County of San Diego Auditor and Controller

OFFICE OF AUDITS & ADVISORY SERVICES

DEVELOPER DEPOSITS

FINAL REPORT

Chief of Audits: Juan R. Perez
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Report No. A16-025

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

August 15, 2017

TO: Mark Wardlaw, Director
Planning & Development Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: DEVELOPER DEPOSITS

Enclosed is our report on the Developer Deposits. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:CJE:nb

Enclosure

c: Sarah Aghassi, Deputy Chief Administrative Officer, Land Use & Environment Group
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Yuliya Leina, Group Finance Director, Land Use & Environment Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the Developer Deposits. The objective of the audit was to evaluate the adequacy of internal controls of the Business Case Management System (BCMS) and the effectiveness and efficiency of the developer deposit process.

Background

Planning & Development Services (PDS) is one of six departments that make up the County of San Diego's (County) Land Use and Environment Group (LUEG). It is responsible for long range land use planning, including the County's General Plan and Zoning Ordinance, which determine how our communities will grow. The department analyzes privately initiated land use projects to ensure compliance with land use regulations, and advises the Board of Supervisors and Planning Commission on the projects. Department programs such as building plan review, building inspection, and code compliance, help maintain public health and safety.

The BCMS is a LUEG-wide initiative implemented initially with Air Pollution Control District (APCD), Agriculture, Weights and Measures (AWM), Department of Environmental Health (DEH), Department of Public Works (DPW) and Planning and Development Services (PDS). The system called Accela went live at PDS in November 2012. The objective was to replace multiple databases and duplicative business processes with a versatile and supportive business case management system that leverages mature and proven web-based architecture.

The Accela integration was meant to reduce duplicative administrative and clerical effort across the entire department enabling staff to focus on core responsibilities and provide more timely and accurate service to both external and internal customers. PDS uses Accela to manage permits, developer deposit accounts, inspections, resources, and work flows.

Accela has a payment processing, records management, trust account management (for developer funds), and time accounting module.

Trust Accounts, formerly referred to as Developer Deposits or discretionary projects, changed during the Accela upgrade. Multiple Developer Deposit accounts were condensed into a single Trust Account associated with all of the permits for the project.

The financial end product of Accela is to provide daily payment processing on all monies received over-the-counter and via mail. Accela creates files containing the financial information which is interfaced with Oracle. Accela also provides fiscal reports that are used to assist with tracking and reconciliation.

OAAS employs the use of principles established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in evaluating the control environment and organization governance structure of the operations of the County. COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

COSO's mission is to improve organizational performance and governance and to reduce the extent of fraud in organizations. [1]

Audit Scope & Limitations

The scope of the audit covered FY 2015-16 to current and included an evaluation of the adequacy of internal controls of BCMS and the effectiveness and efficiency of the developer deposit process.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Interviewed PDS Management and staff regarding processes and controls.
- Reconciled trust account balances reported in Accela to Oracle.
- Reviewed PDS policies and procedures in regards to Trust Accounts, Payments, Refunds, Time Accounting, Accela Access, etc.
- Evaluated the internal control structure surrounding the developer deposits process against COSO guidance.
- On a sample basis, reviewed trust accounts, trust account refunds, adjustments to trust accounts, labor corrections, and user access to the Accela system.

AUDIT RESULTS

Summary

Within the scope of the audit, internal controls over BCMS and the effectiveness and efficiency of the developer deposit process need improvement. Specific issues were identified in the areas related to unreconciled variances; approvals for refunds; improper payment of historical deficits; approvals for labor corrections; approval and documentation for negative account balances; referral of delinquent accounts; and compliance with Board policy.

Finding I:

Unreconciled Variance between Oracle and Accela

OAAS identified an unreconciled variance between the trust account

[1] "Committee of Sponsoring Organizations of the Treadway Commission," http://www.coso.org, (April 12, 2017).

balances in Oracle and Accela. The variance was $61,756.35 as of December 2015, and increased to $72,320.84 as of April 2016. The exact origin of the variance is unknown, but PDS believes that the variance stems from multiple system conversions performed over the last ten plus years.

Imbalanced accounts between Oracle and Accela could result in inaccurate financial reporting.

Generally Accepted Accounting Principles (GAAP) requires financial reporting to be reliable and timely; therefore, the reconciliation between Accela and Oracle should ensure accounts stay in balance, and any variances are resolved in a timely manner.

Recommendation: PDS should update their reconciliation procedures to include additional steps that would be taken in an event where variances are unable to be resolved such as in situations where variances arise due to system conversions or upgrades. The procedures should state specific actions to take in order to resolve these unreconciled variances in a timely manner.

Finding II: **Lack of Approval Documentation for Refunds**

Of the 30 trust account refunds sampled by OAAS:

- Two were missing documentation showing the project manager's approval to grant the refund. The documentation that was available showed the administrative analyst's instructions to process the refund as well as her discussion regarding the refund with the project manager, but not the actual approval to grant the refund.

- Four were approved by someone other than the project manager. The project manager that was assigned had delegated another individual to approve refunds for the project; however, a copy of the email delegating approval authority was not maintained.

According to the Trust Account Refund Procedures, the refund request can be initiated by the project manager, customer, or a third party, but requires the approval of the project manager before it will be processed. Additionally, the procedures indicate that approval is to be obtained via email and a copy be printed for documentation purposes.

The Control Activities and Monitoring components of the COSO Framework require sufficient documentation for effective internal control. Without sufficient documentation, the effectiveness of control activities that have been implemented cannot be verified; therefore, as a result, the ability to effectively monitor the process would be significantly impaired. [2]

Approval of refunds by an individual other than the project manager could potentially lead to refunds being incorrectly processed as these individuals may not be as familiar with the specifics of the customer's account.

Recommendation: PDS should have all administrative analysts who are responsible for processing refunds, read and review the Trust Account Refund Procedures and sign an acknowledgement statement indicating that they understand and are aware of the necessary requirements for processing a refund.

Finding III: **Refund Issued to Customer With Negative Balance**

For one out of 30 trust account refunds sampled, the PDS trust account had a positive balance and a refund was issued; however, there was also an account for this customer with DEH which had a negative balance at the time of the refund. The refund should have been offset by the negative balance in the DEH account before being issued to the customer.

PDS stated that the negative account was an account held with DEH and was not related to the account held with PDS; therefore, as there were no other accounts held with PDS with negative balances, the refund was issued.

The Trust Account Refund procedures require that the negative balance for any of the customer's accounts be resolved before a refund can be issued. Otherwise a loss of county funds due to an issuance of improper refunds may occur.

Recommendation: Revise the Trust Account Refund procedures to specify that no refunds will be issued for customers that have an account with a negative balance within any area of the Accela, regardless of the department with which the account is maintained.

Finding IV: **Improper Payment of Historical Deficits**

A trust account was set up for the County in 1999 and a deposit of $720 was made into this account. The account was set up at the request of the DPW and PDS believes that it was for a DPW project; however, there has never been a single charge to the account and the balance remained in the account until it was identified in September 2015 by PDS.

As this $720 belonged to the County and technically there would be no need for the County to have a trust account, DPW decided to use the balance to pay off five trust accounts with historical deficits. A historical deficit account is an account with an outstanding customer balance owed to the County that pre-dates the Accela system.

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[2] "Committee of Sponsoring Organizations of the Treadway Commission," http://www.coso.org, (April 12, 2017).

Additionally, on 11/7/2011, a trust account was erroneously refunded in Oracle in the amount of $1,662.20. PDS caught this mistake and canceled the refund before the check was sent to the customer; however, PDS Finance mistakenly added the canceled warrant to the returned warrant database. The returned warrant database is used to account for occurrences where the refund was unable to be delivered to the customer. By adding a voided refund to the returned warrant database, PDS Finance essentially doubled up the amount reported on account for this customer. In 2015, PDS Finance discovered the error during the reconciliation process. Since the customer completed their project in 2012, and this amount recorded in the returned warrant database does not represent actual funds, this amount was used to pay off historical deficit accounts per PDS Finance recommendation.

In 2013, a system conversion was performed to transfer the developer deposit accounts from Oracle to Accela. During this time an unreconciled variance totaling $18,202.35 appeared and PDS used this variance to pay off some of their historical deficit accounts that had been outstanding for several years.

Furthermore, PDS has been using the variance (noted in Finding I), which was generated due to system conversions over the years, to pay down the balance of the remaining historical deficit accounts. At the time, PDS Finance believed that the best way to reduce the balance of the historical deficit accounts as well as reduce variances due to system conversions and clerical errors was to use these variances to write off the historical deficit accounts.

OAAS believes variances should not be used to offset account deficits in a manner such as this since it could imply favoritism towards certain customers. Additionally, unreconciled variances should be discussed with the Auditor & Controller (A&C) to determine the most appropriate steps to write off the variance.

Section 69 of the San Diego County Code of Administrative Ordinances requires that an Application for Discharge of Accountability (Form AUD213da) be completed and approved by A&C prior to writing off delinquent accounts.

Recommendation: PDS should:

1. Discuss the remaining unreconciled variances with A&C to determine the most appropriate method to handle the variance.

2. Document the method agreed to by both A&C and PDS.

3. If A&C determines that a write off is the most appropriate action, an Application for the Discharge of Accountability should be completed and filed with A&C.

Finding V: **Supervisor Approval Not Obtained for Labor Correction**

Of the five labor corrections sampled by OAAS for testing:

- Identified one instance where an employee requested PDS Finance to change the date for which time was charged in Accela. Supervisor approval was not obtained for this change.

- Identified one instance where an employee requested labor corrections in Accela to non-billable hours, but supervisor approval was not obtained.

Per PDS, labor corrections that do not affect the amount charged to the project or changes to non-billable time do not require supervisor approval. However, based on PDS' Labor Correction procedures, supervisor written approval is required to submit a labor correction to PDS Finance.

Without supervisor approval, inappropriate or incorrect labor corrections may be processed.

Recommendation: PDS should update their Labor Correction procedures to reflect their actual process.

Finding VI: **Enhancement of Review Process**

OAAS performed testing to verify if adjustments to payments made in Accela were properly authorized and supported. Three adjustments out of the 30 sampled were part of the implementation of the Overdraft "Yes" process. These adjustments were to correct the balance in the 44600 fund in Accela. The PDS accountant determined what adjustments were required and instructed the administrative analyst to incorporate these adjustments into the monthly reconciliation. The monthly reconciliation between Oracle and Accela is prepared by the administrative analyst and reviewed by the PDS accountant. In this instance, as the adjustments were developed by the PDS accountant, he would be essentially reviewing and approving his own work. As such, there was no secondary review of these adjustments by another individual with sufficient knowledge of Accela operations to fully understand the impact of the adjustments that were made.

All adjustments should be reviewed by an individual with sufficient subject matter knowledge to ensure the accuracy and validity, otherwise improper adjustments may be made.

The review process is considered by the COSO framework to be an integral part of an organization's control activities component of internal controls. [3]

[3] "Committee of Sponsoring Organizations of the Treadway Commission," http://www.coso.org, (April 12, 2017).

Recommendation: A secondary review for all adjustments should be completed and documented by an individual within PDS with sufficient knowledge of the process.

Finding VII: **Compliance with Statutory Deadlines**

OAAS identified 11 trust accounts out of 30 sampled where work had been performed on accounts with negative balances in order to make a determination as to the completeness of the development application.

Per PDS, these accounts went into deficit and staff continued to bill time to the projects as Section 65943 of the CA Government Code requires that the determination as to the completeness of an application must be completed within 30 days of submittal. However, OAAS found that the code does not explicitly prohibit an application from being rendered incomplete due to insufficient funds.

According to PDS, there were discussions between County Counsel and the previous Chief, Departmental Operations, and it was determined that PDS could not rule an application was incomplete based solely on lack of funds; however, no documentation was available in regards to their discussions.

By charging to accounts with negative balances, a potential loss to the County exists due to the uncertainty of collection of payment for services rendered.

Board of Supervisors Policy B-29 authorizes the County to recover from applicants for land development approvals the full cost of processing such applications, including all time spent by County staff to review, comment, coordinate and communicate with applicants and the public on the processing of a proposed application.

Recommendation: OAAS recommends that PDS revisit their discussions with County Counsel regarding Section 65943 of the CA Government code and document the ruling on this matter.

Finding VIII: **Approval of Deficit Charges Not Documented**

For 30 out of 30 sampled trust accounts in deficit, there was no documentation provided of management's approval authorizing charges to be made to the account. According to PDS, management's approval had been provided verbally.

By charging to accounts with negative balances, a potential loss to the County exists due to the uncertainty of collection of payment for services rendered.

The Control Activities and Monitoring components of the COSO Framework require sufficient documentation for effective internal control. Without sufficient documentation, the effectiveness of control activities that have been implemented cannot be verified; therefore, as a result, the ability to effectively monitor the process would be significantly impaired.

Recommendation: PDS should request that LUEG update their Deficit Guidelines for Development projects to explicitly state that approval from management must be obtained and documented for charging to an account in deficit.

Finding IX: Referrals to Office of Revenue and Recovery

For 15 out of 30 trust accounts sampled, an account deficit has been outstanding for over a year; however, based on a review of the Revenue & Recovery Log, none of these accounts have been referred to the Office of Revenue and Recovery (ORR). Per the Deficit Guidelines for Development Projects, trust accounts will be reviewed for referral to ORR for collections if the deficit of the account is over a year from the date of last service; therefore, at least a portion of these accounts should have been referred.

PDS attempted to obtain a copy of the Memorandum of Understanding (MOU) with ORR regarding the referral of delinquent accounts; however, a copy of the agreement was unable to be located due to the age of the agreement and the transfer of the developer deposit process from department to department over the years.

Per PDS, referral to ORR is based on the discretion of the project manager. However, this makes the recovery of County funds more difficult as referrals are not based on specific criteria. Additionally, a copy of the agreement regarding the referral of delinquent accounts was not on file with the department.

Board of Supervisors Policy B-29 authorizes the County to recover from applicants for land development approvals the full cost of processing such applications, including all time spent by County staff to review, comment, coordinate and communicate with applicants and the public on the processing of a proposed application.

Recommendation: PDS should:

1. Revise their criteria for ORR referrals to document specific conditions and time frames for when accounts are required to be referred.

2. Ensure this criteria is agreed upon and documented with ORR.

3. Provide training to project managers to ensure they are familiar with the established criteria.

Finding X: Non-Compliance with Board Policy - Board Referrals

For one out of 30 trust accounts sampled, the customer elevated their account in deficit to the County's Board of Supervisors office directly without informing PDS staff. Board Policy A-98, requires all requests made by Board members or their staff be submitted through the office of the Chief Administrative Officer (CAO), who will then forward the request to the appropriate party. This process ensures that all issues referred by the Board are tracked and their timely resolution is documented. In this instance, a Board Referral/Appeal form was not completed and filed with the CAO's office when a staff from one of the Board offices contacted PDS and requested that PDS follow up with the customer.

Recommendation: PDS should have all project staff review Board Policy A-98, and sign an acknowledgement statement indicating that they understand and are aware of the necessary requirements for Board action requests.

DEPARTMENT'S RESPONSE
(PLANNING AND DEVELOPMENT SERVICES)

County of San Diego

MARK WARDLAW
DIRECTOR

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RECEIVED
AUG 14 2017
OFFICE OF AUDITS & ADVISORY SERVICES

August 8, 2017

TO: Juan R. Perez, Chief of Audits
Office of Audits & Advisory Services

FROM: Mark Wardlaw, Director
Planning & Development Services

REVISED DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: DEVELOPER DEPOSITS

On behalf of Planning & Development Services (PDS), we would like to thank you for your professionalism and diligence in examining our business practices and making thoughtful and practical recommendations. We will adopt your recommendations and pursue their intended outcome of improving our accounting, monitoring, and controls of fiscal and procedural process with developer deposits. This revised letter reflects changes to our response to Finding III.

Finding I: Unreconciled Variance between Oracle and Accela

OAAS Recommendation: PDS should update their reconciliation procedures to include additional steps that would be taken in an event where variances are unable to be resolved such as in situations where variances arise due to system conversions or upgrades. The procedure should state specific actions to take in order to resolve these unreconciled variances in a timely manner.

Action plan: Existing reconciliation procedure will be updated to include a section that identifies needed actions if a discrepancy is found and cannot be resolved. It will read as follows:

"In the event a discrepancy is found within the fund and cannot be identified to one or more of the departments conducting business via the 44600 fund, the analyst will inform PDS management on how best to proceed with resolving the variance. PDS management may authorize staff to contact Auditor & Controller (A&C) for guidance, if appropriate."

Completed: June 30, 2017

Contact Information for Implementation: Jamie Klima, Associate Accountant

Finding II: Lack of Approval Documentation for Refunds

OAAS Recommendation: PDS should have all administrative analysts who are responsible for processing refunds, read and review the Trust Account Procedures and sign an acknowledgement statement indicating they understand and are aware of the necessary requirements for processing a refund.

Action plan: PDS will have all staff responsible for processing refunds, read and review the Trust Account Procedures and sign an acknowledgement statement indicating they understand and are aware of the necessary requirements for processing a refund.

Completed: May 17, 2017

Contact Information for Implementation: Vivian He, Principal Administrative Analyst

Finding III: Refund Issued to Customer with Negative Balance

OAAS Recommendation: Revise the Trust Account Refund procedures to specify that no refunds will be issued for customers with a negative balance within any area of Accela, regardless of the department with which the account is maintained.

Action plan: PDS will research the feasibility of changing the Trust Account Refund procedures to allow for revenue recovery by the withholding refunds to customers with a negative balance in accounts held by other departments.

Planned Completion Date: April 2018

Contact Information for Implementation: Rami Talleh, Deputy Director

Finding IV: Improper Payment of Historical Deficits

OAAS Recommendation: PDS should:

1. Discuss the remaining unreconciled variances with A&C to determine the most appropriate method to handle the variance.
2. Document the method agreed to by both A&C and PDS.
3. If A&C determines that a write off is the most appropriate action, an Application for the Discharge of Accountability should be completed and filed with A&C.

Action plan: PDS met with A&C on April 27, 2017 to discuss the remaining unreconciled variances to determine the most appropriate method to handle the variance. A&C staff directed PDS staff to reconcile the variance. PDS and A&C staff acknowledge that it may be difficult to obtain documentation of previous transactions that may have contributed to the variance due to record retention guidelines; however, A&C offered suggestions that PDS staff is following in an effort to reconcile the variance. PDS followed up in writing on April 28, 2017 to document the method agreed to by both A&C and PDS.

Completed: April 28, 2017

Contact Information for Implementation: Jamie Klima, Associate Accountant

Finding V: Supervisor Approval Not Obtained for Labor Correction

OAAS Recommendation: PDS should update their Labor Correction procedures to reflect their actual processes.

Action plan: PDS will update their Labor Correction procedures to reflect their actual process.

Completed: June 30, 2017

Contact Information for Implementation: Jamie Klima, Associate Accountant

Finding VI: Enhancement of Review Process

OAAS Recommendation: A secondary review for all adjustments should be completed and documented by an individual within PDS with sufficient knowledge of the process.

Action plan: PDS will implement a secondary review for all adjustments by an individual with sufficient knowledge of the process.

Planned Completion Date: June 29, 2017

Contact Information for Implementation: Vivian He, Principal Administrative Analyst

Finding VII: Compliance with Statutory Deadlines

OAAS Recommendation: PDS should revisit their discussions with County Counsel regarding Section 65943 of the California Government Code and document the ruling on this matter.

Action plan: PDS revisited their discussions with County Counsel regarding Section 65943 and Counsel advised, in part:

"If a development project runs into deficit on its deposit within the 30 day scoping period (and a supplemental deposit is not promptly received), it is essential that PDS complete the review given that, under Government Code Section 65943(a), if the written determination of completeness is not made within 30 days, the project shall be deemed complete. The implications of a deemed complete application are that PDS may not have acquired all of the information it needs to properly process, condition, and mitigate the impacts of the project."

PDS has documented this response and provided the full response to A&C.

Completed: May 9, 2017

Contact Information for Implementation: Rami Talleh, Deputy Director

Finding VIII: Approval of Deficit Charges Not Documented

OAAS Recommendation: PDS should request that land Use and Environment Group (LUEG) update their Deficit Guidelines for Development projects to explicitly state that approval from management must be obtained and documented for charging to an account in deficit.

Action plan: PDS will work with LUEG departments to update the Deficit Guidelines to require written approval from management when charging to an account in deficit.

Planned Completion Date: August 30, 2017

Contact Information for Implementation: Rami Talleh, Deputy Director

Finding IX: Referrals to Office of Revenue and Recovery (ORR)

OAAS Recommendation: PDS should:

1. Revise their criteria for ORR referrals to document specific conditions and time frames for when accounts are required to be referred.
2. Ensure this criteria is agreed upon and documented with ORR.
3. Provide training to project managers to ensure they are familiar with the established criteria.

Action plan: PDS staff is currently working with ORR to update the process and will provide training to project and planning managers.

Planned Completion Date: August 30, 2017

Contact Information for Implementation: Rami Talleh, Deputy Director

Finding X: Non-Compliance with Board Policy- Board Referrals

OAAS Recommendation: PDS should have all project staff review Board Policy A-98, and sign an acknowledgement statement indicating they understand and are aware of the necessary requirements for Board action requests.

Action plan: All relevant staff will be trained in Board Policy A-98. Upon completion of training, staff will sign an acknowledgement that they understand and are aware of the requirements of the stated board policy.

Planned Completion Date: October 2017

Contact Information for Implementation: Rami Talleh, Deputy Director

Sincerely,

MARK WARDLAW, Director
Planning & Development Services