

STATEMENT OF WORK

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DATE: [Faint text]

PROJECT: [Faint text]

BY: [Faint text]

**Hernando County Clerk of Circuit Court
Audit Services Department
Audit Report**

**of
Building Permit and Impact Fees Revenue Audit
June 7, 2021**

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MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Doug Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: June 7, 2021

SUBJECT: Building Permit and Impact Fees Revenue Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of Building Permit and Impact Fees Revenue. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "Correspondence to Note" item.

The purpose of this report is to furnish management with 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. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this 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 or abuse will be detected.

The courtesies and cooperation extended by the employees of the Hernando County Building Department, Office of Management and Budget, and the Hernando County Clerk of Court and Comptroller's Financial Services Department during the audit were sincerely appreciated.

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 Audit Services at (352) 540-6235, or just stop by our offices in Room 215.

ATTACHMENT: Building Permit and Impact Fees Revenue Audit Report

Copy: Jim Friedrichs, Building Official

Copy: Board of County Commissioners

Chairman John Allocco
Commissioner Steve Champion
Commissioner Wayne Dukes
Commissioner Jeff Holcomb
Commissioner Eliza-Beth Narverud

Copy: Audit Services Planning & Priorities Committee

The Honorable Doug Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Toni Brady, Director, Office of Management & Budget
Amy Gillis, CPA, CGFO, Director, Financial Services
Jon Jouben, Deputy County Attorney
Tobey Phillips, Deputy County Administrator
Jeffrey Rogers, County Administrator
William Blend, CPA, CFE, Shareholder, MSL P.A.
Jeff Wolf, CPA, Senior Audit Manager, MSL P.A.

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Executive Summary

The purpose of this audit was to provide management with some level of assurance that the Building Department's internal controls for the assessment, collection, and recording of Building Permit and Impact Fees were adequate. In addition, this audit also reviewed the implementation of processes and procedures regarding the assessments for search fees and the balance of carry forward funds for compliance with changes to Florida Statutes as a result of the adoption of HB 447 in 2019.

To accomplish this review, we obtained an understanding of the relevant processes; interviewed staff members; selected financial transactions for testing; and compared job descriptions to the assignment of user access rights for BLDSYS, the system utilized to track Building Permits and Impact Fees.

Our review identified Opportunities for Improvement for cash handling controls; Building Permit Fees; compliance with HB 447 search fee charges; and the assignment of system access rights. These Opportunities for Improvement are addressed in the following discussion points.

Discussion Point 1: Cash Handling Controls

Based on the results of staff interviews, observation, and testing of reports submitted to the Clerk of Court & Comptroller's Financial Services Department, internal controls for the acceptance and processing of payments appeared to be operating as intended.

Although the internal controls appeared to be operating as intended, the Audit Services Department (ASD) identified opportunities for improvement that would strengthen these internal controls. These opportunities for improvement include the following: finalize the draft of Cashiers Procedures; implement dual control or contract with a vendor for depositing payments; segregate the duties of cashiering, reconciling, and depositing of funds; and comply with the Change Funds policy.

Discussion Point 2: Permit and Impact Fees

The Building Department uses the BLDSYS system, managed and supported by the Property Appraiser's Office, to track Building Permit and Impact Fee transactions. The rate table within the system automatically generates the fee amount based on the use type identified and input by the Permit Technician.

To verify that the internal controls built into the system were operating effectively, samples of financial transactions were selected from the BLDSYS system for review. The review disclosed that the internal controls for the assessment and collection of Impact Fees were operating effectively. However, Opportunities for Improvement were identified that would strengthen the internal controls for the assessment and collection of Permit Fees.

These Opportunities for Improvement included the following: update fees in the rate table to agree with the fee approved by the Board of County Commissioners (BOCC); input all fees into the rate table; periodically review the fee schedule and update it as necessary; and periodically review a sample of transactions for accuracy.

Discussion Point 3: Compliance with HB 447

The Governor approved HB 447 on June 7, 2019. This bill became effective on July 1, 2019. This audit only included a review of procedures for the charging of search fees and the allowed amount of the carry forward balance. According to the Final Bill Analysis, among other changes, this bill,

- *Clarifies that local governments may only charge a person one search fee based on costs incurred for a request to identify the building permits for each unit or sub-unit assigned to a parcel of property*
- *Prohibits local governments from carrying forward a budget balance greater than its average cost for enforcing the Building Code for the preceding four fiscal years*

For the carry forward balance, the Financial Services Department committed to performing the calculation. It was determined that, if the balance exceeded the allowed amount, County staff would be responsible for adjusting or reimbursing fees.

An Opportunity for Improvement was identified regarding the charging of search fees. Based on staff interviews, procedures had not been formalized and documented to ensure compliance with Florida Statutes.

Discussion Point 4: System Access Rights

The ASD focused this review on staff members' access rights within the BLDSYS system that permitted them to modify the Fee and Rate tables; Building Application Tabs; and the Impact Fee Override screen. In addition, the Cashiers' access rights were evaluated.

The Building Department had not performed a review of staff members' BLDSYS access rights. As a result, staff members had access rights that exceeded that which was necessary to perform their job responsibilities. The Building Department should assign staff members access rights based on the Principle of Least Privilege.¹ As stated by the Cybersecurity & Infrastructure Security Agency (CISA),

The access you grant employees, managers, and customers into your digital environment needs limits, just as those set in the physical work environment do. Setting approved access privileges and establishing your operational procedures requires knowing who operates on your technology and with what level of authorization and accountability.

CISA recommends that organizations "Restrict user access to only the information, networks, hardware, and applications necessary."

¹<https://www.cisa.gov/sites/default/files/publications/Cyber%20Essentials%20Toolkit%204%2020200818508.pdf>

Acknowledgement

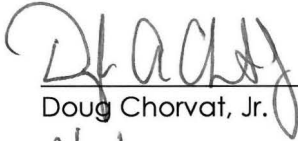
Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Vicky Sizemore, Internal Auditor
Elizabeth Hogan, CIA, CFE, Director of Audit Services

Management's response was provided by: Tobey Phillips, Deputy County Administrator
Jim Friedrichs, Building Official

Management's response was approved by: Jeffrey Rogers, County Administrator

This report was reviewed and authorized by Doug Chorvat, Jr. Clerk of Circuit Court and Comptroller.



Doug Chorvat, Jr.
6/13/2021

Date

BACKGROUND INFORMATION

According to eFinance Plus, the County's financial system, the Building Department recorded total revenue of \$3,842,349 in FY 2019/2020. For the same fiscal year, they recorded Building Permit revenue of \$3,599,606. In FY 2019/2020 Building Permits accounted for over 90% of the total revenue receipts.

In FY 2019/2020, the Building Department averaged Building Permit revenue receipts of \$276,893 for periods 1 thru 13 with the highest amount of \$344,697 recorded in June.

Figure 1 shows Building Permit Fee revenue for the last three fiscal years: FY 19/20; FY 18/19 and FY 17/18.

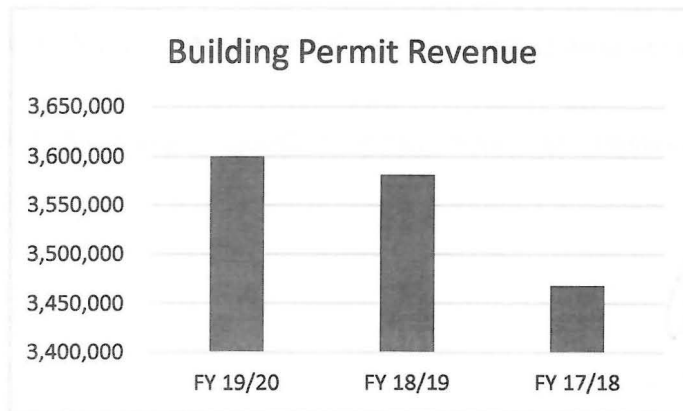


Figure 1 – Auditor generated based on financial data

The most recent Permit fee schedule was approved by the BOCC on September 9, 2014. The approved changes to the fee schedule were effective November 1, 2014 and October 1, 2015.

In addition to approving the Building Permit fee schedule, the BOCC has adopted several Ordinances regarding Impact Fees. Fees for Parks, Capital Facilities, and Fire and Emergency Services were reinstated August 14, 2013 by the adoption of Ordinance Number 2013-01. Educational Facilities fees were reinstated on March 1, 2016 by Ordinance Number 2015-08. The impact fees for Education Facilities were subsequently increased on June 1, 2020 by the adoption of Ordinance 2019-06. Fees for roads were reinstated on March 1, 2016 with the adoption of Ordinance 2015-07.

OBJECTIVE

The purpose of this audit was to provide management with some level of assurance that the department's internal controls for the assessment, collection and recording of Building Permit and Impact Fees were adequate, and to determine if procedures were implemented to ensure compliance with changes to Florida Statutes regarding the charging of search fees and the amount of the carry forward balance.

SCOPE

The audit covered transactions and processes for the period of July 1, 2019 through June 30, 2020.

To accomplish the audit objectives, the Audit Team performed the following procedures:

- Reviewed the applicable Building Department's Standard Operating Procedures
- Interviewed key personnel to obtain an understanding of the internal control environment
- Observed and evaluated cashiering operations
- Tested financial transactions for compliance with the approved Fee Schedule, recalculated transactions for accuracy, and verified that transactions posted to the correct account in eFinance Plus
- Evaluated the BLDSYS rate table for compliance with the approved Fee Schedule
- Compared BLDSYS user access rights to job descriptions
- Evaluated procedures for compliance with Florida Statutes regarding the charging of search fees and the carry forward balance amount

The audit procedures performed identified procedures and practices that could be improved. The Opportunities for Improvement are listed below.

| Opportunity for Improvement | Description | Page Reference |
|-----------------------------|---|----------------|
| 1.1 | Periodically review the manual receipt book for missing receipts | 10 |
| 1.2 | Implement enhanced security measures for daily deposits | 11 |
| 1.3 | Segregate the duties of cashiering, reconciling, and depositing of funds | 11 |
| 1.4 | Comply with Change Funds policy | 12 |
| 1.5 | Finalize Cashier Procedures | 12 |
| 2.1 | Verify that the BLDSYS Rate Table agrees to the BOCC approved rate schedule. | 13-14 |
| 2.2 | Review transactions for accuracy | 14 |
| 3.1 | Implement procedures to ensure compliance regarding the charging of search fees | 15 |
| 4.1 | Ensure user access rights adhere to Principle of Least Privilege | 16 |
| 4.2 | Ensure user rights do not conflict with cashiering duties | 17 |
| 4.3 | Implement periodic review of staff members' BLDSYS permissions | 17 |

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Discussion Points

Discussion Point 1: Cash Handling Controls

To gain an understanding of the cash handling processes in place, the ASD reviewed the draft of the Cashiering Procedures, interviewed management and staff, observed the cashier's office, and selected a sample of Cash Receipt and Batch Edit reports for testing.

The Cash Receipt and Batch Edit reports for ten randomly selected dates were reviewed for compliance with the department's procedures. All reports complied with the department's procedures and were properly submitted to the Clerk of Court & Comptroller's Financial Services Department.

For further review, two of the ten dates were randomly selected for additional testing. For these two dates, all transactions were traced from the Cash Receipt Report to the Batch Payment Edit Report without exception.

Although controls for the receipt and processing of payments appeared to be operating effectively, the ASD identified several Opportunities for Improvement that, if implemented, would strengthen internal controls.

1.1 **Opportunity for Improvement: Periodically review the manual receipt book for missing receipts**

Manual receipts from a pre-numbered, bound receipt book were used in rare cases when the operating system was down. These receipt books were kept in the safe located in the cashier's office. Staff relied on the Hernando County Clerk of the Circuit Court and Comptroller's Financial Services Department to monitor receipt numbers throughout the fiscal year. The manual receipt books were not periodically reviewed for missing receipts by Building Department Staff.

Recommendation: To improve the tracking of manual receipts, management should consider periodically reviewing the manual receipt books to ensure receipts are issued in order and to identify and research any missing receipts.

Management Response: Receipt books continue to be kept in a safe. Access for the safe includes the two assigned cashiers, Finance Supervisor, Operations Mgr., and Building Official. The Finance Supervisor will audit once a month to ensure receipts are in numerical order and books are complete. Audit tracking will be logged in a spreadsheet each month.

Implementation Date: May 2021

1.2 Opportunity for Improvement: Implement enhanced security measures for daily deposits

Bank deposits were done on a daily basis. Based on discussions with personnel, department procedures did not require dual control for cash deposits. One staff member delivered the daily deposit to the bank.

Recommendation: Management should consider either requiring two staff members (dual control) to deliver cash deposits to the bank or contracting with a vendor to pick up and deliver deposits to the bank.

Management Response: We have developed a procedure to implement two (2) employees for depositing funds. One of the employees will be a cashier and the other will be utilized from Building Administration or Contractor Licensing Section to avoid a conflict of interest. If both cashiers are absent at the same time, an assigned back up cashier (Customer Service Tech II from Contractor Licensing section) will be used to cover the position as needed.

Implementation Date: March 2021

1.3 Opportunity for Improvement: Segregate the duties of cashiering, reconciling, and depositing of funds

According to the American Institute of Certified Public Accountants (AICPA),

Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation of key processes, fraud and error risks are far less manageable.²

Discussions with staff members disclosed that the lead cashier processed transactions, reconciled the bank deposit to the receipt reports, and took the funds to the bank.

Recommendation: Management should properly segregate the duties of cashiering, reconciling, and the depositing of funds. Ideally, reconciliations should be performed by a staff member that is independent of the cashiering process. In addition, management should consider implementing changes addressed in Opportunity 1.2 to reduce the risks associated with a staff member physically taking funds to the bank.

Management Response: The Accounting Clerk III is following the assigned job description. The cashiers have another employee verify the cash and initial the deposit ticket prior to the cashiers placing their deposit in a sealed envelope. The other employee to confirm accuracy of the deposit will be either the Permit Supervisor or Finance Supervisor. The sealed envelopes are placed in a sealed bank bag that is cut open at the bank by the bank employee. The staff member that takes the deposit initials a log that has the bag number and the amount listed.

² <https://www.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties.html>

Implementation Date: May 2021

1.4 Opportunity for Improvement: Comply with the change funds policy

The Hernando County Clerk of Circuit Court and Comptroller's Financial Services Department monitors and maintains a log for Change Funds. Financial Services was not notified of Change Funds that were transferred from a former employee to a current employee until after 7 months.

Recommendation: In compliance with County cash handling policies, management should notify the Clerk's Financial Services Department if personnel that were assigned Change Funds resign from the County or transfer to a different position.

Management Response: Staff acknowledges there was a delayed response to the Clerk Finance regarding the change in personnel. In the future, once a new cashier is in place all required documents for this position will be filled out immediately and sent to the Clerk Finance Department prior to any transactions or computer use by the new employee.

Implementation Date: March 2021

1.5 Opportunity for Improvement: Finalize Cashiers Procedures

At the time of the audit, the Building Department did not have finalized and approved procedures for Cashier processes.

Recommendation: Management should review and finalize the draft of Cashier Procedures. Documented procedures assist in the continuity of operations as changes in personnel occur.

Management Response: The Cashier Standard Operating Procedure will be updated and reviewed by all supervisors and training will be conducted for all applicable employees.

Implementation Date: October 2021

Discussion Point 2: Building Permit and Impact Fees

To determine that Building Permit and Impact Fees were charged and collected in accordance with the BOCC approved fee schedules, the ASD selected samples of payment transactions and entries in the BLDSYS rate table for review.

The ASD randomly selected a sample of 60 Building Permit Fee and 40 Impact Fee transactions. The 10 highest dollar Impact Fee transactions were also selected for review. In addition to selecting transactions for review, the ASD selected a sample of 15 entries from the BLDSYS rate table.

To verify that transactions were correctly recorded to eFinance Plus accounts, the ASD judgmentally selected the months of July 2019 through December 2019 for review.

The testing performed by the ASD disclosed that 100% of Impact Fees were accurately assessed and collected and 100% of financial transactions evaluated were accurately posted to eFinance Plus.

The review of Building Permit fees and the BLDSYS rate table, however, disclosed two Opportunities for Improvement that are addressed in this section.

2.1 Opportunity for Improvement: Verify that the BLDSYS Rate Table agrees to the BOCC approved rate schedule

The current fee schedule was approved by the BOCC on September 9, 2014 with effective dates of November 1, 2014 and October 1, 2015. The ASD selected a sample of 15 entries to verify that the rate table in the BLDSYS system agreed to the approved rate. The BLDSYS rate table automatically generates the fee based on the Permit Technician's data entry.

The review of the 15 BLDSYS rate table entries selected for testing along with the testing of Building Permit Fee transactions disclosed five fees that did not agree to the approved fee schedule. Department management also identified an additional four fees that did not agree with the fee schedule.

The fee for Unlicensed Contractors was one of the fees identified that did not agree with the approved fee schedule. This fee was applied to all permit transactions. As a result, the total amount assessed and collected for all transactions selected for testing did not comply with the approved fee schedule.

In addition to fees that did not comply with the approved fee schedule, testing also disclosed that all fees were not included in the BLDSYS rate table. Fees not included in the rate table must be manually entered by staff members.

Recommendation:

Management should review the rate table in BLDSYS and update it so that it to complies with the fee schedule that was approved by the BOCC. If the Building Department staff has determined that the rates should be changed, these changes should be brought to the BOCC for approval and the rate table updated accordingly.

To minimize data input errors, all fees should be included in the BLDSYS rate table. If due to system configuration constraints a fee cannot be hard coded in the rate table, management should implement a review process to ensure that the assessed fee agrees to the BOCC approved fee schedule.

In addition, management should consider periodically reviewing the fee schedule. All revisions should be brought to the BOCC for their approval. The input of all approved changes to the BLDSYS rate table should be verified for accuracy.

Management Response: The fee tables have been updated to reflect the current BOCC approved fee schedule amounts. The fee tables will be reviewed every three years and any required updates will be brought before the BOCC for consideration.

Implementation Date: Ongoing

2.2 Opportunity for Improvement: Review transactions for accuracy

Six of the 60 permit fee transactions reviewed were charged incorrect permit fee rates. Although the differences for some may have been immaterial, it is important to apply fees equitably to all applicants.

Recommendation: To verify the accuracy of transactions and to identify possible staff training opportunities, management should consider periodically selecting a sample of transactions for review. In addition, management should consider having cashiers verify that the rates charged agree to the approved fee schedule.

Management Response: Permit transactions will be audited quarterly by the Operations Manager and Permitting Supervisor to ensure accuracy that all approved fees are correct. Any changes to the approved fee schedule will be emailed to staff immediately upon effective date.

Implementation Date: Ongoing

Discussion Point 3: Compliance with HB 447

During the 2019 Legislative session, HB 447 was adopted. The ASD only reviewed two elements of this bill. The elements reviewed pertained to the following:

- Local governments may only charge a person for one search fee based on costs incurred for a request to identify building permits for each unit or sub-unit assigned to a parcel of property
- Prohibits local governments from carrying forward a budget balance greater than its average cost for enforcing the Building Code for the preceding four fiscal years

To determine that the Building Department had procedures in place to ensure compliance with these two elements of HB 447, the ASD interviewed staff members and reviewed documentation.

The staff members of the Building Department, Office of Management and Budget (OMB), and the Clerk of Court and Comptroller's Financial Services Department, were all aware of the carry forward balance allowable amount restriction. The Financial Services Department committed to performing the applicable calculation. The results of the calculation will be provided to the Building Department and OMB for staff to review and adjust the fee schedule, if necessary.

In reference to the assessment of search fees, the review disclosed an Opportunity for Improvement that is addressed in this section.

3.1 **Opportunity for Improvement: Implement procedures to ensure compliance regarding the charging of search fees**

Florida House Bill 447, with the effective date of July 1, 2019, amended F.S. 125.56 to add subsection 4e to state that,

*A county that issues building permits may charge a person only one search fee, in an amount commensurate with the research and time costs incurred by the county, for identifying building permits for each unit or subunit assigned by the county to a particular tax parcel identification number.*³

Interviews with management disclosed that procedures were not in place to track search fee charges to customers. Since BLDSYS does not have the ability to track previous customer requests, staff relied on discussions with each other to identify previous transactions.

Recommendation: To ensure compliance with Florida Statute 125.56, management should implement procedures to track and verify previous customer transactions for search requests.

3

http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0100-0199/0125/Sections/0125.56.html

Management Response: It is our Policy to charge only a one-time fee per parcel records request. Additionally, computer enhancements have been made to allow for the public to search permit records online free of charge.
Implementation Date: April 2021

Discussion Point 4: Building Department System (BLDSYS) Access Rights

According to the Cybersecurity & Infrastructure Security Agency (CISA), regarding user access and least privilege,

The access you grant employees, managers, and customers into your digital environment needs limits, just as those set in the physical work environment do. Setting approved access privileges and establishing your operational procedures requires knowing who operates on your technology and with what level of authorization and accountability." CISA recommends that organizations "Restrict user access to only the information, networks, hardware, and applications necessary."⁴

To determine that the Building Department staff member's assignment of access rights adhered to the principle of least privilege, the ASD compared BLDSYS employee access reports to the applicable job description. This review focused on permissions that allowed staff members to modify the Fee and Rate Tables, Building Application Tabs (BAPLT), and the Impact Fee Override screen (IFOVM), as well as Cashier's access.

Interviews with management disclosed that management within the Building Department had the authority to modify system access rights. Information Technology personnel from the Hernando County Property Appraiser's Office, as administrator, also had the authority to modify system access rights.

The comparison of employee's access rights to the job descriptions and to the list of those employees responsible for setting up or revising user's access rights disclosed a few Opportunities for Improvement.

4.1 Opportunity for Improvement: Ensure user access rights adhere to the Principle of Least Privilege

A list of the personnel authorized to modify access was obtained from the Operations Manager. A review of BLDSYS user rights revealed an employee modified their own access to screens and tables and modified the access rights of other staff members. This employee, without authorization, had the ability to modify staff access to screens.

Recommendation: Management should restrict access to set up or revise user's access to rights to authorized personnel only.

Management Response: Access rights have been updated to reflect the employees' positions access needs. Upon any change of personnel or new employee, access rights will be assigned by the Operations Manager to comply with the position's needs. Access rights audit will be conducted annually.

⁴https://www.cisa.gov/sites/default/files/publications/Cyber%20Essentials%20Toolkit%204%200200818_508.pdf

Implementation Date: March 2021

4.2 Opportunity for Improvement: Ensure user rights do not conflict with cashiering duties

The Plans Distribution Coordinator and the Operations Support Specialist act as backup cashiers as needed. These positions allow for access to screens or tabs that align with their job responsibilities which includes adding, changing, or deleting fees. These access rights exceed the permissions of the Accounting Clerk II (cashier) duties and conflict with the job responsibilities of cashiering.

Recommendation: If the access rights for the backup cashiers cannot be modified so as to eliminate the conflict, management should consider identifying and using other staff members to back up the cashier position.

Management Response: Customer Service Tech II with Contractor Licensing and the Finance Supervisor will be used as the backup for the cashiers as needed.

Implementation Date: October 2021

4.3 Opportunity for Improvement: Implement periodic review of staff members' BLDSYS permissions

The review disclosed that staff had access to screens that did not align with their job responsibilities. If staff changed positions or their responsibilities changed their access was not reviewed and modified accordingly. As a result, staff members had access to modify fee and rate tables.

Recommendation: Management should review the access rights of all employees and remove access to screens that are not aligned with their job responsibilities.

Management Response: Bldsys permissions for employees have been updated to reflect the correct needs. Annual review will be conducted to confirm access rights are accurate.

Implementation Date: May 2021