

County of San Bernardino

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

Office of the Fire Marshal: Permit Billing and Collection Process



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February 6, 2015

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SUBJECT: AUDIT OF THE OFFICE OF THE FIRE MARSHAL'S PERMIT BILLING AND COLLECTION PROCESS

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Office of the Fire Marshal's permit billing and collection process for the fiscal year ending June 30, 2012. The primary objective of the audit was to assist the Department's external auditors in obtaining reasonable assurance whether the department's accounts receivable and revenue relating to the permit process were free from material errors. 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 Department on October 2, 2014, and discussed our observations with management on October 10, 2014. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Office of the Fire Marshal who assisted and cooperated with us during this engagement.

Respectfully submitted,

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San Bernardino County

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Enclosure

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Office of the Fire Marshal: Permit Billing and Collection Process

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Summary of Audit Results

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

Finding No.	Findings and Recommendations	Page No.
1	Finding: The fee accountability program is not documented.	3
	Recommendation: The San Bernardino County (SBC) Certified Unified Program Agency (CUPA) should document the calculation of the single fee and annually review the fee accountability system.	
2	Finding: Permit fee collection process documented in the SBC CUPA application is not being followed.	4
	Recommendation: We recommend that management follow the original fee collection process timeline or modify and amend the timeline as documented in the CUPA application.	
3	Finding: The Department does not have a standardized filing system in place.	5
	Recommendation: Management should develop standardized procedures to document facility activity within the software and physical customer files.	
4	Finding: The Department does not follow the County's internal control requirements for accounts receivable.	7
	Recommendation: OFM should follow the Internal Controls and Cash Manual (ICCM) procedures regarding the discharge of accountability.	
5	Finding: Controls over permits could be improved.	8
	Recommendation: OFM should work with Information Technology to modify the software to only print valid permits. In addition, permit letterhead should be secure when not in use.	
6	Finding: There is not an adequate segregation of duties.	9
	Recommendation: Duties should be segregated so that no employee has access to perform all functions in the receivables process.	
7	Finding: Fire Prevention Program fees were inappropriately waived.	11
	Recommendation: Approvals to waive fees should be obtained in accordance with the County ordinance.	



Audit Background

Senate Bill 1082 of 1993 (Health and Safety Code [HSC] Chapter 6.11) required the Secretary of the California Environmental Protection Agency (Cal-EPA) to establish a "unified hazardous waste and hazardous materials management" regulatory program (Unified Program) by January 1, 1996. The Office of the Fire Marshal (Department) has been certified by the Secretary of the California Environmental Protection Agency (Cal-EPA) as the Certified Unified Program Agency (CUPA) for San Bernardino County (SBC). The SBC CUPA manages six hazardous materials and hazardous waste programs. The CUPA program is designed to consolidate, coordinate, and uniformly and consistently administer permits, inspection activities, and enforcement activities in the County.

Scope and Objectives

The objective of this audit was to assist the Department's external auditors in obtaining reasonable assurance whether the department's accounts receivable and revenue relating to the permit process were free from material errors.

Methodology

In achieving the audit objective, the following evidence gathering and analysis techniques were used, including but not limited to:

- Reviewed existing laws and regulations related to the CUPA program (HSC Chapter 6.11)
- Reviewed data from the different software programs
- Conducted interviews with Department staff
- Conducted a field visit
- Tested a sample of transactions



Finding 1: The fee accountability program is not documented.

California Code of Regulations (CCR) Title 27, Section 15120 requires a CUPA to use a single fee system, and Section 15220 requires the CUPA to document a fee accountability program to support the fee charged. Code Section 15220 also requires the CUPA to annually review and update the fee accountability program. At the time of the audit, the Department was unable to provide documentation to support their computation of fees. Therefore, the SBC CUPA was not in compliance with the CCR.

Recommendation:

We recommend that the SBC CUPA document the calculation of the single fee. The single fee should include necessary and reasonable costs of program activities such as billing, collection, transmittal of state surcharges, training, administration, investigations, cyclic inspections, audits and enforcement actions. The SBC CUPA should annually review, update and document the fee accountability system and maintain the documentation on file. The CCR states that the fee accountability program should include at a minimum the following elements:

- "A) Accounting for: the fee schedule, the actual amount billed, and the revenue collected.
- B) Discrete billable services, categorized as either site specific or general.
- C) Staff work hours required to implement the program.
- D) Direct program expenses including durable and disposable equipment.
- E) Indirect program expenses including overhead for facilities and administrative functions.
- F) The number of regulated businesses in each program element within the jurisdiction.
- G) Total number of regulated businesses in the jurisdiction.
- H) Quantity and range of services provided, including frequency of inspection."

Management's Response:

The CUPA, currently, has documentation and calculation of the single fee based on a time study that was conducted in 2012. The fees are reviewed annually and presented to the Board of Supervisors for approval. The CUPA program billing operation includes the actual amount billed and the revenue collected, discrete billable services, the number of regulated businesses in each program element and within the jurisdiction. CUPA program budget includes direct program expenses for facilities and administrative functions. The CUPA will update and



maintain documentation on the quantity and range of services provided the frequency of inspections and staff work hours required to implement the program.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.

Finding 2: Permit fee collection process documented in the SBC CUPA application is not being followed.

The County included a collection process timeline in its CUPA application that was approved by the State. The timeline includes sending a notification bill thirty (30) days prior to the expiration of the permit, sending another bill with a thirty (30) day grace period upon permit expiration, and then every thirty (30) days for seven (7) months for facilities that have failed to pay. The notification bill informs the facility that it is operating without current permits in violation of local ordinances and state laws and a delinquent fee will be added. The Department does not have any written procedures that address the collection process timeline, and based on interviews, the employees were not familiar with the timeline.

There is a risk of the notification bills not being sent in a timely manner, or at all, allowing facilities to operate with expired permits. This could also potentially lead to a decrease in program revenues. Operating without written procedures for the collection process can lead to employees circumventing internal controls and, ultimately, potential fraud.

Recommendation:

We recommend that management follow the original fee collection process timeline or modify and amend the timeline as documented in the CUPA application. We recommend that management adopt written procedures for the permit fee collection process. We further recommend that all staff be trained on the new procedures and provided a copy for their reference. Standardizing processes and having regular trainings regarding procedures and program updates will help strengthen employees' knowledge, skill and expertise. The Department staff will perform more accurately and efficiently when they understand their duties and have clearly documented processes to complete their tasks.



Management's Response:

The SBC CUPA application was originally filed in 1996. Since then, many CUPA aspects have been revised and improved. The collection process is one of those aspects. Our current policy is based on the most recent revision which occurred earlier this calendar year. On January 14, 2014, the San Bernardino County Board of Supervisors acting as the governing body of the San Bernardino County Fire Protection District (SBCFPD) adopted Ordinance No. FPD 14-01 relating to the 2013-2014 SBCFPD Fees. "Section F (4)" of the Ordinance revised the delinquency provisions for invoices. It states:

(4) Delinquency provisions: a thirty-five (35%) fee shall be added to each of the fees, including applicable State fees which become delinquent after thirty (30) days from the invoice date.

Written procedures for the Hazmat billing process have been developed, trained, and been distributed to the Account Representatives currently tasked with this process.

Auditor's Response:

The Department's actions will correct or has corrected the deficiencies noted in this finding.

Finding 3: The Department does not have a standardized filing system in place.

It is good office management practice to have organized, standard documentation and filing systems that give an entity the ability to support services provided and payments received by customers. A well-designed and properly maintained documentation and filing system enhances both accountability and consistency.

The Hazardous Materials Program procedure does not have a standard to document facility activity within Envision Connect. During the audit, we noted the detail of electronic documentation varied from no documentation to detailed documentation depending on the staff that recorded the information. Some instances provided a clear understanding of the facility's history, while other instances proved challenging to obtain a complete understanding of the accounting treatment based on the facility's circumstance. Improving and standardizing the documentation within Envision Connect will create an audit trail to more easily determine the history and status of facilities.



Similarly, the Fire Prevention Program does not have a standard filing system in place to document facility activity within the Envision connect and Permits Plus systems. In our testing of 101 fees for the Fire Prevention Program, we found 8 instances of customer files missing appropriate supporting documentation and 7 instances where the entire customer file was missing. The Fire Prevention Program should have a standardized file on hand for all customers to support the transaction history.

Additionally, collection officers for both the Hazardous Materials and Fire Prevention programs do not obtain a receipt in exchange for deposits that they give to the fiscal assistant. A "check & cash log" accompanies the deposit and is dropped off with the fiscal assistant. A copy of the log is not maintained in the Hazardous Materials or Fire Prevention files.

Without a standard filing system, physical or electronic, the risk of lost or inaccurate information is increased. Without documentation for each step of the billing and receivable process, payments received by customers may not be supported. This can lead to an increased risk for potential fraud.

Recommendation:

We recommend that management develop standardized procedures to document facility activity within the Envision Connect and Permits Plus as well as the physical customer files. We also recommend that the collection officers obtain a receipt from the fiscal assistant when they deliver deposits and that the receipt be maintained in the appropriate file to support customer payments. We further recommend that all staff be trained on the new standard filing system and be provided a copy of the procedures.

Management's Response:

Fire Prevention and Hazmat are developing standardized procedures to document facility activity within Envision Connect, Permits Plus, and the physical customer files.

The Office of the Fire Marshal (OFM) is currently researching options for capturing all documentation in an electronic format to meet specific requirements for both CUPA functions as well as Community Safety's transition to Accela Automation.



Additionally, the Community Safety Division has begun implementing a system wherein all new paper documents related to new construction are to be scanned and attached to the Permits Plus database.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.

Finding 4: The Department does not follow the County's internal control requirements for accounts receivable.

According to chapter 14 of the Internal Controls and Cash Manual (ICCM), outstanding accounts receivable must not be reduced for bad debts, or any other reason, until a discharge from accountability is approved by the Auditor-Controller/Treasurer/Tax Collector (ATC).

The SBC CUPA sends facilities that have failed to pay, after their court hearings, to an outside collections company. After a month, the facility's outstanding balance is written off by the Department and removed from Envision Connect without approval by the ATC. As a result, accounts receivable is understated.

Recommendation:

We recommend that the Department follow the ICCM procedure regarding the discharge of accountability, which states that when it becomes uneconomical to pursue collection of an overdue account or collection does not warrant the expense involved, the department head must request discharge from accountability from the ATC's Internal Audit Section (IAS). Accounts receivable must not be reduced for bad debts, or any other reason, unless and until a discharge from accountability is approved by the ATC IAS.

Management's Response:

In accordance to Chapter 14 of the Internal Controls and Cash Manual, the Department will adopt the ATC's IAS recommendation and ensure that accounts receivable is not reduced for bad debts until a discharge from accountability is approved by the ATC IAS.



Auditor's Response:

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

Finding 5: Controls over permits could be improved.

Chapter 2 of the ICCM states that access to and use of valuable assets should be controlled. The permit paper should be safeguarded as any other asset. The Envision Connect software treats the receipt for partial payment and the write-off of an outstanding balance the same as payment in full; in all cases, the information flows into the print queue for the next scheduled printing of permits. In addition, the permit letterhead is accessible to any employee in the Department. Employees currently go through printed permits manually to dispose of any invalid permits prior to mailing them out.

Employees who print the batch permits could potentially send permits to facilities that have not paid their fees in full.

Recommendation:

We recommend that the Department request assistance from information technology personnel to develop or modify Envision Connect so that the system only prints valid permits for facilities that have paid their fees in full. The Department should also secure the permit letterhead when not in use, and initiate a seal to be placed on valid permits. The seals should also be safely secured and placed on valid permits by an employee other than the one printing the permits. This process will help to ensure that the permits have been paid in full by the facility and that the annual permits are verified by a separate county employee prior to being mailed.

Management's Response:

The OFM is aware of the issue regarding Envision Connect software treating the receipt for partial payment and the write-off of an outstanding balance the same as payment in full. The Account Representatives manually inspect every permit for validity prior to issuance. However, we will work with Information Technology Personnel to determine the possibility of modifying Envision Connect so that the system only prints valid permits for facilities that have paid their fees in full.



To secure the permit letterhead when not in use, a memo was issued to staff on October 30, 2014, informing them that letterhead must now be stored in a safe or locked compartment.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.

Finding 6: There is not an adequate segregation of duties.

According to chapter 2 of the ICCM, no single person should be assigned concurrent duties that would allow them complete control over a transaction. The basic idea underlying segregation of duties is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are: 1) authorization of related transactions affecting those assets, 2) recording or reporting of related transactions, and 3) custody of assets.

Hazardous Materials Program (Envision Connect):

Employees with Envision Connect access, excluding inspectors, have the capabilities to initiate billing, collect payments, post payments and apply penalties to facility accounts.

Fire Prevention Program (Envision Connect, Permits Plus, and Microsoft Access):

The Fire Prevention program has a front desk technician oversee the Permits Plus and Access software and a collection officer who oversees the Envision Connect software. Both the front desk technician and a collection officer perform the billing, receiving, and collection of payments in their respective programs. The front desk technician also performs software administrator functions for the Permits Plus and Access programs. All employees with access have the ability to adjust a facility's account balance, which could lead to circumventing internal controls and potential fraud. In our testing of 101 fees for the Fire Prevention Program, we found 10 instances where the transaction was voided without supervisory authorization. For these voided transactions, we were unable to determine the reason for voiding the transactions, as no documentation of the transaction history exists.



Both Programs:

Reconciliations were not performed between the cash collected and the permits issued. Without regular reconciliations, employees have the capability to manipulate transactions and waive fees without timely detection.

Recommendation:

Although it is beneficial for employees to be cross-trained and understand the Department revenue cycle within the Envision Connect software, no employee should have access to perform all functions. Each of the following duties should be performed by a different employee so that no individual has access to the entire receivables process: a) preparation of billings, b) receipt of payments, and c) posting the receivables records. The Department should work with information technology personnel to automatically limit access for specific tasks to assigned employees.

The Department management should remove the software administrator access from the individual who operates the day-to-day transactions and authorize another employee of equal or higher rank, who does not perform day-to-day transactions, as the software administrator. Employees responsible for recording adjustments to customer accounts should not have access to customer payments or prepare the deposit. In addition, access to adjust account balances or void transactions should be limited and all reductions should be reviewed by someone at a higher level.

The cash collected and permits issued should be reconciled at least monthly. The reconciliation should be reviewed and signed by an employee at a higher level.

Management's Response:

Hazmat will no longer authorize OFM Account Representatives to write receipts for payments made towards an invoice sent by that particular Account Representative.

The OFM will work with information technology personnel to limit employee access to be authorized for one of the three following tasks: a) preparation of billings, b) receipt of payments, or c) posting the receivables records.

The OFM will work to develop a procedure that will assist in the process of reconciling the cash collected and the permits issued.



Fire Prevention has instituted guidelines to ensure that 'voids' will only be approved by the supervisor. Functions of Permits Plus have been secured to provide access only to authorized users. Detailed notes are added to the case, providing validation to approve the void.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.

Finding 7: Fire Prevention Program fees were inappropriately waived.

On October 23, 2012, the Board of Supervisors authorized the Fire Chief to, in the event of a disaster or other good cause shown to serve a public purpose, waive or refund any fee set forth in the County Fire Fee Ordinance or any other fee levied by County Fire provided specific criteria was met. Prior to this date, all fees waived and any refunds required Board of Supervisors' approval.

The program fees are evaluated annually and are presented to the Board of Supervisors for their approval. In our testing of 101 Fire Prevention fees, we found three instances where the fees were inappropriately waived without approval from the Board of Supervisors. In all three instances, waiving of fees occurred prior to the Board of Supervisors' authorization to waive fees and a clear explanation was not documented for the change. When fees are waived without the approval of the Board of Supervisors and do not meet the criteria to be waived, there is an increased risk of loss of program revenues.

Recommendation:

We recommend the Fire Prevention Program operate in accordance with the County ordinance by having the Board of Supervisors or, when specific criteria is met, the Fire Chief waive program fees. Documentation for the waived fees should be approved prior to removal of fee in the software and maintained on file to help provide an audit trail for explanations at a later date.

Management's Response:

Per the most recent fee schedule adopted by the Board of Supervisors, fees can only be waived by the Fire Chief or the Board of Supervisors. The OFM complies with these conditions. We will work with our Management Information Systems



analyst to change the access permissions in the 'fees' section of Permits Plus. We will also develop a form to track all necessary information when a fee waiver is requested.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.