

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Public Works Flood Control District: Permits Audit



**Ensen Mason CPA, CFA
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Auditor-Controller/Treasurer/Tax Collector

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Chief Deputy Auditor

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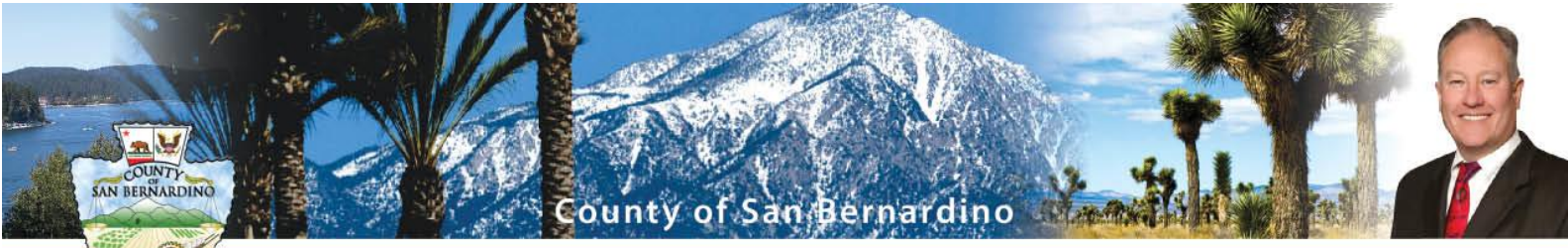
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Public Works – Flood Control District Permits Audit

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County of San Bernardino

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June 30, 2020

Brendon Biggs, Interim Director
Department of Public Works
825 East Third Street,
San Bernardino, CA 92415

SUBJECT: PERMITS AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter we have completed an audit of the Public Works – Flood Control Division (Division) Permits for the period of July 1, 2018 through June 30, 2019. The primary objective of the audit was to determine if the controls over the permit applications approved by the Division are in place and effective. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Division on June 5, 2020. The Division’s responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Public Works – Flood Control Division who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector

San Bernardino County

By:

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Chief Deputy Auditor

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Date Report Distributed: June 30, 2020

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Summary of Audit Results

Our findings and recommendations are provided to assist management in strengthening internal controls and procedures relating to the Division's permits process.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Segregation of duties could be improved.	7
	We recommend the Division develop procedures that will segregate duties or establish compensating controls, for the receipting of temporary permit fees and issuing of temporary permits. We further recommend the Division monitor the issuance of temporary permits and collection of temporary permit fees to ensure proper segregation of duties.	
2	Controls over waiving of Permit fees needs improvement.	7
	We recommend the Division conduct a documented review of current permit fee waivers and correct any inappropriately deployed waivers to prevent loss of fee revenue in accordance with the San Bernardino County Flood Control District Schedule of Fees Ordinances No. FCD 18-01. We further recommend the Division perform a documented review of new permit fee waivers for expiration dates and approve the waivers in accordance with ICCM "Authorization" procedures.	
3	Procedures over the collection of fees could be improved.	8
	We recommend the Division reconcile costs billed to final cost reports to determine additional fees due before a permit is closed. We further recommend the Division collect amounts due in accordance with the ICCM and San Bernardino County Flood Control District Schedule of Fees Ordinance No. FCD 18-01(h)4. In addition, we recommend the Division reconcile revenue received to final revenue reports to determine overpayments submitted by the permittee and remit any overpayments before the permit is closed.	



PERMITS AUDIT

The Division

The Department of Public Works - Flood Control Division (Division) was created in 1939 under special state legislation. The Division has developed an extensive system of facilities, including dams, conservation basins, channels and storm drains. The purpose of these facilities is to intercept and convey flood flows through and away from the major developed areas of the County of San Bernardino, as well as promote water conservation and improved water quality.

The Division's principal functions are:

- Flood protection on major streams
- Water conservation
- Storm drain construction
- Facility maintenance
- Flood operations

Permits Process

The Division is responsible for issuing permits for work within the San Bernardino County Flood Control District right-of-way. All work within and access to the Flood Control District right-of-way, even on a temporary basis, requires a permit.

Applicants are required to submit the following minimum requirements:

- Fully completed and signed flood control permit application form.
- Seven sets of plans, signed by a registered civil engineer.
- A filing fee in accordance with the latest fee schedule. Inspection fees are asses payable at the completion of the permit review and prior to permit issuance.
- Three sets of hydrology and hydraulic calculations for applications that involve storm drain connections or channel improvements.
- A well permit from the Department of Public Health for any well permit or boring operation deeper than 25 feet (or hitting groundwater).

Audit Background



Fees are set by the San Bernardino County Board of Supervisors (the Board) and are reviewed annually. Revenue generated from permit fees for the audit period is estimated at \$531,000. The total population included 45 temporary permits, 152 construction permits and 40 closed permits. Cities, state, public agencies and non-profit organizations/agencies may be exempt from providing filing fees. The Permit Section fees used in this audit are from the San Bernardino County Flood Control District Schedule of Fees Ordinances No. FCD 18-01.



Scope and Objective

Our audit examined the controls over the permit applications approved by the Flood Control Division for the period of July 1, 2018 through June 30, 2019.

The objective of our audit was to determine if the controls over the permit applications, approved by the Division, were in place and effective.

Methodology

In achieving the audit objectives, the following audit procedures were performed including but not limited to:

- Review of Division's internal policies and procedures related to the permits process
- Review of Schedule of Fee Ordinance No. FCD 18-01
- Interview of Division and Fiscal staff
- Walk-through of activities related to the permits process
- Examination of original source documents and system generated reports



Finding 1: Segregation of duties could be improved.

The Internal Controls and Cash Manual (ICCM) Chapter 2-3 "Segregation of Duties" states that no one person should be assigned concurrent duties that would allow them complete control over a transaction or an asset.

There was one instance in our review of 10 temporary permits where we identified that employees can collect and receipt a temporary permit fee and issue a temporary permit.

The Division stated an employee may collect temporary fees and issue a temporary permit due to limited staffing or if only one employee is on duty that day. Lack of effective segregation of duties increases the risk that a single person could conceal errors and irregularities in the normal course of their duties.

Recommendation:

We recommend the Division develop procedures that will segregate duties or establish compensating controls, for the receipting of temporary permit fees and issuing of temporary permits. We further recommend the Division monitor the issuance of temporary permits and collection of temporary permit fees to ensure proper segregation of duties.

Management's Response:

Management agrees with the finding and will implement the recommendations above.

Auditor's Response:

The Division's planned actions will correct the deficiencies noted in the finding.

Finding 2: Controls over waiving of Permit fees needs improvement.

The ICCM Chapter 2-3 "Authorization" states that all transactions should be properly authorized and approved, which establishes responsibility. It further states authorizations can take many forms, such as laws, ordinances, standard practice manuals, Board resolutions, approved budget, written policies, and manager's signature.

Audit Findings and Recommendations



There was once instance in our review of 30 construction permits where we identified inspection fees totaling \$660 were waived without proper authorization.

The Division was unaware that an approved waiver dated July 8, 2008, for the inspection fees totaling \$660, had a five year term. The Division continued to waive fees, without proper authorization, after the five year term had concluded. The County may lose revenue when fee waivers are not updated and appropriately approved by the Board.

Recommendation:

We recommend the Division conduct a documented review of current permit fee waivers and correct any inappropriately deployed waivers to prevent loss of fee revenue in accordance with the San Bernardino County Flood Control District Schedule of Fees Ordinances No. FCD 18-01. We further recommend the Division perform a documented review of new permit fee waivers for expiration dates and approve the waivers in accordance with ICCM "Authorization" procedures.

Management's Response:

Management agrees with the finding and will implement the recommendations above.

Auditor's Response:

The Division's planned actions will correct the deficiency noted in the finding.

Finding 3: Procedures over the collection of fees could be improved.

The ICCM Chapter 14-2 "Failure of Payment" states that if a customer does not pay the amount due, the department must take the appropriate action under the provision of the applicable law or judgment to obtain the payment. Further, the San Bernardino County Flood Control District Schedule of Fees Ordinance No. FCD 18-01(h)4- "Applicant's obligation to pay actual cost" states that the applicant shall pay the actual cost of the project, regardless of any estimate; except that the applicant is not obligated for costs incurred after the applicant delivers to the San Bernardino County Flood Control District either an unconditional written withdrawal of the application, or a written notice to stop work which includes a waiver of any applicable time limits for processing the application. In addition, the ICCM Chapter 2-3 "Recording" states all transactions and pertinent events should be accurately and properly recorded on documents and records.

Audit Findings and Recommendations



Closed permits are permits where a final inspection by the District has shown all work under the permit has been completed in accordance with provisions of the permit. Receipt of additional monies owed or refund of excess permit fees have been provided to the Permittee and documented within records.

The following conditions were identified when 10 of 40 closed permits were tested:

- 6 permits totaling \$1,203 were due to the Division, however, the amounts due were not collected.
- Costs billed to the permittee were not reconciled to the final cost report after the permit was closed. This resulted in:
 - 3 permits totaling \$733 that were under billed.
 - 2 permits totaling \$2,037 that were overbilled.
- Revenue collected was not reconciled to the final revenue report after the permit was closed. This resulted in:
 - 3 permits totaling \$470 that were overpaid.
 - 1 permit totaling \$80 that was underpaid.

The Division will not request additional fees or overpayments from the permittee once a permit is closed. Although revenue and cost reports may be generated by the Division, a reconciliation of actual costs and revenue is not performed after a permit has been closed. The County loses revenue when fees are not collected by the Division. Further, the risk that monies held by the division do not reflect accurate amounts increases when reconciliations are not performed.

Recommendation:

We recommend the Division reconcile costs billed to final cost reports to determine additional fees due before a permit is closed. We further recommend the Division collect amounts due in accordance with the ICCM and San Bernardino County Flood Control District Schedule of Fees Ordinance No. FCD 18-01(h)4. In addition, we recommend the Division reconcile revenue received to final revenue reports to determine overpayments submitted by the permittee and remit any overpayments before the permit is closed.

Management's Response:

Management agrees with the finding and will implement the recommendations above.

Auditor's Response:

The Division's planned actions will correct the deficiencies noted in the finding.