



INTERNAL AUDIT REPORT

COMPREHENSIVE OPERATIONAL AUDIT

AVIATION BUILDING DEPARTMENT

JANUARY 1, 2011 – DECEMBER 31, 2013

ISSUE DATE: MAY 20, 2014

REPORT NO. 2014-04

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of Aviation Building Department. We reviewed information for the period January 1, 2011 - December 31, 2013.

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

We extend our appreciation to the management and staff of Aviation Building Department, Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Dave Soike, Director AV Facilities and Capital Program
Jack Hutchinson, Audit Manager	Tony Baca, Sr. Manager Airport Building & Facilities Services

EXECUTIVE SUMMARY

AUDIT SCOPE AND OBJECTIVES

The purpose of the audit was to determine whether Port management controls are adequate to ensure:

1. Permit and plan review fee receipts were complete, properly recorded and deposited timely and intact.
2. Inspections and/or plan reviews outside normal business hours were properly authorized and billed.
3. Department expenditures were properly authorized and for legitimate business purposes.

We reviewed information for the period January 1, 2011 - December 31, 2013.

BACKGROUND

The Aviation Building Department was created in 1997, by an interlocal agreement between the Port of Seattle and the City of SeaTac. An interlocal agreement is a contract between government agencies to provide services to the public pursuant to Chapter 39.34 RCW -- the Interlocal Cooperation Act. The agreement allows the Port of Seattle to administer and issue permits for Port of Seattle projects located within the city limits.

The Department has five FTEs and an average annual budget of \$650,000. Approximately 95% of the Department's budget is for wages and benefits. The Department generates annually \$200,000 in review and permit fees on building, mechanical, plumbing, and grading permits.

AUDIT RESULT SUMMARY

Management monitoring controls are not adequate to mitigate the risks related to the complete, properly recorded, timely, and intact deposit of permit and plan review fee receipts, proper authorization and billing of after-hour inspection services, and properly authorized and legitimate expenditures. See discussion in Finding 1 of the Schedule of Findings.

BACKGROUND

The Aviation Building Department formed in 1997, by an interlocal agreement between the Port of Seattle and the City of SeaTac. An interlocal agreement is a contract between government agencies to provide services to the public pursuant to Chapter 39.34 RCW -- the Interlocal Cooperation Act. The agreement allows the Port to administer and issue permits for all Port of Seattle projects located within the city limits.

When the Department was first established, the Seattle-Tacoma International Airport (STIA) was one of five port authorities, nationally, to have a department within the organization to regulate building and land-use construction.

The Department collects permit fees for building and mechanical plan reviews for tenant construction projects at the airport. The Department employs five FTEs, three of whom are field and plan review inspectors. The Department utilizes an internally developed Permit Tracking System (ABD system) for billing and collecting fees.

FINANCIAL HIGHLIGHTS

AVIATION BUILDING DEPARTMENT PERMIT REVENUES AND EXPENSES			
PERMIT TYPE	2011	2012	2013
Building Permit and Plan Review Fee Revenue	\$137,291	\$208,541	\$191,230
Salaries and Benefits Expense	639,634	654,502	554,886
Other Expense	26,935	37,515	28,219
TOTAL	\$803,860	\$900,558	\$774,335

Data Source: PeopleSoft Financials

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2011 - December 31, 2013. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations, and data analysis, in order to obtain a complete understanding of the operations of the Airport Building Department. We also tested internal controls.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether permit and plan review fee receipts were completely and properly recorded, and deposits were made timely and intact.
 - Reconciled 16 months during which there were significant differences in fees recorded in the Aviation Building Department Permit Tracking system (ABD system) and the PeopleSoft financial system.
 - Agreed 41 (18%) of 229 deposit transactions from the PeopleSoft financial system to the Department's records (permit folders and deposit binders).

- Agreed 43 (19%) of 229 deposit transactions from the Department's records (permit folders and deposit binders) to the PeopleSoft financial system.
 - Recalculated 20 building/mechanical plan reviews and permit fees.
 - Agreed 63 (28%) of 229 permit application dates to Aviation Building Permit Tracking system to permit folders to received dates in deposit binders.
 - Agreed 18 out-of-sequence permit numbers to source documents.
- 2 To determine whether inspections and/or plan reviews outside normal business hours were properly authorized and billed.
- Agreed 32 (16%) of 204 inspections and/or plan reviews to the source documents.
 - Analyzed and tested 79 (16%) of 490 inspection related overtime hours.
- 3 To determine whether Department expenditures were properly authorized and for legitimate business purposes.
- Evaluated and analyzed all Department expenses to determine high-risk categories that warranted further testing.
 - Agreed 51 of 290 vouchers related to employee travel expenses to detailed supporting documents (e.g., receipts, credit card statements) .

CONCLUSION

Management monitoring controls are not adequate to mitigate the risks related to the complete, properly recorded, timely, and intact deposit of permit and plan review fee receipts, proper billing of after-hour inspection services, and properly authorized and legitimate expenditures. See discussion in Finding 1 of the Schedule of Findings.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

I. THE AVIATION BUILDING DEPARTMENT’S MANAGEMENT CONTROLS ARE NOT ADEQUATE TO MITIGATE THE RISKS ASSOCIATED WITH THE ABSENCE OF THE SEPARATION OF DUTIES.

One of the fundamental management controls is the separation of duties to ensure that no one individual has complete responsibility for an entire process. Errors and irregularities can result in the absence of the separation. When management cannot separate duties due to limited staff, management should implement an oversight function to mitigate the risks.

The Building Department is a five-person department. Staff is composed of a manager, a permit coordinator, and three personnel who review plans and conduct building inspections. The permit coordinator performs all administrative duties, including permit fee calculations, billings, and collections. Because the Building Department is small, separation of these incompatible duties is not feasible. The level of management oversight is not sufficient to compensate for the lack of separation of duties. The lack of effective management oversight resulted in the following errors:

Overtime Approval and Unbilled Inspections Hours

The Building Permit Fees Schedule requires inspection hours outside normal business hours to be billed to the contractor separately from the plan review fees. Per the Fees Schedule, a two-hour minimum of overtime is required to be billed at the rate of \$68.50/hour. During the audit period, all of the Department’s overtime was related to inspection services performed outside normal business hours. We were informed that overtime was verbally authorized and there was no documentation to support the overtime. We also determined the Department failed to bill the contractor 76 hours of plan inspection services, as required by the Permit Fees Schedule. This failure resulted in unbilled revenues of approximately \$5,200.

Improper Permit Calculations and Untimely Collection

The Building Permit Fees Schedule provides a rate structure for building/mechanical permit and plan review fee calculations. According to the Fees Schedule, a total valuation as a basis for the permit/review fee calculation should always include a mechanical/plumbing valuation of the project, if applicable. We determined the following:

- In a testing sample of 35 permits with a mechanical/plumbing work as part of the overall project, none included the mechanical/plumbing valuation in the fee calculations, resulting in the following unbilled building permit fees:

FINANCIAL RESULTS FROM SAMPLE PERMIT TESTING				
YEAR	ESTIMATED PROJECT VALUE	MECHANICAL VALUE	TOTAL	APPLICABLE FEES
2011	\$8,522,330	\$1,039,456	\$9,561,786	\$9,807
2012	21,553,255	4,059,816	25,613,071	35,585
2013	2,918,289	281,828	3,200,117	5,778
Total	\$32,993,874	\$5,381,100	\$38,374,974	\$51,170

Data Source: Aviation Building Permit Tracking System.

- The Permit Fees Schedule requires plan review fees to “be paid at the time of presenting the submittal documents for plan review.” We observed five instances where the plan review fee was not timely collected.

Untimely deposits

We reviewed a sample of 41 deposits and determined that 24 (59%) in the amount of \$79,102 were not deposited timely. The lag time spanned from 2 to 21 days after receipt. In accordance with state law (RCW 43.09.240), receipts should be deposited within 24 hours after receipt. Although we determined all deposits were intact, deposit delays increase the risk of theft and misappropriation.

Employee Travel Expenses

We tested 51 of 290 vouchers related to employee travel expenses, and determined the following:

- Of 51 employee expense claims, 47 had insufficient documentation to clearly support Port business purposes.
- The Department does not reconcile the credit card statement, as required by Port Policy AC-1, which increases the risk of inappropriate expenditures

Recommendations:

We recommend management:

1. Strengthen management oversight of the permitting process in order to compensate for the lack of separation of duties.
2. Update the Building Permit Fees schedule, as necessary.
3. Retain proper and sufficient support for all expenses, in order to support Port business purposes.

Management Response:

Airport Building Department Management agrees with the findings of the Internal Auditor.

1. *Airport Building Department Management monitoring will be implemented to meet or exceed the Port Policy, in the absence of the ability to separate the required duties, as indicated in these findings.*
2. *Permit Fees will be assessed as currently contained in the Building Permit Fees Schedule or the fee schedule will be updated.*
3. *ABD staff will complete updated training on all expense policies and procedures. Additionally, all credit card expenditures will be reconciled, as required in Port Policy AC-1.*