

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2013-03
PLANNING & ECONOMIC DEVELOPMENT (P&ED) – BUILDING PERMIT FEES
FOLLOW UP**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JUNE 2014)
1.	<p><u>Reporting on Fees and Costs</u></p> <p>The Ontario Building Code regulations require the issuance, within three months, of a report indicating the amount of building permit fees collected during the previous 12 month period and the corresponding expenses.</p> <p>The building fees collected during the 12 month period of 2011 (January to December), the related costs and the status of the Building Permit Revenue Stabilization Reserve were not reported to Council until June 5, 2012. As a result, the reporting was not in compliance with the Ontario Building Code.</p>	<p>That the building permit fees, the associated costs and the status of the Building Permit Revenue Stabilization Reserve for a 12 month period be reported to Council within the three subsequent months, as per the Ontario Building Code.</p>	<p>Agreed in principle. However, the Building Division is restrained by the schedule of a Council driven budget approval. Attempts are being made to get the budget numbers earlier in order to complete this report within the first three months. If we are unable to get this information earlier, the Ministry may possibly be approached.</p>	<p>Not Completed. The building permit fees, the associated costs and the status of the Building Permit Revenue Stabilization Reserve were not reported to Council by the required deadline for either the 2012 or 2013 calendar years. Management plans to lobby the Ministry to lengthen the three month reporting window.</p>

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2.	<p><u>Building Permit Revenue Stabilization Reserve</u></p> <p>As approved by Council, the Building Permit Revenue Stabilization Reserve is not to exceed 1.5 times (150%) the yearly operating budget of the Building Services Division. The Reserve is used during economic downturns when permit fee revenue is lower than projected and to fund one-time expenditures that will increase productivity and improve service levels. If the Reserve exceeds 150%, the City is required to undertake a review of the permit fee structure to either reduce the permit fees or provide refunds to permit applicants.</p> <p>The Reserve has been increasing dollar and percentage wise steadily over the past few years. In 2010, it was 97% of the operating budget; in 2011, it was 126%; and in 2012, using unaudited final numbers, it is expected to be 163%. The 2012 Reserve has amounted to approximately \$12.2 million and is estimated to exceed the 150% cap by \$1 million.</p>	<p>That management prepare a report to Council outlining ways to reduce the excess in the Building Permit Revenue Stabilization Reserve to the level approved by Council.</p>	<p>Disagreed. Our action plan is to increase the value of the reserve. At the present time, there are municipalities that have a 200% limit or some that have no cap at all.</p> <p>F&A have been directed to do a report on all reserves. The Building Division is slated for 2014 and will be working with F&A to come up with options.</p>	<p>Not Applicable. Management disagreed with the original recommendation so no further follow up work was required.</p>

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3.	<p><u>Protection of Cardholder Data</u> The City must demonstrate compliance with Payment Card Industry (PCI) Data Security Standards (DSS) which address the handling of credit cardholder information. The Moneris point of sale administrator card, which can be used to generate reports that contain the Primary Account Number (PAN) and other cardholder data (i.e. cardholder name and expiry date), is stored in the cash box in an unlocked cabinet behind the front desk. The card can be accessed by unauthorized staff in Building Services.</p>	<p>That the Moneris POS administrator card be stored in a more restricted location to limit the ability to access sensitive information from point-of-sale (POS) terminals.</p>	<p>Agreed. The Building Division staff does not use this card. It is used by Finance and Administration (F&A) staff. Therefore, the card has been given to F&A for their safe keeping. The Building Division has only kept a backup card which is kept locked in the Manager's office.</p>	<p>Completed. Audit Services observed that the Moneris POS administrator cards are now being stored in restricted locations. The residual risk associated with this item has been reduced to an acceptably low level by management.</p>

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4.	<p><u>Written Procedures</u> Building Services has not developed written formal procedures to guide their staff in performing the various duties associated with building fee applications, the collection of permit fees and the issuance of refunds.</p> <p>When written procedures do not exist, employees currently carrying out the process rely on personal understanding and experience which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for a successor to commence his/her duties within a short period of time.</p>	<p>That procedures pertaining to the various duties carried out by Building Services' staff in processing building permit fees be written and distributed to appropriate staff.</p>	<p>Agreed. The Building Division is presently undertaking a total review of all existing policies and procedures as well as determining which procedures need to be written. Procedures for building permit fees have been added to the action plan to complete by Q4 2013.</p>	<p>Initiated. Building Services has drafted preliminary procedures for two of the three subject areas identified in the original observation. Management expects to have these procedures finalized and in place by Q4 2014.</p>

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ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them appropriately.

Building Permit Fees Charged

1. Of the seven sampled building fee applications dated by the builder in December, 2012 but processed through the Point of Sale (POS) register in January, 2013, three did not have a received date stamp, as required. Management stated that due to a marked increase in December applications as a result of an announced January, 2013 fee increase, the processing of these applications through the POS was delayed until January, 2013. However, without the date being stamped on the application, there is no way to confirm the actual submission date or if the correct fee was charged in the case of a fee increase.

It is recommended:

That all building permit applications be date stamped when received.

Management Response:

Agreed. We will ensure that staff is given updated training to ensure that they are using the date stamp machine. On February 20th, 2013 an e-mail was sent to staff attaching a copy of the procedure dated June 5th, 2012 and reminding them that applications should not leave the front counter unless they are stamped. Further, the stamp must be applied to all applications with NO EXCEPTIONS.

Follow Up comment:

Completed. Audit Services observed that building permit applications are now being date stamped when received.

Refunds

2. The Chief Building Official shall determine the amount of fees, if any, to be refunded to the permit holder upon written request of the permit holder. The refund is usually the original building permit fee less costs already incurred by staff. The letter is provided to the permit holder explaining the amount of the refund.

Seven refunds were reviewed. Complete documentation supporting the building permit fee refunds was not included in the cheque requisition packages. Two packages did not include the letter from the permit holder requesting a refund and three of the packages did not contain the letter explaining the amount of the refund. The missing documentation makes it difficult to validate the refund.

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It is recommended:

That all building permit fee refunds be supported by a letter requesting the refund and an explanation for the amount of the refund.

Management Response:

Agreed. A procedure rectifying the identified concerns will be developed for the refunding of fees. Included in this procedure will be the requirement for a letter requesting the refund. In the interim however, in staff meetings, staff have been reminded that a letter is required and complete notes should be made as to why the refund is being given and the basis for the amount of the refund.

Follow Up comment:

Not Completed. Based on a sample that was reviewed by Audit Services, building permit applications were found not to be supported by a letter requesting the refund. Explanations for the amount of the refund were not adequately provided.