



Office of the City Controller

HOUSTON PUBLIC WORKS

Permitting Operations Performance Audit



Chris Brown
City Controller

Report # 2023-04

Courtney Smith
City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

December 5, 2022

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2023-04 – HOUSTON PUBLIC WORKS (HPW) PERMITTING OPERATIONS
PERFORMANCE AUDIT**

Mayor Turner:

We have completed a performance/compliance audit of the Houston Public Works Department (HPW) permitting operations. HPW, through the Houston Permitting Center (HPC), performs a regulatory role to ensure the safety, usability and sustainability of the private and public built environment through the application of plan review, inspection and permit administration as adopted by the City statutes related to building codes, sign administration and public infrastructure.

The objectives of this audit were to: (1) assess HPW's compliance with applicable City ordinances and/or regulatory requirements, (2) determine the effectiveness of HPW's internal controls over processing licenses and permits and (3) evaluate HPW's internal control over collection of license and permit revenue.

The scope of the audit covered HPW's permitting process in effect from fiscal year 2019 through 2021.

We tested transactions and other activity representing eight of the 34 permit categories for detailed testing including building, electrical, plumbing, HVAC, occupancy, elevators, sign administration and flood-management, which together represent over 70 percent of HPW's total permit revenue for the scope period.

During our review, we found several strengths in the permitting process, including:

- 100% online processing of permits. Customers apply for and obtain permits online.
- The availability of online tools to help applicants check their project status, search permit(s) purchased, as well as determine the status of plan review, inspection, and permit(s).
- An interactive website with a "Live Chat" feature; and
- An up-to-date website that provides 24/7 access to many useful guides and videos, reporting of activity and performance measurements, as well as various fee calculators/estimators.

Based on the results of our audit procedures, we identified weaknesses in HPW's processes and controls needed to reduce the risk of potential misconduct or other inappropriate activities. Key issues identified include the loss of permit revenue, an inconsistent and incomplete permit fee schedule and a lack of monitoring related to permitting and inspection processes as well as the Geographical Information System (GIMS) permitting revenue.



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

We would like to express our appreciation to the management and staff of Houston Public Works for their time, effort, responsiveness and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Carol Haddock, Director, Houston Public Works
Roel Garcia, Chief of Staff, Houston Public Works
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller.

TABLE OF CONTENTS

	Page
Transmittal Letter	i
Table of Contents	iii
Report Sections	
Introduction	1
Background	1
Audit Scope and Objectives	4
Procedures Performed	5
Conclusions	6
Audit Standards	7
Acknowledgement	7
Detailed Findings, Recommendations, Management Responses and Assessment of Responses	
Finding 1: Loss of Permit Revenue	8
Finding 2: Inconsistent and Incomplete City Permit Fee Schedule	10
Finding 3: Lack of Monitoring of Permitting and Inspection Processes	12
Finding 4: Lack of Monitoring of GIMS Permitting Revenue	14
Finding 5: Inadequate or Outdated Policies and Procedures	16
Finding 6: Inadequate Rotation of Building Inspectors	18
Finding 7: Inconsistent Revenue Between SAP and Permitting Systems	20
Finding 8: Lack of Verification of SAP Revenue	22
Finding 9: Inadequate Segregation of Duties Over Mail-In Cash Receipts	24
Finding 10: Inadequate User Access Controls	26
Management Acknowledgement Statement	
Houston Public Works Department Acknowledgement Statement	29

Introduction

We have completed a performance/compliance audit of the Houston Public Works Department (HPW) permitting operations. This audit was conducted at the request of HPW's management, who asked us to identify opportunities for improvement in their permitting operations. The audit scope covered HPW's permitting process in effect from fiscal years 2019 through 2021. This audit was included in the Audit Plan for fiscal year 2020.

Background

The City of Houston's (City) adopted Building Codes & Standards, Sec. 105.1 (Code) requires that "any owner or owner's authorized agent who intends to construct, enlarge, alter, repair, move, demolish, or change the occupancy of a building or structure, or to erect, install, enlarge, alter, repair, remove, convert or replace any electrical, gas, mechanical, or plumbing system, the installation of which is regulated by this code . . .," is required to obtain a permit. This permitting process and the related provisions of the Code are in place to help prevent, detect, investigate and enforce compliance of City ordinances regulating public health, safety and welfare. To this end, HPW, through the Houston Permitting Center (HPC), performs a regulatory role to ensure the safety, usability and sustainability of the private and public built environment through the application of plan review, inspection and permit administration as adopted by City statutes related to building codes, sign administration and public infrastructure.

HPC, which is located at 1002 Washington Avenue in Houston, Texas, opened in June 2011 as a partnership between six City departments, including HPW, and combines the majority of the City's permitting and licensing activity into one location. HPC's customers have access to over 500 different permits, licenses and registrations and administers approximately 34 permit categories that contain multiple permit types each for HPW.

HPW-HPC SERVICE LINE PERMIT PROCESS

The HPW-HPC service line is responsible for the review and approval of permitting applications for both commercial and residential plan reviews and inspections, ultimately resulting in the issuance of required permits. The Deputy Director of HPC, who reports to the Chief Operating Officer of HPW, oversees permit operations.

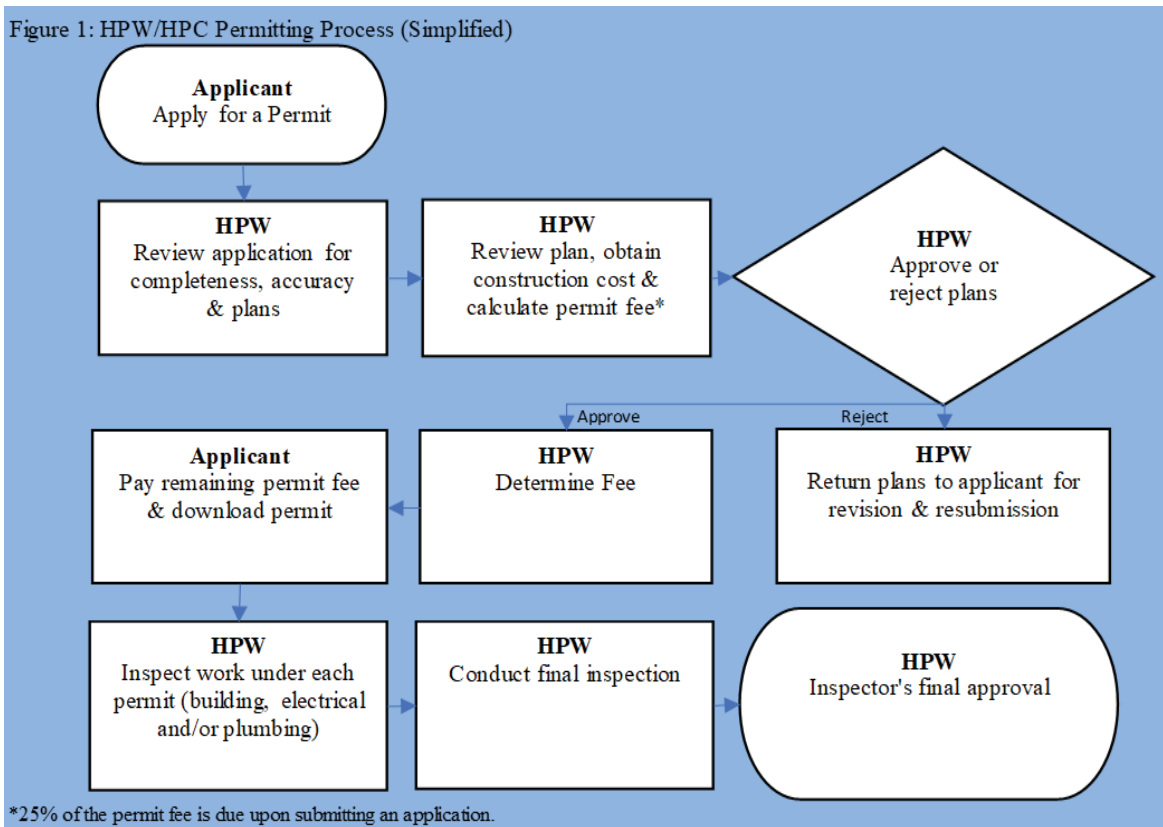
Previously, HPW-HPC operated three satellite offices for customer convenience. In March 2020, satellite offices were closed and remain closed at the time of this report's release. All services have transitioned online.

HPW-HPC tracks the status of permits via their permitting software applications, the Integrated Land Management System (ILMS), ProjectDox and the Geographical Information Management System

(GIMS). Applicants can also check the status of their permits and pay any outstanding fees through HPC's iPermits portal. During this audit HPW-HPC staff informed us that GIMS has now been replaced by GeoLink, an information hub where applicants can search for data and access Mobility & Street Cut permitting applications, among other functions.

The City establishes fees for plan reviews, permits, inspections and licenses. The plan review fee is based on a portion of the valuation of the proposed construction, which is based on the type of property and the type of work performed.

Figure 1: HPW/HPC Permitting Process (Simplified)



HPC FINANCIAL AND OPERATIONAL ACTIVITY

HPW reported revenue of \$87.2 million, \$86.5 million, and \$80.1 million from the sale of more than 330,000 permits a year during fiscal years 2019, 2020 and 2021, respectively, as shown in Exhibit 1. Additionally, HPC conducted approximately 81,000 plan reviews and 883,000 field inspections during those fiscal years, as indicated in Exhibit 2.

Exhibit 1

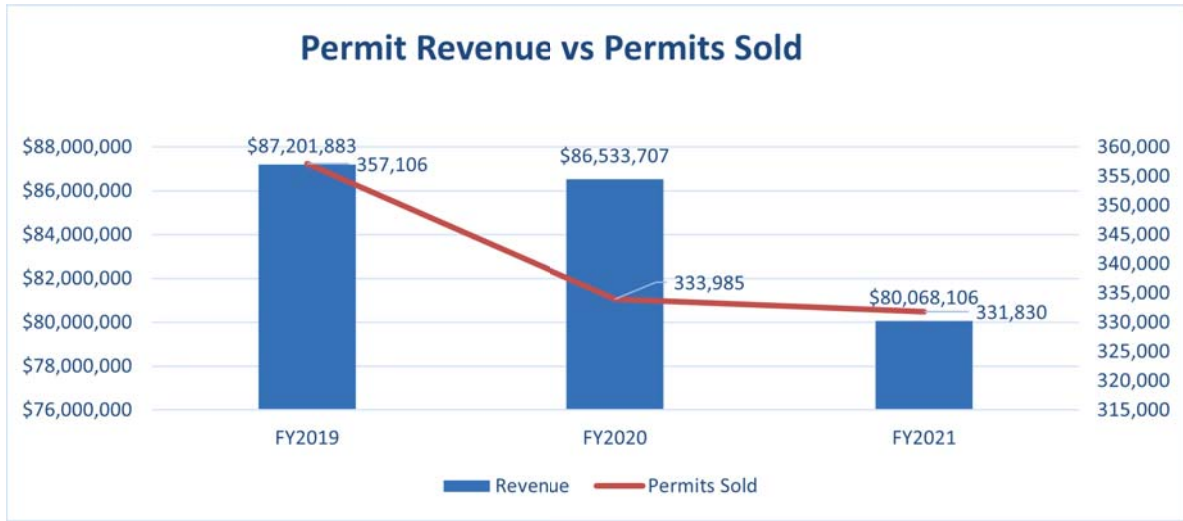


Exhibit 2



HPC's current key performance indicators are to complete the review of a project's plans within 15 business days for commercial projects, and ten business days for residential projects. However, HPC management indicated that because of staffing shortages, they have struggled to complete initial reviews within the established timeline. At the time of this report's release, the oldest plan remains outstanding for 30 days.

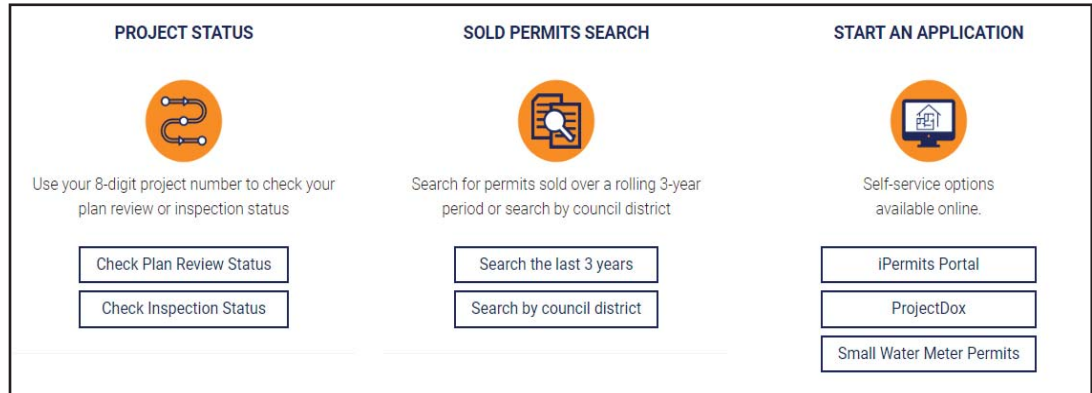
AREAS OF STRENGTH

We found several strengths in HPW's permitting process, including:

- 100% online processing of permits. Customers apply for and obtain permits online.
- The availability of online tools to help applicants check their project status, search permit(s) purchased, as well as determine the status of plan review, inspection, and permit(s). (See Figure 2);
- An interactive website with a "Live Chat" feature; and

- An up-to-date website that provides 24/7 access to many useful guides and videos, reporting of activity and performance measurements, as well as various fee calculators/estimators.

Figure 2



Audit Scope and Objectives

The objectives of this audit were to: (1) assess HPW's compliance with applicable City ordinances and/or regulatory requirements, (2) determine the effectiveness of HPW's internal controls over processing licenses and permits and (3) evaluate HPW's internal control over collection of license and permit revenue.

The scope of the audit covered HPW's permitting process in effect from fiscal year 2019 through 2021.

INTERNAL CONTROLS SIGNIFICANT TO THE AUDIT OBJECTIVE

Internal controls are processes put in place by management to provide reasonable assurance that the organization's goals and objectives will be achieved. Our work included procedures to identify and assess the internal controls that were significant to the objectives of this audit and determine the effectiveness of those controls. Specifically, we reviewed the controls management designed to achieve its departmental objectives and respond to risks, as well as controls related to management's ability to evaluate the effectiveness of the existing control framework. In our professional judgement, the following components of internal control were determined to be significant to the objectives of this audit:

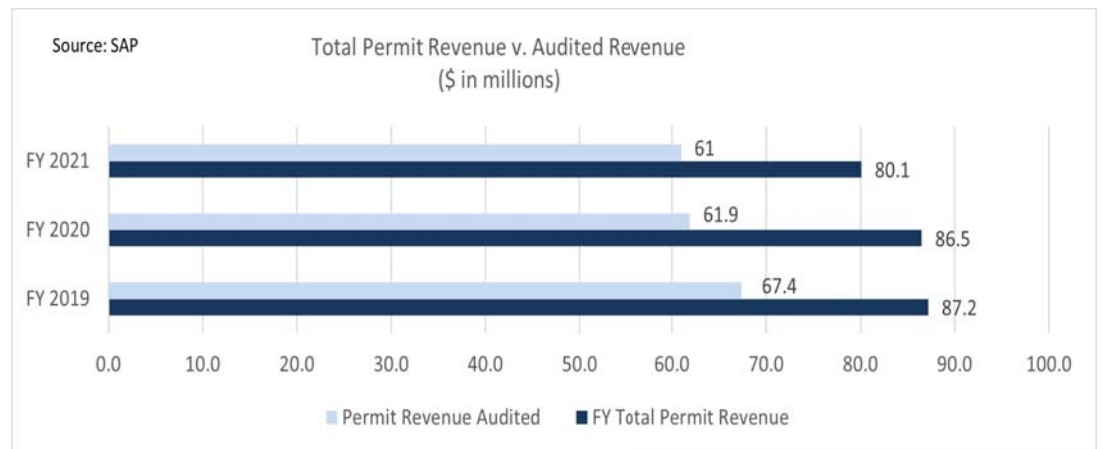
- Control Activities
- Monitoring

Procedures Performed

To obtain sufficient, appropriate evidence to achieve the engagement objectives and related audit conclusions, we performed the following:

- Interviewed HPW/HPC staff to understand the plan review, inspection and permitting processes.
- Conducted walkthroughs of cash handling practices with HPC staff.
- Analyzed data from HPW's Integrated Land Management System (ILMS), which auditors used to perform audit tests.
- Reviewed and tested information system security controls related to access controls and segregation of duties.
- Sampled 60 permits from eight of the 34 permit categories for detailed testing which included building, electrical, plumbing, HVAC, occupancy, elevators, sign administration and flood-management, representing over 70 percent of HPW's total permit revenue for the scope period. (See Exhibit 3 below).
- Tested the aforementioned sample to determine whether HPW has processes in place to prevent or mitigate the risk of fraud and/or inappropriate activities, and to ensure that the permit fee was consistent with the City-approved fee schedule.
- Tested a sample of Advance Pay Accounts to verify that only authorized individuals purchased the permits.
- Tested selected general controls over HPW's ILMS system.

Exhibit 3



DATA RELIABILITY AND COMPLETENESS

To access the reliability of the data set extracted from ILMS, auditors (1) reviewed queries supporting extracts of the data sets, and (2) analyzed the data sets and queries for reasonableness and completeness.

Conclusions

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below, as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of the Responses section of the report.

CONCLUSION 1 - (AUDIT OBJECTIVE #1)

Based on audit procedures performed, there is a need to strengthen controls related to compliance with applicable City Ordinances and/or regulatory requirements. (See Findings #1, #2, and #10)

CONCLUSION 1 - (AUDIT OBJECTIVE #2)

Based on audit procedures performed, there is a need to strengthen controls related to effective processing of licenses and permits. (See Findings, #3, #5, #6, and #10)

CONCLUSION 1 - (AUDIT OBJECTIVE #3)

Internal controls over collection of license and permit revenue require additional controls over permit fee calculations, consistent and complete fee schedule, lack of monitoring and reconciliation of permitting revenue, inadequate or outdated policies, and procedures, inadequate segregation of duties, and inadequate user access controls. (See Findings, #1, #2, #4, #5, #7, #8, #9, and #10)

Audit Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the City or that of HPW's Permitting Process. Management is responsible for establishing and maintaining a system of internal controls to ensure City assets are safeguarded, financial activity is accurately reported and reliable, and management and employees are following laws, regulations, policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

Acknowledgement

We would like to thank HPW management and staff for their professionalism, cooperation, time and efforts throughout the course of this engagement.

Detailed Findings, Recommendations, Management Responses, and Assessment of Responses

Finding #1 - Loss of Permit Revenue

Risk Rating = High
(Impact and Magnitude)

Background

The City's Code, Section 109.3, Building Permit Fee Calculation, allows permit applicants to provide an estimated permit value (valuation of construction) when they apply for a permit. As a result of this practice, valuation is underestimated on the application, resulting in lower permit fees assessed and collected by the City.

Finding

During the audit, we noted that 76 percent (13 of 17) of the valuation of construction permits sampled was approximately \$45 million lower than it should have been if the value was based on the International Code Council (ICC) building valuation data (permit value per ICC: \$119,827,312, per applicants: \$74,770,951). This discrepancy reduced the permit fee revenue by approximately \$7,000 per permit.¹ It was also noted that the structural square footage was not on the documentation for four of the 17 permits included in the sample and therefore, we were unable to calculate the fee difference. This revenue loss was caused primarily because HPW: (1) determines permit fees based on estimated value which is provided by the permittee, and (2) the department does not have a quality control or monitoring program in place over its permitting process to ensure correct fees are assessed and collected.

Recommendations

We recommend that the Director of Public Works, or the Director's designee:

- Develop, document and implement the use of an objective industry valuation system, such as the ICC's Building Valuation Data, which provides the best estimate of the permit valuation; and
- Develop, document and implement an effective quality control program, which would include minimum education, experience and certifications for inspectors and plan reviewers; an on-going training program and a comprehensive auditing/monitoring program to ensure that the appropriate fees are assessed and collected for all building permits. Management

¹ Calculation based on ICC's February 2022 data, primarily because HPW did not provide us with the ICC data for calendar years 2019, 2020 & 2021.

should also develop written procedures to ensure processes are conducted consistently among staff performing the duties.

Management Response

Interim: The HPW Department is preparing a TTI presentation to change the permit fee valuation methodology from building valuation to ICC’s square footage method to standardize fees and mitigate risk of undervalued permits. Before updated fees are implemented on January 1st, management will schedule City Fee Schedule review meetings with each HPW-HPC discipline to ensure all fees are captured and correctly reflected in the City Fee Schedule and ILMS Permitting System. HPC will create a training and testing schedule to compare City Fees to fees charged in ILMS to assist permit technicians and plan analysts in coding the correct fees to each project and/or sales order; training and testing requirements will be documented in a Standard Operating Procedure and made available. In addition, management will implement an initial phase of additional testing within the next 60 days to ensure the correctness of fees being assessed.

Long Term: The new permitting system being developed, HouPermits, will automate fee calculation to mitigate the risk associated with human error. The resource materials created will be used to train permit technicians and plan analysts and additional reviews will be implemented to ensure all fees are properly captured in the permitting system.

Responsible Party

Byron King- Building Official & Michael Howard- Deputy Assistant Director: Code Development

Estimated Date of Completion

March 31, 2023

Assessment of Response

Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #2 - Inconsistent and Incomplete City Permit Fee Schedule

Risk Rating = High
(Impact and Magnitude)

Background

The City's Code establishes the fees for plan review, administrative inspection, general inspection, and structural permit fees (collectively, the "permit fees"). These fees are adjusted on the first day of each calendar year after their adoption and approval by City Council. After approval, HPW officials review the revised fees, which are subsequently entered into the permitting systems to be charged to applicants for the permits purchased. The City publishes the permit fee schedule on its website to maintain transparency and accountability.

Finding

Audit procedures indicated that 20 percent (9 of 45) of sales receipts sampled did not reconcile with the City fee schedule. Specifically, four receipts listed fees, not found on the schedule, and five listed permit fees in an amount different from what was listed on the schedule. Due to a lack of proper monitoring to ensure that all Council-approved fees are completely and accurately entered into HPW's permitting systems, there are risks of either undercharging or overcharging applicants for permit fees.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document and implement a process to ensure all building permit fees are entered into the permitting systems completely and accurately.

Management Response

Interim: Before updated fees are implemented on January 1st, management will schedule City Fee Schedule review meetings with each HPW-HPC discipline to ensure all fees are captured and correctly reflected in the City Fee Schedule and ILMS Permitting System. HPC will create a training and testing schedule to compare City Fees to fees charged in ILMS to assist permit technicians and plan analysts in coding the correct fees to each project and/or sales order; training and testing requirements will be documented in a Standard Operating Procedure and made available. In addition, management will implement an initial phase of additional testing within the next 60 days to ensure the correctness of fees being assessed.

Long Term: The new permitting system being developed, HouPermits, will automate fee calculation to mitigate the risk associated with human error. The resource materials created will be used to train permit technicians, inspectors and plan analysts and additional

reviews will be implemented to ensure all fees are properly captured in the permitting system.

Responsible Party

Byron King- Building Official & Suhail Kanwar- City Engineer

Estimated Date of Completion

March 31, 2023

Assessment of Response

Management's response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #3 - Lack of Monitoring of Permitting and Inspection Processes

Risk Rating = High
(Impact and Magnitude)

Background

While HPW conducted an average of 81,405 plan reviews and 883,330 field inspections during fiscal years 2019 through 2021, management did not conduct any effective analysis of this data to identify any potential irregularities in the permitting processes.

Finding

HPW does not use data to track, monitor and investigate certain “red flag” activities, such as improperly routed permits, inappropriately expedited review of project plans, approvals of those without proper authorization, inspections scheduled without supervisory approval, inspection records improperly modified in the permitting systems after final permit sign-off, among others. Except for Field Inspections Exceptions reports, which recaps the previous day’s inspection schedules and related results, management did not provide other reports which they used to monitor potentially inappropriate activities. HPW officials indicated they did not generate any exception reports as they did not know how to produce them from the permitting systems.

Recommendations

We recommend that the Director of Public Works, or the Director’s designee:

- Develop, document and implement a process to routinely analyze permitting data to identify potential irregularities in plan approval or inspection processes by obtaining and reviewing exception reports, such as those relating to: (a) expedited permit reviews, (b) completeness and potentially improper modification of inspection records, or (c) any other report(s) management deems necessary to effectively monitor its permitting processes and activities.
- Train officials on how to generate exception reports.
- Develop, document and implement a quality control (or spot check) system of plan reviews and inspections.

Management Response

Interim: The Houston Permitting Center will create and review exception reports for ILMS activity to assist in identifying anomalies/abnormalities in the inspection and plan review processes. Additional employee training and system “spot checking” will be employed to prevent and monitor potential “red flag” activities. Training & Process

Auditing requirements will be documented in a Standard Operating Procedure and made available.

Long Term: Leverage tools provided by the new permitting system, HouPermits, to prevent improperly routed permits and unauthorized approvals and modifications. HouPermits ability to automate manual tasks will ensure the quality of data collected and allow management to efficiently monitor and analyze permitting and inspection activities through exceptions/anomaly reports.

Responsible Party

Byron King- Building Official, Suhail Kanwar- City Engineer, & Lawrence Childress -City Engineer – Chief Inspector

Estimated Date of Completion

June 30, 2023

Assessment of Response

Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #4 - Lack of Monitoring of GIMS Permitting Revenue

Risk Rating = High
(Impact and Magnitude)

Background

HPW utilized GIMS² during the scope period for processing Mobility and Street Cut permit applications, calculating related fees amounts and sending out requests for payment to applicants. After completing the necessary initial steps, permittees receive an automated email from GIMS directing them to JPMorgan Chase's (bank/depository) website for payment. According to the City's SAP system, HPW reported approximately \$2.9 million, \$3.8 million, and \$3.4 million in Mobility and Street Cut permit revenue during fiscal years 2019, 2020 and 2021 respectively.

Finding

HPW was unable to provide us with detailed permit revenue reports from GIMS. The inability of HPW to access GIMS data suggests that management lacks information to adequately monitor its permitting revenue generated from that system to ensure that it is accurate and complete. As a result, we were unable to conduct planned detailed testing to establish whether permitting revenue generated from GIMS reconciled to the related revenue recorded in SAP, and the fees charged to applicants were consistent with those set in the City ordinance and posted to the website. Additionally, a lack of monitoring of revenue can lead to theft and misappropriation. HPW officials indicated that GIMS did not have the functionality to generate the reports we requested.

Recommendations

We recommend that HPW work with its Information Technology (IT) division to strengthen GIMS's ad hoc reporting capabilities. HPW should also review GIMS's existing reports to ensure they are functional and displaying the needed information. Additionally, HPW's management should review and monitor GIMS permitting activities to ensure that all applicable revenue is collected and accurately recorded.

Management Response

The Houston Permitting Center will transition the Mobility Permits operation from the Transportation & Drainage Operations Service Line in fiscal year 2023. The centralization of the HPW Permitting Operations creates customer convenience and streamlines the permitting processes. The reconciliation and booking of revenue will be combined with existing practices performed by the HPC Revenue team to ensure accuracy, review, and additional oversight.

² Per HPW, GIMS has now been replaced by GeoLink, an information hub where applicants can search for data, access permitting applications, etc.

Responsible Party Chelsea Harvey-Ketchens- Division Manager, Ahmad Ghaly -
Managing Engineer, Suhail Kanwar – City Engineer

Estimated Date of Completion June 30, 2023

Assessment of Response Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #5 - Inadequate or Outdated Policies and Procedures

Risk Rating = Medium
(Impact and Magnitude)

Background

Policies and procedures are necessary tools to help departments effectively manage programs. They also help to facilitate the training of new employees, provide existing staff with a consistent procedural decision-making framework, as well as a mutual understanding of management's expectations. HPW's internal policy, Policy No. 1-1, Policy Development, Review & Distribution (Policy No. 1-1), requires that all departmental policies and procedures be reviewed at least every three years to ensure that they reflect current policies and practices and that they are in conformance with applicable laws and regulations.

Finding

A brief review of departmental policies and procedures indicated that certain permitting practices were not updated to ensure plan reviews and inspections are performed in a uniform and consistent manner, thus increasing the risks related to the issuance of those permits. In addition, several administrative policies, including the "Code of Conduct" and "Cash Handling," were also found to be outdated. According to HPW officials, operational priorities have limited the department from reviewing, updating and publishing its policies and procedures. Outdated policies increase the risk that actions required by those policies might not be relevant to HPW's current operational and compliance needs, as well as lead to inconsistency and inefficiency in staff performance.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, ensure that policies and procedures are reviewed and updated in accordance with department Policy No. 1-1. Additionally, ensure that policies and procedures are developed for all key operating procedures related to permitting, including training requirements, performance standards and permitting systems to facilitate a clear and consistent understanding of work practices and performance expectations.

Management Response

Interim: The Houston Public Works Department will review all existing policies and procedures to ensure they are updated with the current practices and are electronically available to all employees.

Long Term: Policies and procedures will be routinely updated based on Citywide and Departmental changes/addendums, ICC Code changes, and findings from future process improvement studies.

Responsible Party Byron King- Building Official, Suhail Kanwar- City Engineer, Chelsea Harvey-Ketchens – Division Manager

Estimated Date of Completion June 30, 2023

Assessment of Response Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #6 - Inadequate Rotation of Building Inspectors

Risk Rating = Medium
(Impact and Magnitude)

Background

HPW's Building Code Enforcement Service Line is responsible for conducting field inspections of construction projects to confirm compliance with the City's adopted codes. This responsibility typically involves responding to specific inspection requests by physically visiting the construction site and conducting inspections to confirm the project is being built in accordance with the plans previously approved by Plan Review staff. To reduce the risk of inspectors developing inappropriate relationships resulting in conflicts of interest with permit applicants and property owners in their districts, a common industry practice is to rotate inspectors at least annually or develop an alternative solution.

Finding

Currently, HPW does not have a formal policy and procedures regarding annual rotation of inspectors among geographic zones to help mitigate the risk of conflicts of interest among staff. HPW officials advised they rotate inspectors whenever a staffing change occurs. They also indicated that the current, unwritten practice of periodically rotating inspectors adequately addresses their department's needs.

In our opinion, while periodic rotation of inspectors is a good practice, HPW risks providing preferential treatment to applicants by improperly expediting or delaying inspections or the perception of preferential treatment without a written policy and procedures.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document and implement a policy and procedures requiring inspectors be rotated at least annually, or develop an alternative solution to mitigate the risk of staff conflicts of interest.

Management Response

Interim: The Houston Permitting Center will formally document the policy for the rotation of inspectors for review and approval. Management will perform a review of inspectors within their designated geographic zones, which are based on mile, radius, and proximity and create an exception report to assist in identifying anomalies/abnormalities in the inspection processes.

Long Term: The Houston Public Works Department will partner with Administration & Regulatory Affairs (ARA) and other necessary Departments to collaborate/evaluate the rotation of building

inspectors that exceeds their assigned mile radius. The pending policy will provide a framework to rotate inspectors to reduce the risk of staff conflicts of interest while also ensuring operational costs, such as vehicle maintenance and refueling costs, are minimally or not affected by changes in rotation.

Responsible Party

Byron King- Building Official, Suhail Kanwar- City Engineer, & Lawrence Childress -City Engineer – Chief Inspector

Estimated Date of Completion

June 30, 2023

Assessment of Response

Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #7 - Inconsistent Revenue Between SAP and Permitting Systems

Risk Rating = Medium
(Impact and Magnitude)

Background

Reliable and complete financial information is necessary to help HPW leadership understand their department's finances, make informed policy and resource decisions and to hold officials accountable for their use of these resources. A basic way to obtain financial information is to perform a monthly verification of transactions in SAP to ensure the accuracy and propriety of the entries.

Finding

HPW's permit revenue in SAP did not reconcile with ILMS and GIMS. Our analysis showed the following differences:

HPW Permitting Revenue			
Year	SAP	ILMS	Difference (SAP-ILMS)
2019	\$87.2M	\$90.1M	(\$2.9)M
2020	\$86.5M	\$85.9M	\$570.8K
2021	\$80.1M	\$82.5M	(\$2.4)M
Total	\$253.8M	\$258.5M	(\$4.7)M

This occurred because HPW's management is not performing periodic reconciliations of revenue entries in SAP compared to department permitting systems (i.e., ILMS and GIMS). Without periodic reconciliations, HPW may not identify errors and omissions in its financial reporting of permitting revenue.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document and implement a process to periodically reconcile permit revenue in SAP to HPW's various permitting systems. This reconciliation should be documented, reviewed and approved.

Management Response

Interim: The Houston Permitting Center Revenue Team will continue to compare and document all revenue booked between ILMS, INFOR, PayConnexion to ensure funds received by the Houston Permitting Center are booked correctly and timely. Existing Standard Operating Procedures will be updated to reflect the additional collection of GIMS revenues and made available.

Long Term: The Houston Permitting Center will transition the Mobility

Permits operation from the Transportation & Drainage Operations Service Line in fiscal year 2023. The reconciliation and booking of revenue will be combined with existing practices performed by the HPC Revenue team to ensure accuracy.

Responsible Party

Chelsea Harvey-Ketchens – Division Manager

Estimated Date of Completion

June 30, 2023

Assessment of Response

Management's response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #8 - Lack of Verification of SAP Revenue

Risk Rating = Medium
(Impact and Magnitude)

Background

Management is responsible for ensuring that processes are in place to provide reasonable assurance that financial information is accurate and therefore reliable for both internal and external stakeholders.

Finding

Currently, cash receipts journal entries are prepared and manually entered into SAP. During the audit, we found immaterial clerical errors that went undiscovered until we performed our review. HPW officials cited staffing constraints for not conducting supervisory review of manual cash receipts journal entries into SAP. The failure to adequately ensure that processes are designed, implemented and functioning appropriately over manual cash receipts journal entries increases the risk of misstatements of financial information, which could be prevented, detected and/or corrected timely.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document and implement a process requiring supervisory review and approval of manual journal entries before and after being recorded in SAP.

Management Response

Interim: The Houston Permitting Center Revenue Team has transitioned from manual journal entries to electronic journal entry uploads as of January 2022 and has recently implemented the segregation of "Park & Post" abilities. The Standard Operating Procedures are currently under review for the revenue reconciliation and the changes noted in this document will be reflected in the pending SOP.

Long Term: The Houston Permitting Center Revenue Team will continue to use electronic journal entry uploads and maintain segregation between journal entry "parker" and "poster" functions.

Responsible Party

Chelsea Harvey-Ketchens – Division Manager

Estimated Date of Completion

March 31, 2023

Assessment of Response

Management's response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #9 - Inadequate Segregation of Duties Over Mail-In Cash Receipts

Risk Rating = Medium
(Impact and Magnitude)

Background

A key concern in processing cash transactions (i.e., checks, money orders, credit cards, etc.) is the potential diversion of cash before there is any documentation of its receipt. Thus, management should ensure that procedures provide reasonable assurance that documentation is made at the time cash is received. For mail that includes cash receipts, the procedures should require having more than one person open the mail and supervisory surveillance that mail clerks promptly (1) list each remittance on a prelist and (2) immediately stamp each check "For Deposit Only."

Finding

We noted a lack of adequate segregation of duties, as the same employee who picks up the mail also opens and records mail-in cash receipts in iNovah, HPW's cashiering software application. HPW officials said that a lack of qualified staff contributed to improper segregation of duties in this area. Without proper segregation of duties over cash receipts, HPW cannot: (a) establish whether transactions are recorded completely and accurately, and/or (b) identify potential misconduct.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document and implement a process where the duties of receiving and recording cash receipts received via the mail are performed by different staff.

Management Response

Interim: The Houston Permitting Center Cashiering team is currently reviewing and updating the Cash Handling Policy to reflect the segregation of mail pickup, check batching, and check processing. The Standard Operating Procedures are currently under review for the revenue reconciliation and the changes noted in this document will be reflected in the pending SOP.

Long Term: The Houston Permitting Center Cashiering Team will continue to segregate the duties of receiving and recording of cash receipts via mail. If city mail messenger services become available in the future, HPC will incorporate this function into the Cash Handling Policy to allow for additional oversight.

Responsible Party	Chelsea Harvey-Ketchens – Division Manager & Carla Ordonez, Customer Service Section Chief - Cashiering
Estimated Date of Completion	December 16, 2022
Assessment of Response	Management's response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

Finding #10- Inadequate User Access Controls

Risk Rating = Medium
(Impact and Magnitude)

Background

User access controls should provide reasonable assurance that computer resources, including data files and application programs, are protected against unauthorized or inappropriate access, modification, disclosure, loss or impairment.

Finding

HPW did not provide documentation of its users and their corresponding access to the permitting systems, which documents each user and their role(s) (user's profile). In addition, our interviews with staff indicated that HPW did not have a mechanism in place to periodically monitor access to the permitting systems for appropriateness, to include a determination of what level and type of access is appropriate for individual users ensuring adequate segregation of duties and requiring that passwords to the permitting systems are periodically changed. Inadequate access controls diminish the reliability of computerized data and increase the risk of inappropriate, unauthorized access and/or disclosure or destruction of data.

Recommendations

We recommend that the Director of Public Works, or the Director's designee, develop, document, and implement guidance related to user access to facilitate the protection of its information technology resources that is in line with relevant City policies.

Management Response

Interim: The Houston Permitting Center will work with the ILMS Permitting System consultants & developer to periodically generate a report identifying all users and their access levels. This report will be distributed among managers to allow them to modify access for employees and terminate access for existing COH Employees as necessary and appropriate.

Long Term: The Houston Permitting Center will request and develop a full offboarding process to include termination or restriction of user access accounts/profiles for all permitting systems within 48 hours of a termination or separation notice. The Houston Permitting Center will also request for the new permitting system, HouPermits, to include periodic reviews of user access for management review.

Responsible Party	Soledad Saenz – Senior Staff Analyst & Enrique Leon – Customer Service Supervisor
Estimated Date of Completion	December 16, 2022
Assessment of Response	Management’s response, as presented, adequately addresses the identified issue. As such, the proposed corrective action plan is appropriate.

MANAGEMENT ACKNOWLEDGEMENT STATEMENT

Acknowledgement Statement

October 19, 2022

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE/COMPLIANCE AUDIT OF HOUSTON PUBLIC WORKS (HPW) PERMITTING OPERATIONS – ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of HPW. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Carol Ellinger Haddock, P.E.
Director, Houston Public Works

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Audit reports are available at:

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