 2004: The Development Department Fee Schedule was revised and adopted by the BCC on December 3, 2002, and became effective on January 1, 2003. Staff grouped permit types into fee groups to create a "flat fee" pricing system, thereby reducing the need for permit fee adjustments. In the rare instances where permit fees need to be adjusted from the fee schedule, the staff member obtains the approval of his/her supervisor or the Department Director, and documentation is made in the computer system.

ASD Comment - March 2004: It appears that, through a combination of preventative and monitoring controls, management has taken the appropriate corrective action to minimize the potential of concealing unauthorized edit changes to customer accounts.

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CASH RECEIPTS

Summarized Comment - November 2001: The Cashier at the Brooksville office merges data from all of the batch reports received from the two offices and compares the batch totals to the corresponding validated bank deposit slips. The Cashier prepares and reviews automated reports to ensure that all batches have been accounted for and that reversed or edited transactions are correct and have been explained. This Cashier's batch report and the automated report that shows open batches and edited or reversed transactions are not checked by a supervisor. There does not appear to be adequate control over this Cashier's batch processing.

Several employees who have entry door access can access the safe(s). Although deposits of funds are made daily in a banking institution, monies are kept in the safe(s) after hours.

Recommendation Comment November 2001: Management's oversight should be required to change automated data. Cashiers should not be able to void transactions or change the amount charged to customers. All batch reports should be reviewed and approved by some level of supervision.

To ensure the safeguarding of County assets, employees who have entry door access should not also have the safe's combination.

Summarized Management Response - November 2001: We agree that automated data should not be changed without management's oversight. This recommendation has been reviewed and discussed with the Department's cashiers and was implemented after receipt of the draft audit. The cashiers have been instructed to have all daily batch reports submitted for review, approval, and signing by a Department supervisor and/or management staff.

We also agree with the separation of duties regarding door access and access to the safe. These operational changes will be made and implemented no later than January 2, 2002.

Management Response - February 2004: Since receipt of the draft audit, cashiers have been directed not to change fees on transactions. Anytime a change is required in the automated data, cashiers have been instructed to refer the customer or issue back to the employee who entered the data. There are times when transactions need to be voided, and in these instances, the cashiers are required to complete a "Reversal" form giving an explanation for the reversal. This form must be reviewed and signed off by the supervisor.

The duties of the Permit Representatives at the west side office include cashiering functions. Due to the dual role of permitting and cashiering, we cannot limit the access for changing data through the computer system for those employees. However, the computer system tracks data entry by employee on a transactional basis so we know who made entries or changes. We have evaluated the need for a separate cashiering position at the west side office, and have found that this is not a cost-effective solution.

All batch reports are reviewed and signed by management prior to being forwarded to the Finance Department. This has provided management a better opportunity to monitor the financial transactions and procedures of the Department.

Management has made operational changes necessary to ensure that employees requiring access to the safe

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do not have access to enter either the Brooksville or Spring Hill office during off-hours without supervision. Likewise, staff with access to the entry doors do not have access to the safe. Management feels that the issues have been adequately addressed and no further reporting on this issue is planned.

ASD Comment - March 2004: Cashiers are able to void transactions or change the amount charged to customers. Generally, management's authorization is required to change automated data but this procedure is not consistently applied. Batch reports are reviewed and approved by a supervisor. The ASD compared a sample of fees charged to customers to the fee schedule, and no exceptions were identified.

It appears that employees who have entry door access do not also have the safe's combination.

Recommendation March 2004: To ensure that there is an adequate audit trail of all reversed transactions, a Cashier Discrepancy form should be prepared and approved whenever a cashier reverses a transaction.

ESCROW ACCOUNTS

Summarized Comment - November 2001: A sample of escrow account transactions was traced from receipt of the cash to the Finance Department's and the banking institution's records. There appears to have been an automated malfunction which produced erroneous beginning balances on escrow account statements. The Finance Department committed to reconciling its records semi-annually to the Development Department's records and communicating the results of the reconciliation to the Department.

Recommendation - November 2001: The Development Department should review the escrow account statements for accuracy before they are mailed to account holders (contractors). To ensure the accuracy of escrow account records, the Finance Department should reconcile its accounting to the Development Department's records.

Management Response - November 2001: We agree, and this recommendation has already been implemented with receipt of the draft audit. We are reconciling our customer escrow account statements to the Finance records on a monthly basis.

Finance Department Response - November 2001: The Finance Department will reconcile their financial statements to the Development Department's escrow account balances on a semi-annual basis.

Management Response - February 2004: Development Department staff reconciles the escrow account statements prior to mailing to the account holders. When a discrepancy is found, the discrepancy is researched and corrected prior to mailing the statement. When necessary, the Finance Department is contacted for assistance in reconciling an account.

ASD Comment - March 2004: Due to timing delays between the Development Department and the Finance Department, escrow account statements are not checked for accuracy before they are mailed to

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account holders. However, based upon communications with staff, these timing delays may not be avoidable.

At least semi-annually, the Finance Department reconciles its escrow account records to the Development Department's records. No material concerns were identified when testing the accuracy of the Development Department's and Finance Department's escrow account records.

PERMIT PROCESSING

Summarized Comment - November 2001: The Department utilizes the Clerk of Circuit Court's Record Storage Facility for long-term storage of inactive hard-copy permit files. While files are active, the Development Department stores them in its file room at the Brooksville office which utilizes a bar code file tracking system. All permit files selected for testing were located efficiently without exception.

Automated permit records are maintained in DSI. All staff have the ability to add and edit DSI records; therefore, they do not appear to be adequately safeguarded.

The Department's FY 2000/01 permitting performance measurement for the number of days to process a single family residence application, once all appropriate paperwork and information is received, is 15 working days. Management is unable to distinguish between Development Department processing days and the total days the application is in the system, therefore, days-in-process may be overstated by including time taken by the applicant to submit additional information and correct any deficiencies.

Recommendation November - 2001: To enhance the safeguarding of electronic data, consideration should be given to implementing an automated control that limits the staff's ability to change electronic permit file records.

Consideration should be given to implementing an automated procedure by which management is able to determine the amount of days it actually takes to process applications. Once this procedure is implemented, management should periodically compare this processing time to the Department's performance measurement(s).

Summarized Management Response - November 2001: The permit record system does currently allow certain portions of the permit records to be changed by authorized personnel after a permit is finalized. We will review the employee access records, and take the steps necessary to limit the number of staff who have access to make these changes and/or the portions of the record which can be changed. Only limited management staff should have access to make these changes.

Currently, the permit record system only tracks the total number of days from application filing date to the permit issuance date, which does not reflect the actual time for processing a permit. The permit record system will have to be adjusted by the Technology Services Department in order to track the stay in processing while the Department waits for the information from the applicant. With adjustments to the

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system to include fields for “deficiency” and “deficiency received” the actual processing time can be automated. We agree to work with Technology Services on this modification to DSI. The actual date will depend upon that Department and reasonable time for training staff following the modification.

Management Response February 2004: The Development Department staff worked with the Technology Services Department to modify the permitting system to further safeguard electronic data. The Technology Services Department recently completed the installation of new software to replace the previous DSI module. With the new software, we have been able to enhance the permitting system to be more user friendly as well as more secure.

Technology Services has created an application tracking screen in the permitting system. We do track the processing time of completed permit applications. Management feels that the issues have been adequately addressed and no further reporting on this issue is planned.

ASD Comment - March 2004: It appears that not enough time has passed to allow for the recommendation to be fully implemented. The Department is in the process of implementing:

1. an enhanced electronic permit tracking system which will include permit package imaging;
2. automated controls that will limit Permit Representative staff’s access rights to change electronic permit file records; and
3. automated “actual” days-in-process reports.

Recommendation - March 2004: Anticipated enhancements, i.e., electronic permit tracking, automated access controls, and days-in-process reports, will provide management with the ability to monitor operations. Therefore, consideration should be given to fully implementing these applications as soon as feasibly possible.

WORK LOAD DISTRIBUTION

Summarized Comment - November 2001: The west side office has significantly more customer traffic and telephone calls than the Brooksville office. Constant disruptions affect concentration and quality of work.

Based on a sample of 579 randomly selected residential walk-through and full process permits, the west side office processes significantly more residential permits than the Brooksville office, at a 4:1 ratio. Similar conclusions were reached when comparing workload per representative per day. In comparing the types of permit applications processed per office, the west side office processed more applications in all categories except LP Gas.

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Recommendation - November 2001: To enhance customer satisfaction and productivity, consideration should be given to evaluating workload distribution.

Three key factors affecting workload have been identified: number of customers served, volume of permits processed, and quality of work performed. The Department has limited control over the number of customers that are served at each office. Due to the one-day turnaround of walk-through applications, it is not feasible to forward paperwork from the west side office to the Brooksville office. Therefore, consideration should be given to concentrating on the placement of existing staff.

Based on observations, it does not appear that additional Permit Representative staff is needed. Rather, consideration should be given to relocating certain staff so that workloads are evenly balanced.

Summarized Management Response - November 2001: Department management staff is aware of the unequal workload distribution between the west side office and Brooksville office. We are planning to offer an on-line permitting system for contractors requiring “walk-through” permits. This system will allow the permit to be applied for and issued without having to come into our office. A major portion of the workload in our west side office is “walk-through” permits, and the on-line system should help with the workload distribution.

We feel that the recommendations made in the audit are helpful, and the Department management will continue monitoring the workload balance and make appropriate staffing adjustments as necessary.

Management Response - February 2004: The Department has continued to work with Technology Services on the on-line permitting system. We have been able to offer on-line permit issuance for three different types of permits. We have encouraged eligible contractors to use the system, which has helped the “walk-through” workload at the west side office; however, the majority of the work coming in at the west side office continues to be “walk-through” permits.

Due to an increase in the construction industry, both the Brooksville and the Spring Hill offices have been experiencing a high increase in the amount of permit applications received. Due to the increase in permit activity, we have increased the permitting staff to four (4) Permit Representatives in each office. One of the Permit Representatives at the west side office also functions as cashier. We have not found it cost effective to separate the cashier functions from the Permit Representative position in the west side office. To further evenly distribute the workload in each office, we have staffed two (2) plans examiners in each office. The latest statistics indicate that each office is taking in approximately the same amount of permits, effectively eliminating the unequal workload that previously existed. Management feels that the issues have been adequately addressed and no further reporting is planned.

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ASD Comment - March 2004: The Department has evaluated the Permit Representatives' workload distribution. Through automation, management is able to track permit application creation points (by staff member and physical location). Based upon the Department's reports, it appears that Permit Representative workload distribution is materially balanced.

EFFICIENCY & EFFECTIVENESS AND STREAMLINING PROCESSES

Automated Tracking System

Summarized Comment - November 2001: Permit packages that are removed from the Department's file room and forwarded to the Record Storage Facility are tracked using a bar code system. However, when permit packages are removed from the Department's file room to be used internally, they are tracked by entering the permit number and location into the DSI database. This re-entering of the bar code to track - packages appears to be inefficient.

Recommendation - November 2001: To eliminate manual processes and increase efficiency, consideration should be given to enhancing the DSI program so that when a new permit number is assigned, the system automatically creates a bar code. Also, each time a permit package is transferred from one physical location to another, the bar code should be scanned so that the physical location of the permit package can be tracked through automation.

Management Response November 2001: We agree that further automation of the DSI program could increase the efficiency of the permitting process and Department operations. We further agree that any time that an automatic process can input a number there is less chance for human error, increasing not only efficiency, but accuracy. We will work with the Technology Services Department to see if the system can be adjusted to automatically print a bar code when a permit application number is generated. We will also evaluate the equipment that we currently have to see if additional equipment or relocation of existing equipment is needed to better utilize the automated processes currently in place.

We have been advised by Technology Services that the DSI program does have limitations in its ability to provide state of the art automation. Approximately four years ago the program was re-written to improve service delivery. Over the next year Department management staff will meet with Technology Services staff and specifically address further automation including the suggestions provided in the audit.

Management Response February 2004: The Development Department recently purchased a document imaging system which is being used to scan permit applications and supporting documents, and inspection tickets. The purpose of scanning the documents is to provide electronic access to them, thereby reducing the need to review or handle the paper copy. This also reduces the need to check out a permit application from one location to another. The intent of the file tracking bar code is being eliminated by the electronic availability of files which is even more effective in protecting the original file integrity. Management feels that the issues have been adequately addressed and no further reporting is planned.

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ASD Comment - March 2004: Due to enhancements to the Department's permitting software and implementation of bar coding practices, several manual processes have been eliminated that have enhanced efficiency. Bar code scanning is used to track the transfer of permit packages from one physical location to another. The Department is in the process of renovating the file room, scanning/imaging documents, and changing the file tracking and maintenance process. Once fully implemented, it appears that these changes will further enhance efficiency.

Inspection Results

Summarized Comment - November 2001: When building inspections are scheduled, a list of inspections to be performed is reported through automation. The results of inspections are manually entered into the DSI database. Per staff, on average, 200 to 300 inspections are performed daily. Staff expends four to five hours per day data inputting inspection results.

Recommendation - November 2001: Consideration should be given to using the bar code system to its full potential. If inspection tickets were printed through automation with the permit number bar code printed on the ticket, the clerical staff would not have to enter the permit number for each inspection ticket. Also, if the types of inspection results were listed by bar code on a master document, the inspection result could be bar scanned and entered into DSI through automation. Per staff, this could decrease the labor hours needed for entering inspection results by up to 50%. However, to do this, management must consider the hardware limitation that does not currently allow the Cashier to have a printer and a bar code device connected to the same PC.

Summarized Management Response - November 2001: We will be evaluating the equipment we currently have and making adjustments as necessary to take full advantage of the automation capabilities of the DSI system. We agree that any automatic input of inspection results would improve service delivery and accuracy. Department staff have evaluated inspection input automation systems currently being used in other jurisdictions. Staff is also evaluating systems that use hand held input devices with downloading capabilities either via internet or through hardware connections. A system of this type will allow the inspectors to input the results of their inspections directly into the database. The Department has recently obtained four computers for the inspectors to begin inputting the results of their inspections. This will provide relief for the Permit Representatives, and also will assist the inspectors in the use of automation devices once they become available. Department management staff will meet with Technology Services staff and specifically address further automation including the suggestion provided in the audit.

Management Response - February 2004: The inspectors now input the results of the rough inspections they complete, and the Permit Representatives input the results of the final inspections completed. This has considerably reduced the number of inspection results having to be entered by the Permit Representatives. The Department has reviewed the automated inspection input systems, and plans to implement this system beginning in the 2004-05 budget year. Management feels that the issues have been adequately addressed and no further reporting is planned.

ASD Comment - March 2004: It appears that due to technological advances, the original recommendation

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is obsolete. The Department anticipates implementing in-the-field real time inspection results. The Department is working with Technology Services to create data input screens whereby Inspectors will:

- be provided an automated itinerary of scheduled inspections;
- be able to input inspection results;
- be able to carry forward inspections to another date; and
- be able to transfer a scheduled inspection to another inspector.

The automated data fields and screen designs are not yet fully implemented and hardware/software has yet to be purchased. Just recently, the Department began imaging of inspection tickets and deficiencies (red tags).

POLICIES & PROCEDURES AND WRITTEN INSTRUCTION MANUALS

Summarized Comment - November 2001: The Department's standard operating procedures (SOP) manual is not complete. Generally, the policies include management's authorization by signature and an effective/revision date. Many of the policy statements rely on procedural information from other written sources and, generally, the policies adequately reference these sources. Forms referenced in the policies are generally housed in the manual. However, the manual is segmented and does not provide the reader with adequate guidance for entire processes. Many policies are outdated and do not reflect current work processes. Some policies are in the process of being revised.

Recommendation November 2001: The Department should continue to develop operational policies and procedures. All forms referred to in the policy statements should be included as exhibits. The Department uses a large number of forms both internally and externally that are constantly being revised. To enable the user to quickly identify the most current version of a form, consideration should be given to implementing a section of the manual that houses all the forms. The form and the corresponding policy should reference each other.

Policies should be written clearly so as to minimize the risk of misinterpretation. To minimize potential liability, policies that address high risk and/or financial areas should be drafted by the Development Department and reviewed by the Legal Department and/or the Finance Department. This allows the Legal Department and/or the Finance Department the opportunity to address legal and financial issues that relate to sensitive information and foster practices that are in compliance with applicable laws and regulations before policies are adopted.

Summarized Management Response - November 2001: This recommendation has been discussed with Department senior management staff. We agree that operational policies and procedures are an integral part of providing consistent service response to the public by a staff in excess of fifty members. We further agree that a single "form" manual tied to a specific policy, statute or law is appropriate.

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Management Response - February 2004: The Development Department maintains a Standard Operating Procedural (SOP) Manual to address permitting or inspection issues that either occur on a random basis, where there have been inconsistencies noted in the way staff handles a specific issue, or for newly developed procedures. Due to the nature of our business, where permit application, plan, and inspection results vary, ad finitum, we do not try to write a SOP for every possibility. Each employee has been provided with the SOP Manual. Management reviews the SOP's on a regular basis at the weekly staff meetings to maintain their accuracy.

ASD Comment - March 2004: Conclusion: The Department's SOPs manual has been updated. All SOPs reviewed included management's authorization by signature and an effective/revision date. Many SOPs were revised in 2002 and 2003. Some SOPs are in the draft stage of development. Based upon the policies reviewed, management has documented internal controls such as decision points, management oversight/authorization, and cash handling/security. Forms referenced in the SOPs are not yet included as exhibits. The SOPs for the bookkeeping function are not yet fully developed. Much of the plans review and building inspection criteria are regulated by external entities, therefore, all-encompassing SOPs in these areas are not included in the SOP manual. Rather, management focused their efforts on documenting directives for handling infrequent activities.

Recommendation - March 2004: Consideration should be given to completing and implementing those SOPs that are not yet fully developed (including the bookkeeping function). Any forms referenced in the SOP manual should be included as exhibits.