Office of the City Auditor

Audit of the Planning and Community Development Department

Report Date: March 16, 2017
Office of the City Auditor
“Promoting Accountability and Integrity in City Operations”

Lyndon Remias, CPA, CIA, CRMA, CGAP  City Auditor
Tony Gonzalez, CPA, MBA  Senior Auditor
Gretchen Hudome, CIA  Deputy City Auditor

www.vbgov.com/cityauditor

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, VA 23456
Telephone: 757.385.5870  Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330
Date: March 16, 2017

To: Dave L. Hansen, City Manager

Subject: Audit of the Planning and Community Development Department

I am pleased to present the report of our audit of the Planning and Community Development Department. The objective of our audit was to determine the effectiveness of the Planning and Community Development Department’s internal controls over its financial operations.

Findings considered to be of insignificant risk have been discussed with management. We completed fieldwork on January 31, 2017.

The Office of the City Auditor reports to City Council through the City’s Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, Department of Finance, Risk Management, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the management and staff of the Planning and Community Development Department for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations, and suggestions.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
   Audit Committee Members
   Ronald H. Williams, Jr., Deputy City Manager
   Barry Frankenfield, Director, Planning and Community Development
# Office of the City Auditor

## Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>i</td>
</tr>
<tr>
<td>Purpose</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Standards</td>
<td>2</td>
</tr>
<tr>
<td>Background</td>
<td>3</td>
</tr>
<tr>
<td>Findings</td>
<td>6</td>
</tr>
<tr>
<td>Conclusion</td>
<td>11</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>11</td>
</tr>
<tr>
<td>Management’s Response</td>
<td>Attachment A</td>
</tr>
</tbody>
</table>

The Office of the City Auditor is an independent audit function reporting directly to the Virginia Beach City Council.
Purpose

The purpose of the audit was to perform a comprehensive financial audit of the Planning and Community Development Department (Planning Department), as requested by its Director in his memorandum dated April 29, 2016.

Scope and Objectives

The scope of the audit covered revenue and expense transactions from July 1, 2015 through December 31, 2016. The objectives of the audit were to determine that:

- Fee rates and formulas used were accurately reflected in City-published materials and in Accela, Planning Department’s system for recording and processing permit applications and fees.
- Revenue transactions were accurate and complete in Accela, the Planning Department’s operational and sub-financial system.
- Revenues were posted completely and accurately in InSITE, the City’s general ledger system.
- Payment refunds were properly authorized.
- Controls over deposits were effective.
- Staff access to Accela were appropriate and consistent with job responsibilities.
- Departmental expenses were proper and approved by management.
- Revenues from Restoration Funds were entered in Accela and properly reconciled to InSITE.

Methodology

To accomplish our objectives, we performed the following:

- Obtained and reviewed policies and procedures and other financial-related documentation over receiving, processing, and reconciling revenues;
- Interviewed management and staff to obtain knowledge of internal control and other financial-related processes;
- Assessed whether the design of internal controls, policies, and processes were adequate to ensure that revenues were completely and accurately recorded;
- Extracted revenue and expense data transactions from Accela and InSITE, respectively, for analysis, sample selection, and testing;
- Selected samples of fee rates, deposits, refunds, and revenue reconciliations and tested for accuracy and completeness;
- Obtained a listing of Planning Department staff and an extracts of user data from Accela to review appropriateness of user access to Planning Department data; and
- Made recommendations, as appropriate, to improve processes and increase efficiency.
Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City’s Audit Committee, City Council, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.
Background

The Planning and Community Development Department (Planning Department) facilitates the physical development of the City of Virginia Beach and works with City agencies, commissions, and boards by providing planning, zoning, and development information and advice, assistance to residents, businesses, and developers to achieve the City's development objectives. It has a staff of about 120 full time employees.

Funding for the Planning Department’s operations is derived from a combination of fee revenues and general City funds. Fee revenues come from various sources, such as permits issuance, board fees, and project review charges. Fee revenues help defray costs of reviewing and processing permits, inspections, and plan reviews. The City provides the remainder to ensure balance is achieved.

Charts 1 and 2 show reasonably proportionate fluctuations for both revenues and expenditures. In Fiscal Year (FY) 2015, the increase in revenues also caused an increase in expenditures as more associated operational costs were incurred. Although revenues increased in FY 2016 compared to FY 2014, the revenue-to-expenditure ratio for FY 2016 was slightly higher due to increases in some fee rates and cost savings.

The Director’s Office provides executive leadership and includes a Management and Support division that exists to provide centralized coordination of activities throughout the department. The essential functions fall into three categories:

1. Customer service:
   - Information source for Planning Department;
   - Responsible for coordination of Planning Department’s on-line presence;
   - Provides direct customer service to phone inquiries and walk-in customers;
   - Coordinates media releases;
1. Administrative services
   - Provides assistance with Census information;
   - Assigns and issues street addresses; and
   - Provides intake and notification services for the Planning Commission, the Wetlands Board, the Chesapeake Bay Preservation Board, the Historic Review Board, and the Historic Preservation Board.

2. Technical services
   - Establishes Planning Department data in geographic information system;
   - Coordinates development of citizen access, workflow management, and automation of plan submittal and processing; and
   - Responsible for development of centralized database of official street addresses.

3. Financial systems and controls
   - Source of fiscal management processes and procedures, and
   - Source of department-specific budget, revenue, and performance information.

The Planning Department has undergone recent process developments and organizational changes.

- It has completed implementing a permitting system named Accela across the entire department as of October 2015. Aside from being an operational system, Accela also includes an automated financial sub-system with controls to increase accuracy and efficiency of cash receipts, refunds, and billing. Among its financial features are:
  - Point of sale system that keeps payment records and provides receipts;
  - Revenue reporting;
  - Payment refunding capabilities; and
  - Invoicing capabilities.

- It has implemented Internet-based solutions to help citizens save time and effort through its Acela Citizen Access (ACA) web portal. This enables customers to obtain permits, schedule inspections, view results, and pay by credit card. Citizens register for an account that allows secured access, 24 hours per day, 7 days per week.

- Operationally, Current Planning, Comprehensive Planning, and Environmental Services Office functions have been combined into one division called Planning Administration.

- Additionally, the Strategic Group Areas (SGA) was added as a division effective July 1, 2016.
Other than the Director’s Office, which includes the Management and Support division, the Planning Department is also comprised of the following divisions:

- **Planning Administration** provides staffing support for the Planning Commission, City Council, the Chesapeake Bay Preservation Area Board, the Wetlands Board, the Historic Review Board, and the Historic Preservation Board. Planning Administration members work with applicants at each phase of the process to ensure land use compliance with ordinances and plans.

- **Zoning Administration** is responsible for the interpretation, enforcement, and administration of the City’s Zoning Ordinance by processing zoning approvals, appeals, and variances to the Board of Zoning Appeals. It also issues zoning permits for residential and commercial uses, verifies that the proffers and conditions of City Council Actions are met, and responds to citizen inquiries and concerns regarding zoning regulations and violations.

- **Development Services Center** reviews, approves, and permits development projects and subdivision plats to ensure public safety while promoting quality development throughout the City consistent with City Council’s Vision of “A Community for a Lifetime.” This is done by applying City Code and policies to all development projects in a fair and impartial manner. Establishing partnerships between the development community and the City helps assure reasonable timeframes and quality results for the community.

- **Permits and Inspections** administers the uniform statewide building codes and associated laws and ordinances by issuing permits and performing inspections of building construction, plumbing, and electrical and mechanical systems installation and alteration.

- **Strategic Growth Areas (SGA)** uses innovative land use planning, design, transportation, parking, marketing, and financial tools to implement the eight strategic growth areas’ Master Plans, which will provide strategically located unique centers where people can work, live, and play. SGA includes Transportation Planning, the responsibility of which is to coordinate and implement projects and plans associated with improving the City’s transportation network. Mass transit operations are coordinated with Hampton Roads Transit (HRT), including the Virginia Beach (VB) Transit Extension Study (Light Rail). Capital road projects are coordinated with other state and local agencies.
Findings

Finding 1: Accuracy of Fee Rates and Formulas

We randomly selected a sample of fee rates and formulas in Accela and City-published sources for testing to determine whether customers were charged correctly. Of the 40 samples, we found that four (4), 10% of the sample, fee rates in Accela and/or published rate did not match the City Code. Refer to Table 1 for details.

<table>
<thead>
<tr>
<th>Exception #</th>
<th>Fee Description</th>
<th>City Code Section</th>
<th>City Code Fee Rate</th>
<th>Accela Fee Rate</th>
<th>Published Fee Rate</th>
<th># of Transactions</th>
<th>(Overcharged) / Undercharged</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ultra-Low Flush Toilet Program (ULF)</td>
<td>8-32.a.6</td>
<td>$30</td>
<td>$25</td>
<td>$30</td>
<td>233</td>
<td>$1,165</td>
</tr>
<tr>
<td>2</td>
<td>Subdivision Construction Plan Review Fee&gt;100 acres</td>
<td>App. B; Sec. 8-1.b</td>
<td>$7,560</td>
<td>$0</td>
<td>$7,560</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Electrical - New Three Phase – 1st 50 amps</td>
<td>8-34.e.2</td>
<td>$80</td>
<td>$100</td>
<td>$100</td>
<td>186</td>
<td>$3,720</td>
</tr>
<tr>
<td>4</td>
<td>Electrical - Change of Service – 1st 50 amps</td>
<td>8-34.e.</td>
<td>$40</td>
<td>$50</td>
<td>$50</td>
<td>87</td>
<td>$870</td>
</tr>
</tbody>
</table>

Management agreed with exception numbers 1 and 2 that Accela fee rates were incorrect. However, for exception numbers 3 and 4, management determined that the Accela fee rates were correct, but the mistake was in wording of the particular City Code paragraph when it was submitted for City Council approval.

Recommendations

Management should:
1.1 Appropriately correct all four exceptions identified above.
1.2 Perform a comprehensive review of the City Code, Accela, and City-published sources to determine if there are other mistakes in the 1,050 active fee rates.

Finding 2: Completeness of the Monthly Revenue Reconciliation

Management established a monthly revenue reconciliation process to ensure that recorded revenues are the same in both Accela and InSITE. Two designated staff members are assigned to perform reconciliations for the Management and Support division and Permits and Inspections division.
In our review of six (6) monthly revenue reconciliation samples, we found the following exceptions:

- Management did not document its review of the reconciliation in one division;
- Reconciliation findings were not adequately investigated and resolved in one division;
- Reconciliation findings were not adequately documented to facilitate efficient and comprehensive reviews without the assistance of the staff member that performed the reconciliation in both divisions; and
- Reconciliation report does not provide status, adequate description, and resolution of findings in both divisions.

**Recommendations**

Management should:

2.1 Develop a reconciliation report that includes all pertinent information, such as status (i.e., Open/Close), adequate description of the finding, and corrective actions taken.

2.2 Review the reconciliation for accuracy and completeness of data and for timeliness of corrective actions taken to resolve the findings.

2.3 Document its review by signing and dating the reconciliation report; add applicable notes, if necessary.

**Finding 3: Approval of Online Payment Refunds**

Citizens can fill out applications online through Accela Citizen Access and pay by credit card, which are processed by the contractor, Official Payments Corporation (OPC). There are times when technical problems occur that prevent the customer from seeing the payment already made, and some customers unknowingly make repeated payments for the same application.

In such cases, the designated staff member completes the OPC Reversal/Refund Request form to “reverse” the subsequent payments and submits it to the Treasurer’s Office. This is done without management approval, as it is according to policy. However, we deem that it is necessary for management to have knowledge of all transactions that offset revenue, including reversals, to ensure amounts are accurate and to mitigate the chances of fraud.

**Recommendation**

3.1 Management should review and approve all transactions that offset revenue.
Finding 4: Controls over Systems User Access

Management grants users access to Accela and assigns them to user groups. Each user group is given capabilities, called Functional Identifications (FIDs), that enable users to perform their responsibilities. Our review focused on the following:

- Appropriateness of financial-related FID assignments;
- Appropriateness of assignment to user groups;
- Validity of user access; and
- Various policies and procedures inquiries.

We identified the following exceptions:

- Fourteen (14) users were assigned to incorrect user groups;
- Eleven (11) users did not have an entry in the login date field; this field should have shown the last date that the user had logged in.
- One (1) staff member’s access was not disabled despite having left the City in July 2016; and
- Absence of a formal policies and procedures document on Accela user systems management.

Recommendations

Management should perform the following:

4.1 Reassign the fourteen (14) users to the appropriate user groups. Ensure that subsequent user group assignments are thoroughly considered.

4.2 Make the necessary correction to the login date field. This field is used as a systems control for disabling user access after 90 days of non-activity.

4.3 Develop a process to timely disable access for terminated or transferred users.

4.4 Develop a formal policies and procedures document that defines and establishes staff responsibilities and internal controls over key areas, such as:

- User access;
- Passwords; and
- Application maintenance over users, user groups, and FIDs.

Finding 5: Segregation of Duties

A foundational component of the internal control structure is segregating key duties to ensure that assets are protected from errors, omissions, or fraud. It is important that management considers assigning compatible duties to its staff or, if too difficult to achieve, establish internal controls that compensate for it.
During the audit, we noted that two staff members each performed a combination of duties listed below that created a situation where incompatibility of duties exist.

- Receives revenue;
- Records revenue in Accela;
- Prepares deposits;
- Prepares refunds;
- Prepares and approves online credit card reversals;
- Performs monthly reconciliation; and
- Voids transactions.

**Recommendations**

Management should:

5.1 Strongly consider segregating incompatible duties, such as deposit preparation from monthly reconciliation.

5.2 If the recommendation above is too difficult to achieve operationally, establish the following compensating controls:

5.2.1 Management should review and approve every deposit, refund, reversal, and monthly reconciliation.

5.2.2 Develop a systems report in Accela that identifies all refunds, reversals, and voided transactions for management to generate periodically (e.g., weekly) to effectively monitor such activities and detect irregularities.

**Finding 6: Development of a Formal Policies and Procedures Document**

During the course of the audit, we noted the absence of a policies and procedures document on the revenue process. We found that the only forms of documentation were brief narratives that provided limited guidance and a few staff-created notes. With revenues averaging around $5.2 million for the past three fiscal years, it is critical for the Planning Department to develop a formal and comprehensive policies and procedures document.

**Recommendations**

Management should:

6.1 Develop a formal policies and procedures document that defines and establishes staff responsibilities and internal controls over key areas, such as:

- Payment receipt and deposit processes;
- Safekeeping of funds;
- Refund process, including credit card reversal;
- Reconciliation process between Accela and InSITE; and
• Internal control activities, including:
  o Segregation of duties;
  o Management approval of deposits, refunds, and reconciliation; and
  o Management monitoring of deposit postings to InSITE and voided, refunded, and reversed credit card transactions.

**Finding 7: Security of Cash and Cash Equivalents**

Any division that collects cash and cash equivalents needs to ensure that they are adequately safeguarded. During our walkthrough of the internal control activities, we observed that customer payments (except cash) were kept on top of desks in offices where access is not limited during business hours. These payments were from daily collections scheduled for deposit the next day and checks for permit applications that remain pending for several days.

**Recommendation**

7.1 Management should ensure that all cash and cash equivalents are secured inside a safe or a key-locked drawer within the office.

**Finding 8: Centralization of Functions**

Per the Planning Director’s request, we looked for opportunities where it is feasible to centralize functions to improve efficiency and flow of financial information across the Planning Department.

Currently, revenue is processed in two divisional groupings:

- Management and Support division does the processing for Planning Administration, Development Services Center, Strategic Growth Area, and Zoning divisions.
- Permits and Inspections division does its own, as it was a separate department prior to its inclusion in the Planning Department.

We observed that there is potential in centralizing deposit processing and reconciliation process, as they both follow almost identical procedures as listed below.

- Deposit processing
  o Gathering and counting cash and cash equivalents collected during the day;
Printing Accela reports and reconciling to cash and cash equivalents, over-the-counter credit card report, and OPC report of online credit card payments;
- Researching discrepancies found, if any; and
- Depositing cash and cash equivalents collected to the Treasurer’s Office the following business day.

- Reconciliation Process
  - Printing and reconciling Accela and InSITE reports and
  - Researching findings.

Some advantages for centralizing these two processes are:
- Single point of contact for the entire department for information and record keeping;
- Duplication is eliminated;
- Efficiency in monitoring activities and establishing internal controls; and
- Uniformity of processes.

**Recommendation**

8.1 As the Planning Department continues to evolve as one unit, centralization provides the potential for increased efficiency in access, data flow, and resources. Management should examine the advantages of centralizing the deposit and/or revenue processes, then further consider others, such as submission of expenses and purchasing of supplies.

**Conclusion**

Overall, we determined that the Planning Department’s system of internal controls over its financial operations is working effectively.

**Acknowledgements**

We would like to thank the management and staff of the Planning Department for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations, and suggestions.
City of Virginia Beach

INTER-OFFICE MEMORANDUM

DATE: March 14, 2017

TO: Lyndon S. Remias, City Auditor

FROM: Barry Frankenfield, Director, Planning & Community Development

SUBJECT: Audit of Planning and Community Development Internal Financial Controls

Thank you so much for your detailed work on this audit. The purpose of this memorandum is to respond to the recent audit of the internal controls over Planning and Community Development’s (PCD) financial operations. I am very pleased to know the Department’s system of controls is working effectively. We are in full agreement with the intent of your recommendations and will be taking steps to fully address each issue identified in the audit report. A summary of the audit findings and our responses are outlined below.

Accuracy of Fee Rates and Formulas
A randomly selected sample (40 of 1,050) of active fee rates resulted in four (4) exceptions between fee rates in Accela and fee rates in the City Code.

Auditor Recommendations:

1.1 Correct all four exceptions

   **PCD Response:** Corrective Action Implemented.
   Two exceptions were incorrect in Accela. They were corrected as of 3/1/17. The other two exceptions need to be revised to be consistent with the Uniform State Building Code. Proposed amendments to the City Code are being reviewed for consideration by City Council.

1.2 Perform a comprehensive review of the City Code, Accela and City-published sources to determine if there are other mistakes in the 1,050 fee rates.

   **PCD Response:** Corrective Action to be completed by September 30, 2017. Building activity is the busiest during the summer months; however, staff has begun work on this recommendation and will continue to work on this task, which will require significant investment of time and expertise.
Completeness of Monthly Revenue Reconciliation
Six months of revenue reconciliation samples found incomplete or inadequate management review and reports did not consistently describe, investigate, resolve and document reconciliation findings.

Auditor Recommendations:

2.1 Develop a reconciliation report that includes open/close status, description of findings, corrective actions.

2.2 Management review of reconciliation for accuracy and completeness of data and for timeliness of corrective actions taken to resolve the findings.

2.3 Document management review by signing and dating the reconciliation report; add applicable notes if necessary.

**PCD Response**: Corrective Actions Implemented.

Approval of Online Payment Refunds
Staff reverses accidental duplicate online customer payments without documentation of management approval.

Auditor Recommendations:

3.1 Management should review and approve all transactions that offset revenue.

**PCD Response**: Corrective Action Implemented.

User Access Controls
The audit of Accela User Groups examined the appropriateness of financial-related assignments, the validity of user access and the associated policies and procedures. Exceptions were found related to user controls, member access and formal policies and procedures of Accela management.

Auditor Recommendations:

4.1 Reassign fourteen (14) users to appropriate user groups and ensure subsequent assignments are considered.

**PCD Response**: Corrective Action initiated. The corrective action requires changes to the Accela System.

4.2 Correct login date field so that 90 days of non-activity disables user access. The log in date field function properly though it appeared otherwise because some users are in the workflow as place holders rather than as expected users. These users do not currently use the system, but we need them in the workflow to track their reviews.
PCD Response: Corrective Action to be completed as soon as reasonably possible. Our goal is to establish appropriate policies and procedures by January 2018.

4.3 Develop a timely process to disable user access as required.
PCD Response: Corrective Action to be completed by September 2017.

4.4 Develop formal policies and procedures including internal controls of user access.
PCD Response: Corrective Action to be completed as soon as reasonably possible. Our goal is to establish appropriate policies and procedures by January 2018.

Segregation of Duties
The internal control structure must ensure that the duties of receiving revenue, recording revenue in Accela, preparing deposits, preparing refunds, preparing and approving online credit card reversals, performing monthly reconciliation and voiding transactions are segregated to avoid errors, omissions and fraud. Two staff members performed an incompatible combination of duties.

Auditor Recommendations:

5.1 Segregate incompatible duties.

PCD Response: Corrective Action to be completed as soon as reasonably possible. The completion of this task is contingent upon re-alignment of existing and/or new staff. Our goal for completion is January 2018.

5.2 If the segregation of duties is not operationally possible, establish the following compensating controls:

5.2.1 Management should review and approve every deposit, refund, reversal and monthly reconciliation.

PCD Response: Corrective Action Implemented.

5.2.2 Develop a system report in Accela that identifies all refunds, reversals and voided transaction for management to generate periodically to monitor activities and detect irregularities.

PCD Response: Corrective Action to be completed as soon as reasonably possible. The completion of this task is contingent upon re-alignment of existing and/or new staff. Our goal for completion is January 2018.

Development of a Formal Policies and Procedures Document
The audit noted the absence of a policies and procedures document on the revenue process.
Auditor Recommendations:

6.1 Document staff roles and responsibilities; payment receipt and deposit processes; funds safekeeping; refund processes; credit card reversal; Accela/lnS1TE reconciliation; and, internal controls.

**PCD Response:** Corrective Action to be completed as soon as reasonably possible. The completion of this task is contingent upon re-alignment of existing and/or new staff. Our goal for completion is January 2018.

**Security of Cash and Cash Equivalents**
The auditor observed that customer payments (except cash) were not adequately safeguarded.

Auditor Recommendation:

7.1 Management should ensure that all cash and cash equivalents are secured inside a safe or a key-locked drawer within the office.

**PCD Response:** Corrective Action Implemented.

**Centralized Functions**
The audit identified advantages for centralizing processes performed by two groups.

Auditor Recommendation:

8.1 Management should examine the advantages of centralizing the deposit and/or revenue processes, then further consider others, such as expense submissions and purchasing of supplies.

**PCD Response:** Corrective Action to be completed by September 30, 2017.

Once again, thank you for all the time and hard work you and your staff have spent on this Audit effort. I look forward to continuing to work with you to improve the efficiency and accuracy of the Department’s financial services.

C:  
David L. Hansen, City Manager  
Ronald H. Williams, Jr., Deputy City Manager  
Cheri Hainer, Planning  
Kevin Kemp, Planning  
Nancy McIntyre, Planning  
Pam Sandloop, Planning  
Jolilda Saunders, Planning  
Carolyn Smith, Planning