



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

November 29, 2016

The Honorable Members of the County Council
The Honorable County Executive Steven R. Schuh
Mr. Dan Kane, Director of Inspections and Permits
Ms. Laureen Toney, Acting Controller
44 Calvert Street
Annapolis, MD 21401

Dear Members, Mr. Schuh, Mr. Kane, and Ms. Toney:

We conducted a performance audit of the internal controls over the County's permit fee payments. Our audit was conducted in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The purpose of our audit was to determine whether management has adequate internal controls to ensure permit fee payments are collected, deposited, and recorded in the County's general ledger accurately and timely. In this report, the term "payments" refers to both cash and checks received by the County. Our specific objectives were:

- (1) To determine whether permit fee payments are safeguarded against loss from unauthorized use or disposition;
- (2) To determine whether permit fee payments are deposited intact on a timely basis; and
- (3) To determine whether access to the Permit Inspection Processing System (PIPS) for payment processing and reconciliation is limited to those employees that require the access to perform their job functions.

Our audit included interviews with employees from Inspection and Permits (I&P), Office of Finance (Finance), Office of Information Technology (OIT), and various other departments. We documented and tested internal controls and procedures related to permit fee payments. We obtained a report of all calendar year 2014 PIPS transactions, extracted payment transactions from this report, and compared and reconciled these transactions to revenue recorded in the County's general ledger. Finally, we obtained a report of PIPS users who can process permit and licensing transactions and determined whether their access was necessary and appropriate. The scope of our audit did not include online trade permit applications and credit card payments, or credit voucher payments.

Our findings and recommendations address controls in place and transactions that occurred during calendar year 2014. Management's responses to our recommendations are shown in italics. This report is intended for the use of the County Council and the management of Anne Arundel County. However, this report is a public document that may be obtained from the Office of the County Auditor.

BACKGROUND

The County uses PIPS to track the application and issuance of licenses and permits, and the assessment and payment of related fees. During calendar year 2014, there were approximately \$62.5 million of PIPS permit fee payments within the scope of our audit. Individuals and businesses seeking licenses or permits can submit their application and payments in person or by mail. I&P employees process the applications, supporting documents, and related payments. They also ensure the payments are submitted to the Finance cashiers (cashiers), who accumulate and deposit the payments into the County's bank account. I&P and OIT employees perform a reconciliation to ensure that all PIPS transactions are recorded in the County's general ledger. We have included a more detailed description of the process in Attachment A.

PROCEDURES, FINDINGS, AND RECOMMENDATIONS

Objective 1: To determine whether permit fee payments are safeguarded against loss from unauthorized use or disposition.

We determined that management did not have adequate internal controls to ensure permit fee payments were safeguarded against loss from unauthorized use or disposition. Specifically, we noted the following:

- (1) The I&P Secretary (secretary) opening the mail and other I&P employees do not restrictively endorse checks "for deposit only." Further, after calendar year 2014, the secretary stopped maintaining a log of payments received in the mail and, although she entered permit applications into a document tracking system, she did not always enter the related payment information. Strong internal controls require that payments be logged for tracking purposes and checks be immediately endorsed "for deposit only" to reduce the opportunity for someone to misappropriate the payment without detection.
- (2) There are several employees who have incompatible duties:
 - The Commercial Permit Coordinator (coordinator) handles payments received in the mail and can also post transactions and reconciliation adjustments to PIPS.
 - Technicians handle payments received in the mail and post these payments to PIPS.
 - The secretary opening the mail handles payments and posts extension fee payments to PIPS.
 - Although outside the scope of this audit, we also noted the Chief of Licensing and licensing employees handle licensing fee payments received in the mail and can post transactions or reconciliation adjustments to PIPS.

Strong internal controls require duties related to custody of payments be segregated from recordation of payments or reconciling adjustments. Employees who have both custody and recordation or reconciliation responsibilities could misappropriate payments without detection and post transactions to PIPS to conceal the theft.

- (3) Technicians retain multi-dwelling applications and related payments until they finish entering the information into PIPS. Technicians also retain non-residential applications with incorrect payments until the applicant pays the correct amount. Although the technician locks these payments in a cabinet, the payments are not endorsed "for deposit only" or "voided" and several people have access to the cabinet. Therefore, these payments could be misappropriated without detection during that time.
- (4) The reconciliation of PIPS payments with the payments recorded in the County's billing and collections software (MUNIS) is not adequate. Although the daily matching of payments to PIPS with payments in MUNIS provides some level of control, this reconciliation can be circumvented by posting any MUNIS receipt number to the PIPS record, whether or not that MUNIS transaction relates

to the PIPS item. Therefore, those with reconciliation responsibilities could misappropriate payments without detection and post any MUNIS receipt number to PIPS. Additionally, management does not maintain documentation of unmatched items and the ultimate resolution.

- (5) When the MUNIS system is offline, cashiers store payments and related documentation in a vault that is accessible to all cashiers until one of the cashiers can enter the payment into MUNIS. Therefore, these payments are susceptible to misappropriation without detection during that time.

To improve internal control, we recommend that:

- (1) I&P staff restrictively endorse checks when opening the mail, promptly record payment information on a log, and lock the payments in a restricted area until the staff can process the application or return it to the applicant.**
- (2) Employees who can record payments or adjustments to PIPS, or reconcile payments in PIPS to payments in MUNIS, not have physical custody of payments.**
- (3) Someone other than the person opening the mail be responsible for posting extension payments to PIPS. The person opening the mail should only provide copies of payments or payment information to the technician, coordinator, or reconciler; and only provide copies of license payments and related information to the Chief of Licensing and licensing staff.**
- (4) After I&P staff post the payment to PIPS, the PIPS receipt forms be given to the person with custody of the payments who should take the information to the Finance cashiers for validation and deposit.**
- (5) When MUNIS is offline, the cashiers that collect the payments maintain the payments in their individual locked cash drawer until they can enter the payment in MUNIS.**
- (6) Those reconciling PIPS and MUNIS transactions maintain documentation of all PIPS transactions not automatically matched with a MUNIS transaction along with the subsequent resolution to be periodically reviewed by a supervisor.**

Objective 2: To determine whether permit fee payments are deposited intact on a timely basis.

For the items tested, we concluded that employees deposited permit fee payments intact. However, management did not consistently document the return of applications and payments or the voiding of payments received for the wrong amount. We also found that employees did not deposit several payments on a timely basis.

We selected 25 permits issued during calendar year 2014 and traced all of the PIPS transactions for these permits (totaling \$12,178) to a PIPS receipt form validated by the cashier and to the corresponding entry in the general ledger.

We also selected 54 payments totaling \$395,709 from either the mail log, document tracking system, or extension renewal log and traced the payments to the PIPS transaction and the general ledger. If we noted a delay of more than six days between the date received and the date posted in the general ledger, we reviewed the corresponding validated PIPS receipt form to determine the date the cashier received the payment for deposit. We could not find four of these payments, totaling \$11,331, in PIPS or the general ledger. According to management, these payments were the wrong amounts and I&P employees probably returned the payment to the applicant or voided the payment. However, management could not provide us with any documentation for the return or void.

We reviewed the PIPS history for these permits and found subsequent permit fee payments for different amounts posted to PIPS and the general ledger, which supported management's assertion.

We noted I&P employees submitted nine of the 54 payments, totaling \$328,787, to the cashier between 7 and 30 days after the initial receipt. Two of the nine payments were for multiple dwellings that required 200 and 87 permits, respectively. In accordance with their procedures, the I&P permit technicians retained the payments until they completed all PIPS entries. I&P employees submitted the seven single-dwelling payments, totaling \$61,819, between 7 and 30 days after initial receipt.

Lastly, to determine whether all PIPS payments were posted to the general ledger, we obtained a data file of all calendar year 2014 PIPS permit transactions. We performed the following:

- (1) We extracted PIPS payment and reverse payment transactions totaling \$68,787,887.
- (2) We eliminated credit voucher payments and reverse payments outside the scope of our audit that totaled \$4,516,175, leaving a net total of \$64,271,712.
- (3) We used data analytics software to match these PIPS payments and reverse payments to MUNIS payments and removed all matching items. These totaled \$62,227,310.
- (4) We manually searched the remaining unmatched items and removed transactions we could manually match to postings in the general ledger. These totaled \$184,220.
- (5) We also eliminated \$1,731,989 of internet payments that post to the general ledger by batch, which were outside the scope of this audit.

The remaining unmatched transactions included PIPS payment transactions totaling \$228,321, and PIPS reverse payment transactions of \$100,128, for a net total of \$128,193. From these items, we selected 80 PIPS payment transactions totaling \$226,920 and 6 PIPS reverse payment transactions totaling \$55,477 and performed further investigation. We ultimately matched most of these transactions to corresponding general ledger transactions; however, nine PIPS payment transactions totaling \$2,521 were not posted to the general ledger and were not deposited in the County accounts. Management did not document these transactions as unresolved reconciling items; however, we investigated further and determined that I&P employees had either posted the payments to PIPS in error (e.g., a duplicate entry) or the permits were canceled and the I&P employees failed to reverse the payment in PIPS. Management informed us that I&P employees subsequently reversed or deleted these transactions on PIPS.

Of the electronically matched PIPS transactions in (3) above, we tested 31,889 transactions totaling \$26,372,860 to determine if there was a delay of more than six days from the date posted to PIPS to the date posted in the general ledger. We found that 41 transactions totaling \$374,859 posted to the general ledger 7 to 38 days after the initial posting to PIPS. Of these, 18 items, totaling \$363,494, related to a single apartment building in which the applicant submitted the wrong amount and I&P held the payment until the applicant sent a replacement check. The remaining 23 items, totaling \$11,365, posted in the general ledger 7 to 18 days after the initial posting to PIPS. These 23 transactions represent 0.07% of the 31,889 PIPS transactions selected for testing.

We recommend that I&P employees maintain documentation of any payments received that are returned to the applicant or voided. As noted previously, those who reconcile PIPS to MUNIS should maintain documentation of the ultimate resolution of any PIPS payment transactions that are not initially matched to a corresponding MUNIS transaction and supervisors should periodically review this reconciliation process. Finally, we recommend that I&P management implement policies that will result in more timely deposits of payments received in the mail.

Objective 3: To determine whether access to PIPS for payment processing and reconciliation is limited to those employees that require the access to perform their job functions.

Members of the County Council
Mr. Schuh
Mr. Kane
Ms. Toney
November 29, 2016
Page 5

Management did not restrict PIPS access to those employees that require access to perform their job duties. Strong internal controls mandate that those with custody of payments should not have access to post transactions in PIPS or reconcile payments in PIPS to payments in MUNIS.

We obtained a list of employees with access to post payments to PIPS. There were 85 individuals with the ability to post payments for one or more of the 14 permit or license types. Of this group, 54 individuals could post payments for permits or licenses that were not required by their job responsibilities. Additionally, 12 of these individuals did not require any access and seven were no longer County employees. Management informed us that they have subsequently deleted this access. We also noted that 30 planners and five I&P employees that perform planning duties have access to post payments in PIPS because they are responsible for assessing fees. This is an excessive number of employees with update access.

We recommend management review PIPS access on a periodic basis and eliminate access for any individuals that handle payments, individuals who do not need access to perform their job duties, and those who no longer work for the County. Management should develop access groups in PIPS that allow employees to assess fees but not post payments or adjustments; however, OIT says that these PIPS parameters cannot be altered. Therefore, we recommend that management centralize the access to a limited number of employees to reduce the exposure to misappropriation.

Management's Response

The Department of Inspections and Permits has reviewed the Audit Report completed by the County Auditor and examined our process in light of the Auditor's Recommendations. We are generally in agreement with the Auditor's recommendations and, along with the Office of Finance, offer the following in response to each specific recommendation:

Objective 1:

- 1) *As of October 6, 2016, our Department has instituted a procedure that requires all checks received to be immediately stamped with FOR DEPOSIT ONLY stamp. Checks have been kept in a restricted area since the original audit. We have gone a step further and ordered a safe that will be used to house the checks.*
- 2) *We have instituted a new process. The staff person that opens the mail and has custody of the checks no longer has access to the PIPS fee screen. Another staff person enters the data into PIPS.*
- 3) *As noted above, we have changed our process.*
- 4) *As noted above, we have changed our process.*
- 5) *In response to the Auditor's concerns, Finance will install battery backups to the cashier's stations in order to eliminate incidents where MUNIS is offline due to power outages. Additionally, camera security is being enhanced to monitor payments placed in the safe. If MUNIS is offline for a non-power outage event, Finance prefers not to require cashiers to lock the payment in their individual cash drawers because processing delays can result when a cashier is on leave and their cash drawer can't then be accessed. Instead, Finance will continue to lock the amount in the safe and the cashier will create a written record of the unprocessed and held amount that will be approved by two employees as subsequently processed and deposited when MUNIS is back online.*
- 6) *We have instituted a policy that requires a supervisor to review and approve the reconciliations on a regular monthly basis.*

Members of the County Council
Mr. Schuh
Mr. Kane
Ms. Toney
November 29, 2016
Page 6

Objective 2: *We have already changed our processes to ensure timely deposits of checks. Apartment and Condominium projects take a long time to enter into the system, because of the nature of the work (plans) and the high volume of permits. We no longer accept a check until the information has been entered into PIPS. Therefore, we are no longer holding checks for long periods of time.*

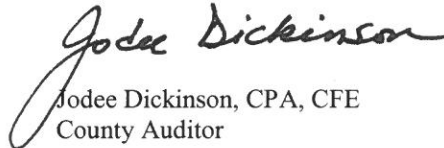
We now track our checks received in the mail using our Front Desk system. If a check is returned it is noted on the screen within the Notes section. We had implemented this process before the audit. However, the audit period (Calendar Year 2014) was prior to use of our current system.

Objective 3: *We limit access to the PIPS fee system. However, the antiquated system leaves us few options. Staff that reviews plans, staff that intakes permits and management all require access. We will now check on those with access to PIPS on a 6 month cycle. Prior to the audit, we were checking on an annual basis.*

I hope this adequately addresses your concerns. Thank you for your review of our processes and your helpful suggestions, and please feel free to contact me directly if you have any other questions or require any additional information.

We thank the Department of Inspection and Permits, the Office of Finance, and the Office of Information Technology for their courteous cooperation. Please call me at (410) 222-1138 if you have any questions regarding our findings and recommendations.

Sincerely,


Jodee Dickinson, CPA, CFE
County Auditor

Attachment A

Licenses and Permits Processing

An individual or business seeking a license or permit can submit an application and other required documents to the Permit Application Center (PAC) in person or by mail. If the applicant submits in person, a Permit Center Technician (technician) reviews the documents and enters the application information into the Permit Inspection Processing System (PIPS). PIPS automatically generates a permit number and calculates the fees. The technician posts a payment transaction to PIPS and prints a PIPS receipt form. The applicant takes the PIPS receipt form and payment to the Finance cashier's (cashier) office located next to PAC. If the application is related to a multiple dwelling project that requires a significant number of permits, the applicant can leave the documents and payment with the technician. The technician will complete the PIPS entry and take the PIPS receipt form and payment to the cashier.

An applicant can apply by mail by using the County's website to print an application and determine the fees and other required documents. The Permit Secretary (secretary) opens all mail received at PAC. During calendar year 2014, the secretary recorded the payment and documents on a log; however, this mail log is no longer maintained. Starting in November 2014, the secretary logs the application in a document tracking system and assigns the application to the Commercial Permit Coordinator (coordinator). However, the secretary did not consistently record the related permit fee payments in the document tracking system. The secretary gives all applications, documents, and related payments to the coordinator. The coordinator sends the application, documents, and payment to a technician for processing.

The technician reviews the application and documents for completeness and determines whether the payment is correct. If correct, the technician enters the application information and payment into PIPS, prints a PIPS receipt form, and takes the PIPS receipt form and payment to a cashier. If the application is incomplete, or if payment for a residential application is not correct, the technician returns the documents and payment to the applicant. If a non-residential application is complete, but the payment is incorrect, the technician enters the information into PIPS to generate permit numbers and assess fees. The technician contacts the applicant, requests the correct payment, and puts the payment in a locked file cabinet. Once the correct payment is received, the technician enters the payment into PIPS, prints a PIPS receipt form, and takes the form and the payment to the cashier.

Permits have expiration dates, but the applicant can request an extension. The secretary opening the mail records extension requests and the extension fee on an extension request log. The Director or Assistant Director of I&P reviews the request and determines whether to approve it. The secretary prepares a letter stating whether the extension was approved. If approved, the secretary records the extension and the payment to PIPS. The secretary prints a PIPS receipt form and takes the form and payment to the cashier. If the extension is not approved, the secretary returns the payment to the applicant with the letter.

The cashier ensures the payment agrees with the PIPS receipt form. The cashier enters the amount, general ledger account, and other data into MUNIS and validates the PIPS receipt form. The cashier provides in-person applicants with two copies of the validated PIPS receipt form, one for the applicant and one for the applicant to return to the technician for filing. If the technician or secretary takes the PIPS receipt form and payment to the cashier, the cashier provides the technician or secretary with two copies of the validated PIPS receipt form who will file one copy and mail the other to the applicant.

Each cashier stores payments entered into MUNIS in their locked cash drawer. If the MUNIS system is offline, the cashiers stamp the PIPS receipt form "PAID," initial under the stamp, and give two copies of the PIPS receipt form to the person submitting the payment. The cashier stores these payments and the Finance copies of the PIPS receipt forms on a shelf in a shared vault until one of the cashiers can enter the transactions into MUNIS. At the end of the day, the cashier places their cash drawer in the shared vault.

The cashiers settle their drawers every other day by matching the payments to the validated PIPS receipt forms and the MUNIS settlement screens that show total payments entered. The cashiers complete a two-part cashier's settlement sheet and a two-part deposit slip. An armored courier picks up the payments and deposit slips, deposits the monies in the bank, and returns the validated deposit slips to the cashiers. The cashiers send one copy of the validated deposit slips, cashier settlement sheets, and the PIPS receipt forms to the Accounting Clerk in

Attachment A

Licenses and Permits Processing

Finance who reconciles the bank statements to the general ledger. The cashier supervisor reviews and retains the final copy of the deposit slips, settlement sheets, and the PIPS receipt forms.

The automatic mainframe scheduler runs a daily job that batches MUNIS transactions and posts the transactions to the general ledger. The automatic scheduler also runs a daily job that matches MUNIS permit fee payment transactions to the corresponding PIPS payment transactions, posts the MUNIS receipt number on the corresponding PIPS record, and prints reports of matched and unmatched transactions. If not matched, the PIPS payment transaction shows on a PIPS reconciliation screen for resolution.

The coordinator investigates unmatched transactions. If the coordinator finds the matching MUNIS transaction, the coordinator uses the PIPS reconciliation screen to enter the corresponding MUNIS receipt number. If the coordinator cannot resolve the unmatched transaction, she will refer it to OIT who searches MUNIS and PIPS to find the matching transaction. Once a PIPS payment transaction contains a MUNIS receipt number, it will not appear on the following days' unmatched reports or PIPS reconciliation screens even if the value of the PIPS transaction does not match the dollar value of the MUNIS transactions for that receipt number. The process also allows one MUNIS receipt number to be used multiple times. Therefore, any MUNIS receipt number could be entered on PIPS to clear the exception. Further, the reconciler does not retain documentation of how the unmatched transactions were resolved for subsequent supervisory review or audit trail.