



CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

October 6, 2010

Honorable Mayor and
Members of the City Council
915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Enclosed is the Performance Audit of the Community Development Department (CDD) conducted on behalf of the Sacramento City Auditor's Office, by Sjoberg Evashenk Consulting Inc. The report contains 40 recommendations for improving CDD's operations, controls, and management. The CDD's written response to this report is found in Appendix D.

We would like to thank the CDD staff, City Attorney's Office staff, and the City Manager's Office staff for their assistance and cooperation during this audit.

Should you have any questions, please contact me at 808-7270.

Respectfully submitted,

Jorge Oseguera
City Auditor



October 6, 2010

Jorge Oseguera, Sacramento City Auditor
Office of the City Auditor, City of Sacramento
915 "I" Street, 3rd Floor, Room 3221,
Sacramento, CA 95814

Dear Mr. Oseguera:

We respectfully submit our performance audit of the Sacramento Community Development Department (CDD). This report was prepared on behalf of the Sacramento City Auditor by Sjoberg Evashenk Consulting, Inc., and includes our analysis and recommendations.

Our report addresses CDD's building permitting activities and the related fee calculation, assessment, and collection processes to determine the integrity and compliance of these processes with City Code and applicable regulations. We found that the Department can improve its practices processes in each of these areas.

Sjoberg Evashenk Consulting was pleased to work with the City Auditor's Office on this important project, and appreciate the direct assistance we received from you throughout the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kurt R. Sjoberg".

KURT R. SJOBERG
Chairman

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City of Sacramento Office of the City Auditor

Performance Audit of the Sacramento
Community Development Department

October 6, 2010



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Executive Summary

Sjoberg Evashenk Consulting has completed a performance audit of the City of Sacramento's (City) permitting processes under contract with the Office of the City Auditor. The objectives of the audit were to assess the Community Development Department's (CDD) general building permitting activities and the related fee calculation, assessment, and collection processes to determine the integrity and compliance of these processes with City Code and applicable regulations. An additional objective of the performance audit was to assess past permitting and fee assessment practices associated with specific building projects identified by the City Attorney's Office¹.

We found CDD's organizational culture has historically lacked support for a strong internal control environment as illustrated by the virtual absence of formal and/or written guidelines and manuals. Additionally, the lack of appropriate system safeguards and supervisory oversight makes monitoring of permitting and fee assessment practices difficult and allows for inappropriate permitting practices to occur and go undetected. Further, we found that CDD's former management made changes to the permitting practices that were intended to empower employees and improve customer service; however, those changes also further weakened the internal control environment. As a result, we found persistent practices that disregarded or circumvented state building laws and City Codes resulting in inconsistent permitting practices and loss of city revenue. Based on the information gathered and analyzed relative to the audit objectives, the report outlines the following issues we identified with CDD's building permitting and fee assessment processes:

✓ **Section 1 – CDD's Organizational Culture Fostered a Weak System and Internal Control Environment and Allowed for the Circumvention of Proper Permitting Processes**

Overall, we found that the lack of necessary system access restrictions, logical controls and checks, and exception reporting within the permitting system significantly diminished CDD's overall internal control environment. The system control issues, combined with the lack of formal and comprehensive policies or procedures as well as an inadequate organizational reporting and oversight structure, created opportunities where proper permitting and fee assessment protocols and city and state building laws, regulations, and codes were disregarded. For the City to establish a foundation for a strong internal control environment, policies and procedures must be developed, system controls must be implemented, and proper oversight must be established. Additionally, City leadership and CDD executive management (directors, officials, and managers) must establish a "tone at the top" communicating that circumventing proper permitting and fee assessment processes is unacceptable.

¹ Issues related to the specific building projects identified by the City Attorney's Office are described throughout the report and a specific recap by project is included in Appendix B of this report.

✓ **Section 2 – In Breach of the City Charter and State Building Laws and Codes, CDD Issued Building Permits Inappropriately and Allowed Work to Start Prematurely**

As a result of CDD’s weak system and process control environment over its permitting process cycles, we found numerous examples of unilateral decision making and system circumventions that include:

- Permits inappropriately issued without the associated construction plans undergoing required reviews and approvals;
- Permitting conditions programmed within the CDD’s permitting system (Accela) improperly ignored and/or cleared;
- Construction allowed to begin prior to permits being appropriately issued and all required permitting fees paid;
- Plan review and inspection services rendered prior to all outstanding fees paid and/or permits issued; and,
- Construction activity allowed on expired permits that were not appropriately removed from the permitting system.

As a result, these weaknesses allowed a wide-array of breaches of trust, unilateral decision making, and system circumventions that are discussed throughout the report. For the City to improve the strength of its business cycles and protect against system circumventions, City leaders and CDD executive management must insert automatic system process protocols to ensure all necessary processes are completed appropriately and timely, including plan review and fee payment. Additionally, system access must be restricted to ensure permitting processes are only conducted and approved by qualified and responsible staff and required processes are not inappropriately waived.

✓ **Section 3 – City May Not Have Received Sufficient Revenues Due To Fee Assessment Processes that Lack Sufficient Controls and are Easy to Circumvent**

While CDD’s business and system processes include certain key control points, such as requiring all permitting fees be paid prior to permits being issued, we found that these controls were easily circumvented due to an insufficient system of controls. Our review revealed that permitting fees were not always automatically assessed and were easily voided or under-assessed; plan reviews were conducted before appropriate fees were paid; and non-refundable or non-transferrable fees were inappropriately credited and applied to new permits. Additionally, policies, procedures, and protocols do not require or reflect independent supervisory reviews of CDD’s various permitting and fee assessment processes for approval or to determine accuracy or appropriateness. As a result, the City cannot be assured it has received all required permitting revenues and our testing of 509 individual permits revealed that the City did not receive at least \$2.3 million in required permitting fees. It is important to note that determining whether collecting some of these unpaid or uncollected fees is possible was not within the scope of this audit and the magnitude and collectability of the City’s revenue losses should be reviewed and analyzed by City management. To improve its permitting fee assessment practices and to ensure the City receives all required revenue, City leaders and CDD executive management must ensure fees

are automatically calculated by the permitting system and are finalized, reviewed, and approved by staff with sufficient training and experience. Additionally, support and justification for all fee assessment modifications and changes must be fully documented and maintained.

✓ **Section 4 – CDD’s Fee Structure Appears Out-of-Balance and Not Regularly Updated**

As a result of the economic recession, decline in construction activity, and corresponding significant reduction in permitting revenue, CDD’s customer service approach has begun to shift to focusing on issues related to budget, resources, workload, and service levels. Also, it appears that CDD’s fee structure is out-of-balance. While CDD has only recovered between 65 and 71 percent of its total expenses through fees it collects, it has retained more permitting revenue associated with Building Services’ activities it has expended providing those services. However, according to CDD management, the additional revenues have not been reinvested specifically into Building Services’ activities to improve inspection and plan review services—which, coupled with decreases in staffing, has negatively impacted service levels. Additionally, CDD offers certain specialized customer service programs, such as the Matrix program, that although well-received, do not have a corresponding fee to recover the cost of providing the services. Furthermore, certain Building Services’ fees have not been updated in more than a decade, until recently when the Building Valuation Tables utilized to establish job valuations and set permitting fees were updated. Moreover, we found that the City has not conducted regular and comprehensive reviews of its Building Services’ fees to analyze the relationships between the cost of providing service and fees charged and to ensure its fee structure is set appropriately. To ensure its fee structure is appropriately structured and the City meets its goals for service level and quality, City leaders and CDD executive management should conduct a full-scale staffing, workload, and fee study.

✓ **Section 5 – Recent Process Change Initiatives Are Being Implemented, but More Are Needed**

Based on conversations with CDD management and staff, it is apparent that the current employees of CDD acknowledge and recognize the need for significant improvement to the control environment surrounding permit and fee assessment processes. In fact, in the spring of 2010, the Interim CDD Director (at the time) and the Acting Chief Building Official established a process improvement task force and began developing initiatives aimed at taking immediate action to address some process and system weaknesses, including

- Reviewing fee assessments for reasonableness during plan review processes.
- Programming the permitting system to automatically expire permits after 180 days of inactivity.
- Updating the Building Valuation Data tables to calculate building fees based on current job valuations.
- Disabling the Authorization to Start work program.

In addition to these notable changes, when the current CDD Director was promoted in July 2010, he made it a priority to systematically identify, analyze, consolidate, and prioritize additional changes and initiatives needed to improve CDD’s overall culture and environment as well as the Building Division’s processes and system of controls. While the various

process changes and proposed initiatives suggest that CDD management is interested in taking action to improve the considerable weaknesses that face the department, there is still much work to do to address all of the significant challenges identified throughout the report. We recommend that the City Auditor follow-up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD's progress with implementing the various initiatives.

In summary, the weak system of internal controls allowed employees to disregard state and city building laws, codes, and regulations aimed at protecting the public's health, safety, and general welfare. In addition, these weak controls allowed permits to be issued inappropriately, construction plans to be approved without the required and necessary plan reviews, and the permitting system's security gaps to be exploited. Such operations have resulted in millions of lost or foregone revenues and have subjected the City to further costs that could also reach into the millions for sanctions and legal matters.

CDD management has a responsibility to build a strong foundation of policies and procedures, accountability, and uniform and fair enforcement and application of rules and regulations related to building permit and fee assessment and collection processes. While several City officials and managers have recently resigned or been demoted, the impact of past permitting practices remains and much work needs to be done to reestablish confidence in CDD's Building Services Division. Without an adequate system of controls, CDD will continue to encounter difficulties ensuring its permitting and fee assessment practices are uniform, fair, and comply with building codes and laws. As such, it is imperative that City leaders and CDD executive management (directors, officials, and managers) take expedient action to set and maintain a "tone at the top" wherein the circumvention of proper permitting processes is not acceptable and will not be tolerated.

CDD's current management readily acknowledges the need for immediate improvement to its control environment and is in the process of implementing change initiatives that target many of the system weaknesses noted in this report. However, as many of the issues noted are complex, additional changes will likely be needed in order to address the significant issues facing the department.

Introduction

The City of Sacramento's (City) Community Development Department (CDD) is comprised of three key divisions—Planning, Building, and Code Compliance². The Planning Division is responsible for ensuring development projects are consistent with the City's general plan, various community plans, design/historic preservation requirements, and city regulations, including zoning, as well as handles long-range planning matters. The Code Compliance Division is responsible for administering the City's enforcement program to correct violations of municipal codes and land use requirements. Activities related to CDD's Planning and Code Compliance Divisions were deemed outside the scope of this audit.

CDD's Building Division is responsible for structural and life-safety concerns related to construction, demolition or alteration of buildings within the City of Sacramento—the Building Division governs parcels, but not public ways. As such, the Building Division is responsible for reviewing construction plans, issuing permits (building, wrecking, demolition, grading, etc.) and conducting inspections on permitted projects.³ The Building Division is responsible for ensuring projects comply with:

- Sacramento City Code (Chapter 15);
- California Building Standards Code (California Code of Regulations Title 24); and,
- California Building Standards Law (Health and Safety Code Sections 18901 – 18949.31).

Building Permitting Process

Most construction projects require a building permit application to be submitted. Once a building permit application and associated construction plans are submitted, in addition to CDD's Building Services Division review and approval processes, the activities of the following city entities are also integral to the City's permitting processes:

- Department of Transportation, Division of Development Engineering—Concerned with projects that involve areas that are accessible to the public, such as sidewalks, trees and streetlights.
- Utilities Department—Concerned with projects that involve the City's water, sewer collection, storm drainage and solid waste services.
- Fire Department—Concerned with projects that require fire discipline construction plan review and inspection as mandated by the California Health & Safety Code to prevent fires and reduce the impact of fires that occur.

Like the activities related to CDD's Planning and Code Compliance Divisions, the activities of entities involved in the City's building permitting processes other than CDD's Building Services Division were deemed outside the scope of this audit.

² The City's former Department of Code Enforcement merged with CDD July 1, 2010.

³ The Building Division governs the City's parcels, but not public ways.

Objectives, Scope, and Methodology

Sjoberg Evashenk Consulting was hired by the Sacramento City Auditor (Auditor) to conduct a performance audit to evaluate the City of Sacramento's (City) Community Development Department's (CDD) building permitting and fee calculation, assessment, and collection activities and processes. We focused our efforts on gathering and analyzing information relative to the following key audit questions and objectives:

- Assess CDD's general building permitting processes and fee calculation, assessment, and collection processes.
- Assess past permitting and fee assessment practices associated with specific building projects identified by the City Attorney's Office.⁴

The period of our audit is focused on fiscal years 2007 through 2010. However, where appropriate, we also included information coming to light in prior or subsequent timeframes to ensure that our evaluation reflected the current state of business operations related to Sacramento's permitting practices. Additionally, processes related to CDD's Planning Services Division were outside the scope of this audit as were the permitting processes of other City departments other than CDD. Further, we did not analyze CDD's accounting system, workload/performance data, or recently developed process change initiatives. We also did not conduct a full nexus study of the City's fee structure.

To answer audit questions and objectives and identify key issues that hamper the City's building permitting and fee assessment practices, we specifically reviewed and relied upon the following:

- City Charter
- City Code (applicable version in place at the time pertinent to areas reviewed)
- City Council Resolutions
- State and Federal Building Codes, Laws, and Regulations
- City Building Oversight Commission Annual Reports and Meeting Minutes
- City Attorney's Office (CAO) and CDD staff reports to the City Council
- Accela Permitting System Information
- Cashiering and City ECaps Financial System Reports and Information

In addition, to obtain relevant information regarding CDD's specific environment and processes as well as regional industry practices, we:

- Conducted physical walk-throughs of CDD's various processes and procedures
- Interviewed numerous members of CDD management and staff
- Offered to meet with the following:

⁴ Issues related to the specific building projects identified by the City Attorney's Office is described throughout the report and a specific recap by project is included in Appendix B of this report.

- Members of the Development Oversight Commission—none responded to offer to meet;
 - Sacramento City Council—one council member accepted offer to meet; and,
 - A former member of CDD supervisory staff—declined offer to meet.
- Performed research to identify regional comparable statistics by reviewing the following building departments:
- City of Bakersfield;
 - City of Corona;
 - City of Fresno;
 - City of Los Angeles;
 - City Oakland;
 - City of Riverside;
 - County of Sacramento;
 - City of San Diego;
 - City and County of San Francisco; and,
 - City of San Jose.

Further, to determine if rules and requirements were appropriately followed, we performed permit process and fee assessment testing by utilizing a multifaceted testing strategy. We created two test segments, resulting in a total of 509 individual permits tested:

- The first segment of testing was required by the scope of the audit and focused on the permitting and fee assessment activities of specific projects identified by the CAO as warranting further audit review. Approximately 2,500 pages of associated documentation were gathered by the CAO from various interviews and whistleblower telephone calls. From within the CAO documentation, we identified 14 separate projects and 363 unique permits requiring further review and testing; any additional permits associated with the 14 projects, but not identified within the documentation were not analyzed, tested, or included in the test results. Issues related to the specific building projects identified by the CAO is described throughout the report and a specific recap by project is included in Appendix B of this report.
- The second segment of testing focused on permitting and fee assessment activities related to permits issued in 2007, 2008, and 2009. We judgmentally selected 146 individual permits to review and test by varying the project valuation amounts, permit fees assessed and paid, permit types, etc.
- Because of the lack of process criteria, policies, or procedures, we relied on permitting fee lists from CDD’s website, employee “cheat sheets”, and fee training information as well as interviews with multiple CDD employees identified as fee assessment experts to establish the proper permitting processes and fee assessment components in which to

test and analyze the compliance of the 509 permits with rules, regulations, and stated protocol.

- Due to the lack of hard case files and paper documentation and CDD’s reliance on the Accela permitting system as the source of project information, we relied on the accuracy of project data reflected in Accela, including, but not limited to, project valuation figures, square footage, number of bedrooms, land density, key permitting dates (permit application, permit issuance, plan review, plan processing, inspections, etc.).
- All discrepancies were discussed with CDD staff for clarification.

Due to the lack of criteria, policies, or procedures, we could not always verify or validate the amount of permitting fees due or collected as a result of testing limitations such as:

- CDD and several other City entities share the responsibility of calculating some permitting fees and inputting the information into Accela.
- In addition to CDD, several other City departments involved with the City’s permitting processes—such as Department of Utilities, Development Engineering, Fire Department, etc.—have access to Accela and can make changes to the amount of fees due, such as allowing credits. We did not contact entities outside of CDD to validate fees invoiced and CDD does not maintain sufficient support related to changes made by external entities.
- Certain required permitting fees are not collected by CDD and we did not analyze or review these fees, such as school impact fees and some regional sanitation fees.
- Where we were unable to determine the appropriateness of a permitting activity or fee assessment, we assumed the amounts assessed were correct.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards required 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.

Section 1: CDD's Organizational Culture Fostered a Weak System and Process Control Environment and Allowed for the Circumvention of Proper Permitting Processes

Overall, we found that Sacramento's Community Development Department's (CDD) permitting system offers broad access, but lacks critical control mechanisms, such as automatically identifying required plan reviews, calculating related fees, and limiting approval and modification access in the system. Additionally, we found the City has a considerable and historical lack of formal and comprehensive policies or procedures to guide appropriate permitting and fee assessment practices. These weaknesses created opportunities where proper permitting and fee assessment protocols as well as city and state building laws, regulations, and codes could be disregarded.

Permitting System's Lack of Controls Worsened CDD's Weak Internal Control Environment

Implemented in 2006, CDD's Accela permitting system supports highly sensitive and complicated permitting activities that not only generate significant fee revenue for the City, but must also ensure compliance with complex state and city building laws and codes. Despite the important nature of the activity processed through Accela, nearly all users have full access to the system with the ability to input, modify, delete, and approve various permitting processes, activities, and fees. According to CDD's former Accela System Administrator, the system has the capability and functionality to significantly control and restrict access—even assigning users limited access to a single screen—however, former CDD management opted to leave system access open so as to not impede process efficiencies. Moreover, the broad system access is not limited to CDD employees as other city entities having involvement in permitting processes, such as the Utilities, Development Engineering, and Fire Departments, also have broad access to the system. Although the former Accela System Administrator stated there are verbal understandings and agreements between the entities and CDD that the activities of one department will not be adjusted by another, these other city entities have the system access and thus the ability to adjust CDD entries in the permitting system and vice versa.

In addition to the broad access provided, we also noted that Accela lacks internal edit and process controls that would assure greater control over the automated system and the permitting processes. While we discuss the permitting system's control weaknesses in detail throughout the remainder of the report, the following summarizes a few of the key permitting system control issues:

- Permitting fees are not always automatically assessed and are easily modified and voided by nearly any system user without supervisory oversight or review.
- Ability to approve project construction plans is not limited to only those individuals with specific levels of authority and responsibility.
- Permitting “conditions of approval” intended to ensure that specific actions are conducted and met prior to plan approval or permit issuance or finalization, are easily ignored and/or cleared by any user.

- Inspection disciplines are not automatically identified and project construction plans are not automatically routed for review and approval based on the project type and other information provided by the applicant. Currently, routing decisions are made by staff independently without supervisory review for appropriateness.
- Security gaps were programmed into the permitting system that removed controls to prevent inspections from being scheduled and conducted before permits were issued and all outstanding fees paid.
- Expired permits were not automatically deactivated or removed from the system after 180 days of construction inactivity.
- Changes to permit records and critical project information, such as addresses and parcel numbers, can be made by any user at any time.

The broad system access and the lack of controls are exacerbated by the fact that management had not attempted to mitigate these weaknesses by conducting permit audits or fee reconciliations or taking other assurance steps that could disclose inappropriate use. For example, system exception reports showing permits with modified or voided fees have not been utilized to monitor activities for appropriateness. On a good note, according to the former System Administrator, Accela has a full audit trail and can identify any inputs or changes by system user ID and date/time stamp. However, unless there is a reason to view the audit trail of a permit record, inappropriate activities can go undetected. Recently, because the majority of CDD activity now relates to minor permits, the former System Administrator created a weekly report reflecting all minor permit activity in order to review for unusual activity; however, it is unclear how often the report has been utilized or how useful the information has proven to be.

Overall, access restrictions, logical controls and checks, and exception reporting and reconciliations provide essential controls within and in conjunction with an automated system. Such controls work in concert with detailed policies and procedures to build integrity and reliability into critical business processes.

We recommend CDD management ensure the necessary changes are made to the automated permitting system to limit access based upon critical job needs and positions—analysis should include CDD employees as well as external users. This will likely require contracting with the system vendor as CDD recently lost its in-house Accela expert.

We recommend CDD management develop processes to create and regularly utilize system exception reports to monitor system usage, detect process errors, and identify unusual or abnormal activities and to ensure all employees and system users follow proper permitting processes and policies and procedures.

Lack of Comprehensive System Reconciliation Processes

In conjunction with system security and access, a complete reconciliation process has not been implemented between the three main systems critical to permitting processes: CDD’s Accela permitting system, CDD’s cashiering system, and the City’s eCaps financial system. While CDD performs a daily reconciliation of amounts collected per the Accela system to amounts collected per CDD’s cashiering system, there is no reconciliation of fees collected from either system to the eCaps financial system, where the fee revenue is officially recorded. Additionally, a March 2010 draft audit report of CDD’s collection activities related to sewer impact fees on behalf of the Sacramento Regional County Sewer District (SRCSD) found that sewer impact fee amounts recorded by CDD to the City’s general ledger accounts over a 14-month test period did not always agree with amounts reflected on CDD’s cash receipts documentation. The audit found nearly \$25,000 was under-remitted to SRCSD during this timeframe. If CDD had a complete reconciliation between the City’s eCaps system and cashiering system, these discrepancies could have been identified and corrected immediately. According to CDD’s accounting staff, certain processes exist, such as payment transfers and credits, described in Section 3, that make it difficult to perform a complete reconciliation. However, CDD is currently developing and formalizing a complete reconciliation process between the three systems.

We recommend CDD management formalize and implement a complete reconciliation process between the three systems: Accela permitting system, CDD’s cashiering system, and City’s eCaps financial system.

Lack of Policies and Procedures and Overreliance on Institutional Knowledge

In addition to the lack of system controls, we also found a considerable and historical lack of formal and comprehensive policies or procedures to guide appropriate permitting and fee assessment practices and ensure compliance with rules and regulations. Rather than formal policies, procedures, or guidelines, we found an overreliance on the institutional knowledge of counter staff—employees that manage key processes involved in issuing building permits—and only a assortment of “informal” protocols, training materials, and various “cheat sheets” shared with us by various CDD management and staff. For example, CDD’s counter staff is responsible for correctly and appropriately determining which entities must review and approve construction building plans, assessing the amount of permitting fees required, and identifying the necessary inspection disciplines. However, the permitting system is not programmed to automate these processes and there is a lack of policies and guidelines that stipulate direction and provide assistance, such as outlining the plan reviews and inspection disciplines for a project type and scope of work. As a result, CDD’s employees rely on their own knowledge of building permitting processes and requirements to conduct their duties.

Formal policies, procedures, protocols, and guidelines establish standards for operations and ensure consistent handling of projects and related transactions. The absence of such formal guidance and CDD’s overreliance on institutional knowledge proved problematic when staffing changes were made to the permit counter. Previously, CDD staffed its permit counter with Development Technicians—specialists in permitting processes—who were considered CDD’s experts in this area. However, the entire classification was laid off in March 2008 and then

staffed with engineers, plan reviewers, and inspectors from the Building Division's Inspection and Plan Review Units. According to many individuals, Development Technicians were well-trained employees with a broad knowledge of building code rules and regulations that guided all aspects of permitting processes whereas the engineers and inspectors currently staffing the permit counter have a more focused knowledge of specific building disciplines and specialties. Additionally, the Development Technicians had technical training on the permitting system to ensure all required project information was input into the system. When the engineers, plan reviewers, and inspectors replaced the Development Technicians at the permit counter, little training was provided on permitting processes. As a result, the new counter staff managed the counter operations without sufficient knowledge of plan review requirements or the permitting system. Further, as no formal policies and procedures existed, there was no authoritative information readily available for the "new" employees to access or follow. We found that despite their specific expertise, the engineers, inspectors, and plan reviewers had to develop their personal approaches to permitting that may have exacerbated CDD's lack of process uniformity.

Additionally, the City's general conflict of interest code requires designated city employees who "make or participate in the making of decisions which may foreseeably have a material effect on their economic interests" to file annual statements of economic interest forms (Form 700) to disclose reportable interests, such as investments, real property, income and business positions held or received during the previous calendar year. In addition to annual statements, employees must also complete similar statements upon appointment and resignation. While the City's general conflict of interest code is important, the reporting time period only requires the disclosure of reportable conflicts that relate to the previous calendar year and only covers some of CDD's employees. Given the nature of the CDD activities, it is important that the department establish a specific conflict of interest policy that is tailored to CDD's permitting and fee assessment processes and activities. Such a policy should require all CDD employees to immediately disclose to management any conflicts (or appearance of conflicts) that affect their current duties and responsibilities that could adversely influence their judgment, independence, or objectivity. Potential conflicts that should be disclosed include but are not limited to:

- Counter staff handling permit application intake or processing activities related to projects in which they have financial interest.
- Plan reviewers or inspectors conducting reviews or inspections related to projects in which they have financial interest.
- Plan reviewers of record on a project performing inspections.
- Plan reviewers or inspectors conducting reviews or inspections for individuals with whom they have a personal relationship.

Overall, CDD lacked specific parameters that distill the many City Codes, state laws, and department specific protocols and requirements within comprehensive and formal policies and procedures. As such, the City has no assurance that projects will be required to complete all the appropriate steps that ensure the public is protected, that each project is treated uniformly and fairly, and employees are held accountable for conducting CDD's business ethically and for following proper procedures and protocols. The overreliance on institutional knowledge rather than formal policies and guidelines proved to be unreliable as proper permitting and fee

assessment processes were circumvented and did not comply with building laws, regulations, and codes, as described in examples throughout the remainder of the report.

We recommend CDD management draft a complete, detailed, formal, and comprehensive set of policies, procedures and guidelines, and standards for operations with specific parameters that cover all of CDD’s permitting and fee assessment processes and practices that are widely distributed to all employees. Hold all employees accountable for following and adhering to all system and process policies and procedures.

We recommend CDD management establish a formal employee training program to ensure all employees have sufficient knowledge and experience to handle job responsibilities and functions, particularly employees that handle permit counter operations and all employees that interact with the permitting system.

We recommend CDD management develop conflict of interest policies that require employees to disclose any conflict or appearance of conflict related to their job responsibilities and duties that could adversely influence their judgment, independence, or objectivity.

Organizational Culture Changes Improved Service Delivery Perceptions While Exacerbating Existing Control Issues

CDD’s culture has historically been one of heavy-handed enforcement and regulation, but at the same time one that disregards the importance of policies and procedures, internal controls, and accountability. According to a March 2008 article in the Sacramento Business Journal, CDD’s Building Division had the poorest reputation in 2003 and was ranked last in a survey of developers, contractors, architects, and engineers. The poor perception of Building Services’ activities was due largely to cumbersome and siloed permitting processes that required residents to seek construction plan reviews and approvals from separate, decentralized city departments involved in permitting processes, including Building, Planning, Fire, and other disciplines.

In an effort to become more business friendly, spur economic development in the City, enhance customer service, and streamline the permitting processes, the former City Manager and former CDD Director transformed CDD’s culture into one of project facilitation and efficiency with a redefined focus and motto: “Get the Customer to Success.” As a result of the intense focus on customer satisfaction, the Building Division was rated the area’s best building department in 2008. However, the new atmosphere of facilitation resulted in an environment where rules and regulations were routinely worked around or ignored, and control weaknesses were exposed and exploited. One example illustrating the “tone at the top” that permeated CDD under previous leadership was the acceptance of project valuations provided by applicants without question, even when valuations appeared unreasonably low or when inspectors could see the valuation was inconsistent with the work actually being conducted on the project site. (Refer to Section 3 of the report for specific examples of the effect on permitting fee revenue when low project

valuations were accepted and utilized.) According to a number of individuals we spoke with, when employees raised concerns, management reacted negatively and customers generally prevailed—thus, CDD employees were less likely to voice concerns in the future when similar issues were identified. Also, when the permitting system was implemented in 2006 and programmed to accommodate the customer service focus, system controls were specifically eliminated to expedite the process. By eliminating the controls, off-line decisions could be made by lower level staff without requiring them to wait for management decisions and system approvals. As a result, proper permitting processes were skipped or ignored and inappropriate activities occurred.

While many aspects of the culture shift were problematic, certain aspects included several new positive processes, including the centralization of the City’s permitting process by creating a “one-stop” public permit counter. This allowed representatives from each city department involved in the building permitting process to be located centrally at CDD and thus customers’ questions could be answered and project plans reviewed and approved at a single location. Another new process was the implementation of the “Matrix” system in 2006 after an initial successful pilot demonstration which had two primary objectives:

- Redesign the architectural design and plan review processes with more time at the beginning of the project to resolve planning and code-related deficiencies without impacting the start date for the project.
- Implement a front-loaded review process, one that is more suited to the special needs of large projects. This includes early technical involvement by the City at the design phase, use of city reviewers as code consultants to the design team, and the implementation of a system of rolling review and approval.

To accomplish the Matrix objectives, management appointed specialized project teams comprised of staff from across CDD divisions and other city departments in order to provide applicants with one designated project team that followed the project from beginning to end. Specialized teams were organized by project type, including:

- High Rise—buildings with habitable space measured from lowest point of fire department access to highest habitable floor, over 75 feet in height, as defined by the building code.
- Commercial—new commercial development, additions, office condo conversions, churches, or multifamily residential units of generally more than 15,000 aggregate square feet in area. Included is existing commercial development where exterior modifications are proposed. Projects would generally be less than \$50 million in valuation and would not require major infrastructure improvements.
- Major Project—commercial projects that are generally in excess of 135,000 square feet in area, or in excess of 100 units, or where major infrastructure improvements are required.
- Institution/Hospital—hospitals and institutions are defined as general and specific hospitals, clinics, children's treatment centers, extended care facilities for treatment and convalescence, and nursing homes.

- Government—any projects proposed by a government agency, such as city, county, state, federal and special districts (i.e. Regional Transit, public school district).

While the “Matrix” system continued to be focused on large scale projects, CDD expanded the concept to every building project by assigning a “team lead” to act as the customer’s key contact during the permitting process.

While the Building Services Department improved its reputation within the local building community and implemented some positive customer-focused processes, the new atmosphere of facilitation also resulted in an environment where rules and regulations were routinely overlooked and business was conducted in such a manner that allowed staff to cut corners and do whatever it took to “Get the Customer to Success.” As a result, examples where permitting processes and fee assessments did not comply with building laws, regulations, and codes are discussed throughout the following sections of this report.

We recommend that CDD management establish an organizational culture that places importance on adhering to proper policies and processes while also meeting service level goals. Also, create a “tone at the top” that circumvention of proper permitting and fee assessment policies and processes will not be tolerated.

CDD’s Organizational Reporting Structure Impedes Authority over Building Processes

CDD’s organizational structure has allowed key building and permitting activities to occur outside the control and oversight of the Building Services Division, which is tasked with ensuring compliance with numerous building laws, codes, and standards, including:

- Sacramento City Code (Chapter 15),
- California Building Standards Code (California Code of Regulations Title 24), and
- Health and Safety Code Sections 18901 – 18949.31.

Similarly, the following key excerpts of state law and City Code outline the specific responsibilities of the Building Services Division’s Chief Building Official position:

California Building Code Appendix Chapter 1 Section 104.1:

“The building official is hereby authorized and directed to enforce the provisions of this code. The building official shall have the authority to render interpretations of this code and to adopt policies and procedures in order to clarify the application of its provisions.”

Section 104.2 states:

“The building official shall receive applications, review construction documents and issue permits for the erection, and alteration, demolition and moving of buildings and structures, inspect the premises for which such permits have been issued and enforce compliance with the provisions of this code.”

Section 104.7 states:

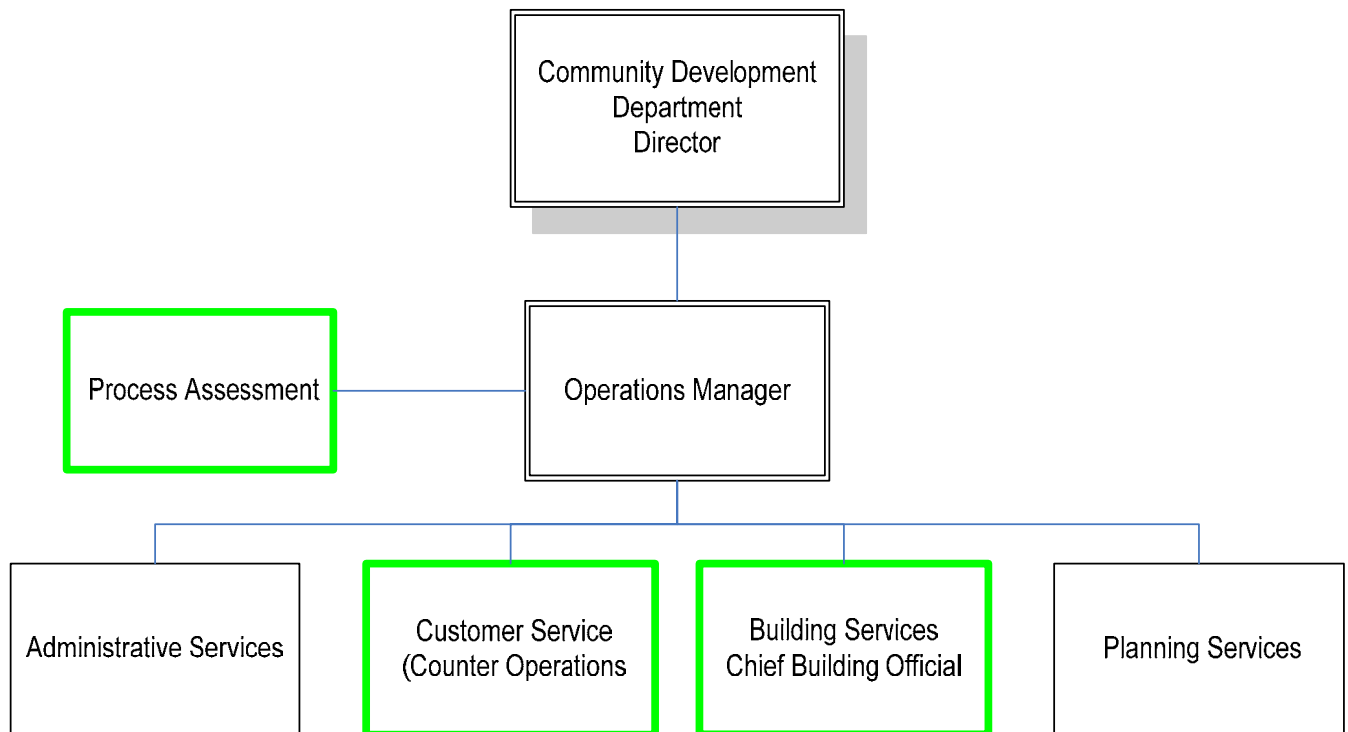
“The building official shall keep official records of applications received, permits and certificates issued, fees collected, reports of inspections, and notices and orders issued. Such records shall be retained in the official records for the period required for retention of public records.”

City Code Section 15.04.100:

“The chief building official shall supervise and administer the building division. He or she shall be the principal enforcement officer of the building, dangerous buildings, and housing codes of the city.”

Even though the Chief Building Official⁵ is held responsible for all building activities, CDD’s organizational structure has not allowed the position to directly oversee or control two key functional areas involved in building-related activities: Permit Counter and Process Assessment Unit. Refer to CDD’s Organizational Chart in Figure 1—green highlighting illuminates the key areas with non-reporting relationships.

Figure 1: CDD’s Organizational Chart (prior to 2010)



⁵ The Deputy Chief Building Official has served on an acting basis since the former Chief Building Official left in March 2009.

Specifically, the permit counter staff handles key building permit and fee assessment processing activities at CDD's public permit counter, including:

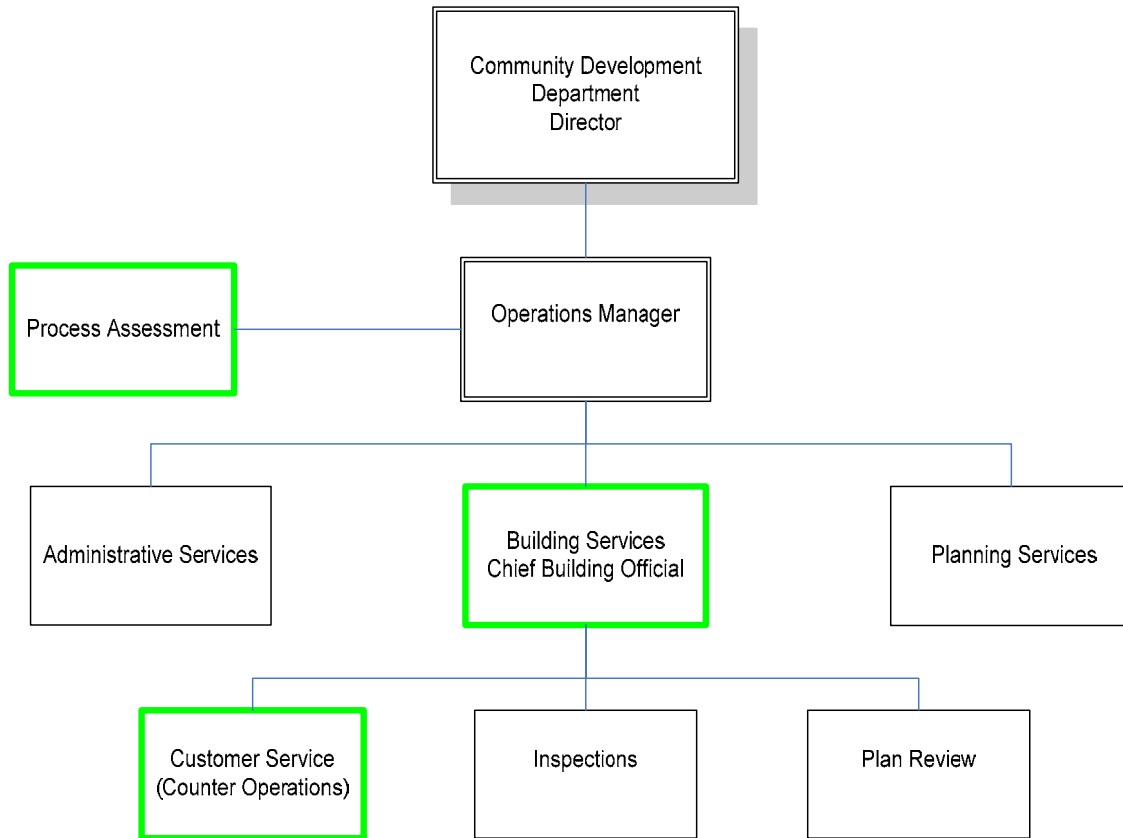
- Processing permit applications;
- Establishing the type of permit needed;
- Reviewing and approving project plans;
- Routing project plans to other city departments for required review and approval;
- Calculating and invoicing required permitting fees; and,
- Identifying the inspection disciplines required.

Until March 2008, the permit counter was staffed by Development Technicians (specialists in permitting processes) from CDD's Customer Service Division. Even though the key responsibilities of the Development Technicians working at the permit counter involved handling building-related processes and activities, the Chief Building Official did not have any reporting relationship with these employees. After the Development Technicians were laid off in March 2008, engineers, plan reviewers, and inspectors from the Building Services Division staffed the permit counter. While Building Services Division employees are within the Chief Building Official's chain of command, the Chief Building Official still did not have authority over permit counter operations and activities.

Similarly, CDD's organizational structure also does not provide authority for the Chief Building Official to give direction to the Process Assessment Unit, another functional area that handles many building permitting activities. Specifically, this unit's major function is to facilitate projects through CDD's permitting review and approval processes and serve as the central point of contact throughout the building process—processes that the Chief Building Official is held responsible. The project managers within the Process Assessment Unit report directly to the CDD's Operations Manager and continue to remain outside of the oversight of the Chief Building Official.

Given the historical lack of reporting relationship with either the Process Assessment Unit or Counter Operations, the Chief Building Official position has been unable to either implement controls within these units to ensure compliance with building codes and laws or hold employees accountable for violating building codes and laws or for circumventing proper permitting procedures.

Figure 2. CDD’s Restructured Organizational Chart as of February 2010



On a positive note, in February 2010, the interim CDD Director (at the time) modified the organizational reporting structure to give the Chief Building Official oversight and control over counter operations, as shown in Figure 2. However, also shown in Figure 2, the activities of the Process Assessment Unit continue to remain outside of the purview of the Chief Building Official.

Additionally, CDD’s organizational reporting and responsibility structure that has the Chief Building Official reporting to an operations manager rather than directly to the department director appears somewhat unique and duplicative when compared to the structures of other building departments we reviewed. Specifically, in addition to the City of Sacramento, we reviewed the organizational structure of 10 building departments⁶ and found that the majority are structured such that the Building Official reports directly to the Department Director (six cities) or the Building Official is the Director of the department (two cities). Additionally, two of the cities were similar to Sacramento where the Building Official reports to an intermediate manager who reports to the department or agency director.

Lastly, in July 2010, CDD and the Code Enforcement Department were merged to take advantage of similar job functions of staff that can be cross-trained across departments, such as

⁶ We reviewed the following building departments: Bakersfield, Corona, Fresno, Los Angeles, Oakland, Riverside, Sacramento County, San Diego, San Francisco, and San Jose.

inspection services. Although proposed organizational changes associated with the merger have not been finalized or reviewed as part of this audit, CDD should ensure revisions to its organizational structure takes into consideration that Title 15 of the City Code states that the Chief Building Official is the principal enforcement officer of the building, dangerous buildings, and housing codes of the City.

We recommend that CDD management complete a comprehensive analysis of its employees' positions and organizational reporting structure to ensure proper control, oversight, and authority is present.

We recommend that CDD management ensure that the City's Chief Building Official, who is held responsible by state law and City Code for enforcing the City's building laws, codes, and regulations has the ability to control all of the activities and processes for which he or she is responsible.

We recommend that CDD management ensure that the City's Chief Building Official, has reporting authority over the positions that carry out those activities and processes for which he or she is responsible, including but not limited to Permit Counter staff, Process Assessment Unit staff, inspectors, plan reviewers, etc.

As management analyzes CDD's new organizational structure, we recommend management consider the Chief Building Official's responsibilities related to housing and code enforcement activities and ensure that proper reporting structure and authority is provided, particularly since Building Services already provides plan review services related to housing permits.

Lack of Appropriate Segregation of Duties Allows Circumvention of Controls

Compounding the need for of formal policies, procedures, guidelines, and system controls, another critical control issue relates to the lack of appropriate segregation of duty—a foundational aspect of a strong control environment. Specifically, CDD's counter supervisor position had the system access to unilaterally:

- Process permits without any oversight;
- Receive new permit applications;
- Determine what plan reviews and approvals were needed;
- Approve project plans;
- Assess and invoice permitting fees;
- Collect and process monies;
- Issue and finalize building permits; and,
- Schedule inspections.

This process design essentially allowed the circumvention of all controls—not only compromising the integrity of the multi-step reviews and inspections for acquiring building permits, but affording the potentially undetectable waiver or modifications of fees. According to CDD management, the CDD counter supervisor position no longer has access to the cashiering system and is no longer able to collect and process monies or issue building permits.

We recommend that CDD management analyze the duties of CDD staff to ensure all conflicting responsibilities are sufficiently segregated and controlled.

Haphazard Recordkeeping and Incomplete Documentation of Permitting Processes and Decisions

We also noted that CDD does not adequately document and maintain important aspects of permitting processes, such as approved project plans that are critical outcomes of building permitting processes and provide historical documentation of the City’s approval of specific construction activities. Although CDD is only required to retain commercial plans for viewing at the public counter, the Building Division maintains project plans for all project types, some of which have been imaged and stored within the permitting system. However, CDD has not imaged or stored project plans in an organized and systematic manner in the last several years. Rather, multiple empty workstation cubicles act as disorganized holding areas for thousands of project plans until, according to management, sufficient resources are made available to resume a proper system to organize, store, and image project plans.

As such, it is nearly impossible to quickly locate specific project plans that have not been imaged and stored within the permitting system—demonstrated by CDD’s inability to produce plans related to specific projects we requested. As a result, we were not able to conduct comprehensive testing to state conclusively whether CDD counter staff consistently route and approve plans appropriately and in compliance with building laws and codes. At the conclusion of our audit work in late August 2010, we observed CDD staff attempting to organize project plans as well as preparing some plans for electronic imaging.

Moreover, we found an overwhelming lack of documentation supporting CDD’s process decisions, including fee modifications, particularly when the decisions reached were outside of normal protocol. Specifically, CDD could not provide support to justify many of its past permitting and fee assessment decisions, such as approvals to modify fees or transfer/credit payments between permits. Also, sufficient support related to decisions reached and changes made by external entities that impact permitting and fee assessment processes is generally not maintained even though the Accela permitting system has the functionality to allow supporting documents to be attached to permit records. Furthermore, a March 2010 draft audit of CDD’s collection activities related to sewer impact fees on behalf of the Sacramento Regional County Sewer District also found that CDD lacked adequate documentation to support fee assessment and collection.

We recommend that CDD management continue working to create a systematic process to organize, store, and image CDD’s project plans.

We recommend that CDD management develop processes to ensure key documentation is maintained to support process decisions.

Overall, we found CDD has historically lacked formal policies and procedures, an adequate organizational and reporting structure, and a strong process and system control environment related to its building permit and fee assessment and collection processes. Moreover, it lacks sufficient segregation of duties, managerial oversight, and support and records for decisions and actions. Allowing such an environment of weak internal and system controls to go uncorrected increases the City’s chances of inappropriate permitting activities occurring and fails to address management’s responsibility to safeguard the City’s assets by ensuring an effective and strong internal control environment. Ultimately, the cornerstone of building a strong internal control environment is setting and maintaining a “tone at the top” that circumvention of proper permitting and fee assessment processes will not be tolerated. Such a message must be reinforced through the implementation of rigorous and appropriate policies and controls as well as the establishment of an organizational structure that supports strong and meaningful accountability and managerial oversight. As a result of the current control weaknesses described throughout this section, we found numerous examples where proper permitting and fee assessment processes were circumvented and applicable state and local laws were ignored, as described in the sections that follow.

Recommendations:

To improve CDD’s internal control environment, to build integrity and reliability into critical business processes, and to ensure consistent handling of projects and related transactions, City leaders and CDD executive management should:

1. Ensure the necessary changes are made to the automated permitting system to limit access based upon critical job needs and position—analysis should include CDD employees as well as external users. This will likely require contracting with the system vendor as CDD recently lost its in-house Accela expert.
2. Develop processes to create and regularly utilize system exception reports to monitor system usage, detect process errors, or identify unusual or abnormal activities to ensure all employees and system users follow proper permitting processes and policies and procedures.
3. Formalize a complete reconciliation process between the three systems: Accela permitting system, CDD’s cashing system, and City’s eCaps financial systems.
4. Draft a complete, detailed, formal, and comprehensive set of policies, procedures and guidelines, and standards for operations with specific parameters that cover all of CDD’s permitting and fee assessment processes and practices that are widely distributed to all employees. Hold all employees accountable for following and adhering to all system and process policies and procedures.
5. Establish a formal employee training program to ensure all employees have sufficient knowledge and experience to handle job responsibilities and functions, particularly

employees that handle permit counter operations and all employees that interact with the permitting system.

6. Develop conflict of interest policies that require employees to disclose any conflict or appearance of conflict related to their job responsibilities and duties that could adversely influence their judgment, independence, or objectivity.
7. Establish an organizational culture that places importance on adhering to proper policies and processes while also meeting service level goals. Also, create a “tone at the top” that circumvention of proper permitting and fee assessment policies and processes will not be tolerated.
8. Complete a comprehensive analysis of employee positions and organizational reporting structure to ensure proper control, oversight, and authority is present.
9. Ensure that the City’s Chief Building Official, who is held responsible by state law and City Code for enforcing the City’s building laws, codes, and regulations, has the ability to control all of the activities and processes for which he or she is responsible.
10. Ensure that the City’s Chief Building Official has reporting authority over the positions that carry out those activities and processes for which he or she is responsible, including but not limited to Permit Counter staff, Process Assessment Unit staff, inspectors, plan reviewers, etc.
11. Consider the City’s Chief Building Official’s responsibilities related to housing and code enforcement activities, and ensure that proper control and reporting authority is provided, particularly since Building Services already provides plan review related to housing permits.
12. Analyze the duties of CDD staff to ensure all conflicting responsibilities are sufficiently segregated and controlled.
13. Continue working to create a systematic process to organize, store, and image CDD’s project plans.
14. Develop processes to ensure key documentation is maintained to support process decisions.

Section 2: In Breach of the City Charter and State Building Laws and Codes, CDD Issued Building Permits Inappropriately and Allowed Work to Start Prematurely

As mentioned previously, the Sacramento Community Development Department (CDD) has changed its approach to permitting over the past years and has focused on facilitating customers quickly through the process rather than the prior compliance orientation. Regardless of management’s directives, the control environment over its business process cycles is weak—lacking appropriate written policies and procedures, definitive guidelines protocols, customary supervisory oversight, and system checks and balances. These weaknesses allowed a wide-array of breaches of trust, unilateral decision making, and system circumventions.

Permits were Inappropriately Issued Before All Required Processes were Complete

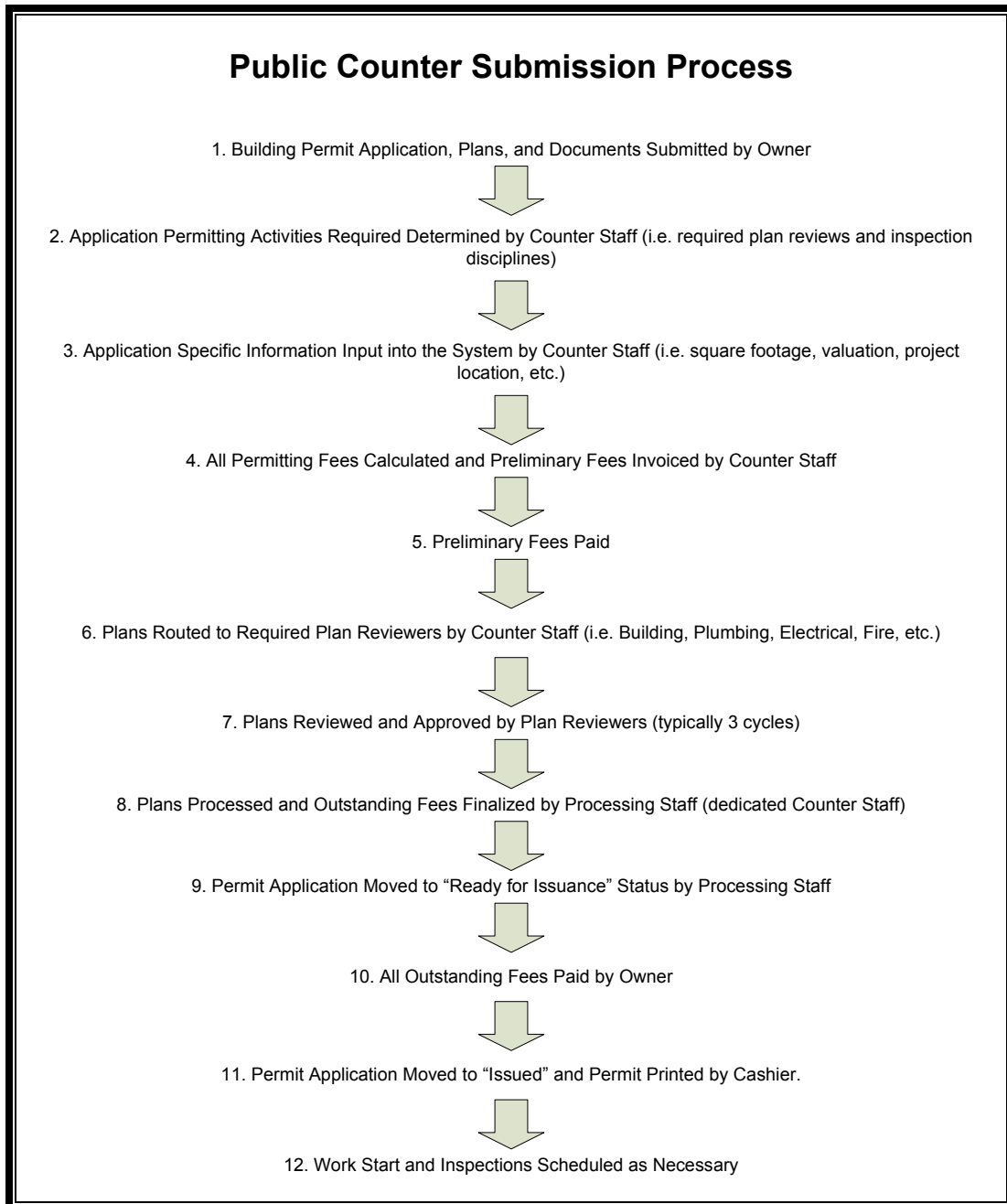
There are certain processes that must be completed before a permit can be properly issued, including permit application submission, project plan reviews and approvals, and permitting fee assessment and collection. Due to the lack of comprehensive policies, procedures, and guidelines, we had to document CDD’s permitting processes, reflected in Figure 4, from interviews with management and staff as well as direct observation and documentation review, including permitting data and city and state building codes. Overall, we found the lack of written policies and guidelines coupled with the lack of controls within CDD’s permitting system allowed building permits to be inappropriately issued before all necessary permitting processes were completed. Included were instances where CDD disregarded required plan reviews, overlooked missing urban development permit approvals, and ignored permitting conditions of approval programmed in the system.

Permits were Inappropriately Issued Before All Required Project Plans were Reviewed and Approved

We found that CDD does not have sufficient processes in place to ensure that project plans undergo all appropriate reviews and approvals and identified instances where required plan reviews did not occur. According to California Building Code 106.3, construction documents (i.e. project plans) must be reviewed to ensure compliance with state building code and other laws:

“The building official shall examine or cause to be examined the accompanying construction documents and shall ascertain by such examinations whether the construction indicated and described is in accordance with the requirements of this code and other pertinent laws or ordinances.”

Figure 4. Standard Building Permitting Processes



As part of the permit application intake process, CDD’s counter staff “target” or route plans to the City’s various plan reviewers. Depending on the project type and scope of work, required construction plans and documents must be routed to CDD’s Plan Review Unit (electrical, structural, life safety, mechanical/plumbing) for review and approval to ensure plans are in compliance with Federal, State and City Codes, laws, and ordinances. Plans may also require specialized review of other CDD divisions, such as the Planning Division, or other City departments such as Fire, Utilities, and Development Engineering (within Department of

Transportation). For example, Development Engineering is concerned with projects that involve areas that are accessible to the public, such as sidewalks, trees and streetlights. Their plan review process is to ensure projects are designed properly and maintain the public infrastructure adequately. Plans may also be required to be reviewed for compliance with the City's design review districts and/or historical preservation districts, if applicable.

Current practices place significant reliance on counter staff to ensure that project plans undergo all appropriate and required reviews and approvals because CDD has not established a strong, credible and reliable structure with appropriate controls and checks to ensure project plans are routed and approved properly. The permitting system is not programmed to automatically define

Building permits may require the following types of construction plans and documents that must be prepared by the owner (residential only), architect, engineer, draftsman or designer:

- Site Plan
- Floor Plan
- Exterior Elevations
- Structural Plan
- Structural Engineering Calculations
- Energy Compliance Demonstration
- Product "Listing" Numbers
- Automatic Fire Extinguishing System Plans

the necessary plan reviews required based upon the project parameters nor has CDD instilled appropriate policies and procedures to guide plan review routing decisions. Rather, counter staff must route project plans to either CDD's Plan Review Unit for compliance with structural, mechanical, and life safety building codes or to other city departments such as Fire, Utilities, and Development Engineering for specialized review and approval processes

to ensure plans are in compliance with Federal, State and City Codes, laws, and ordinances. Rather than the permitting system automatically identifying the required plan reviews, permit counter staff must manually perform this function based on their understanding of the project and aspects of building code requirements. What is more, there is no supervisory review to ensure the accuracy and completeness of counter staff decisions. Combined, the lack of policies and procedures, system control and supervisory review increase the risk that inspection disciplines are not properly identified and project plans are not appropriately routed to the necessary entities.

Further, when all required plans on a project have been reviewed and approved and each plan reviewer has updated Accela granting approval, the system automatically places the plans in the "processing" queue to be readied for issuance. As any user of the system can unilaterally grant system approval to any aspect of the project plans and thus, move plans into the processing queue, users can authorize the approval of construction plans without the necessary or appropriate authority, qualifications, certifications, or professional licenses. Moreover, according to employees we spoke with, the system is programmed to allow users to enter any name they choose to identify the individual granting approval rather than automatically identifying the approver from the individual's unique system identification login. Combined, any user can grant approvals of project plans and can make it appear on the surface that the approval was granted by someone else. While the administrators of the system can view an audit trail file to determine the user identification of a person actually inputting the approval

information, no process exists to routinely review processes or question actions. Therefore, absent a reason to look at the activity of a specific permit, such as an allegation or special inquiry, inappropriate approvals can occur and remain undetected.

As mentioned in Section 1, we were not able to conduct comprehensive testing to state conclusively whether CDD counter staff consistently route and approve plans appropriately and in compliance with building laws and codes because of the disorganized manner in which project plans are stored and the lack of a systematic and inclusive process to inventory and track plan documents. However, through our numerous interviews and meetings with various management, staff, and stakeholders, we obtained six examples of plans that were unilaterally approved without the required plan reviews and hard copy plans did not reflect the appropriate approval signature of a responsible and authorized city plan reviewer.

One example where project plans were not appropriately reviewed and approved prior to permit issuance involved a building permit application for a basement remodel⁷. The permit application and associated project plans were only submitted to and approved by Building Services over-the-counter and were not routed by the former CDD supervisor to any other city entity for plan review and approval. While hard copy project plans reflect that the plans were signed by the former CDD supervisor “on behalf of” a plan reviewer within Building Services, the plans did not bear the signature or typical stamp of approval of one of CDD’s plan reviewers, which is atypical according to management. This lack of usual plan reviewer approval stamp and signature was identified by a field inspector after finding several errors on the project plans that should have been caught by the plan reviewer, including a life-safety issue where the required one-hour horizontal occupancy separation⁸ pursuant to California Building Code Section 419.3 was missing. This prompted CDD management to look into what plan reviews actually occurred on the project and the following are just a few of the additional issues identified by CDD:

- Project plans approved by CDD Building Services lacked a complete scope of work— noting all work proposed under the permit lacked sufficient details and descriptions involving life-safety and structural concerns, such as ventilation, structural modifications, floor framing plans, and existing floor plan usage.
- Project plans were not routed for the required review and approval of CDD’s Planning Division Historical Preservation Unit even though the project was located within one of the City’s historical districts.
- Project plans were not routed for the required review and approval of the Utilities Department and Department of Transportation’s Development Engineering Division, including review and approval of a lot line adjustment.
- Permit application type established on the project was incorrect—listed as a basement remodel, but should have been a new building of a second dwelling unit. Permitting fees due based on the two project types prove significantly different. The applicant paid just over \$1,000 in fees associated with the remodel permit, but more than \$10,000 would have been due had the permit been assigned the correct project type.

⁷ The permit application was submitted and a permit issued on September 30, 2009.

⁸ A fire-resistive construction separation designed to provide 60 minutes of fire protection between separate occupancies.

Also of significance in this example are several breakdowns in controls related to inputting plan review approval in Accela. Specifically, the former CDD supervisor noted on the hard copy plans that his approval was provided “on behalf of” a specific CDD plan reviewer. However, the permitting system’s electronic record reflected the initials of the plan reviewer in approving the plan and did not indicate the former CDD supervisor’s role in the approval. This was possible because the permitting system allows any user with access to the system to simply enter any initials as being the individual that provided approvals, whether or not the individual was actually involved in the authorization process. Upon CDD management’s review of the system’s audit trail related to this case, the initials appearing on the plan review approval screen as having conducted the review and approving the plans did not correspond to the person who entered the approval disposition in the system. In fact, the audit trail reflected that the former CDD supervisor’s system identification was used to enter the system approval. This former CDD supervisor also conducted the application intake at the counter and was responsible for properly routing the project construction plans for appropriate review. Not only do these breakdowns in system control allow individuals that lack the necessary qualifications to inappropriately provide plan review approvals, the control weaknesses also make it difficult for management to quickly confirm that the proper review and approval processes had taken place.

Additionally, according to CDD management, while CDD does not have formal policies and procedures that delineate the specific reviews required for a permit based on the project type and scope of work, one essential aspect of the counter supervisor position and responsibilities include interpreting building codes, ordinance, and regulations and providing direction and training to counter staff regarding routing plans for review. Further, the former CDD supervisor held certificates related to building plans examiner, commercial building inspector, and zoning inspector. Combined, the former CDD supervisor should have reasonably known the required processes and permit type related to the plans submitted and was professionally responsible for ensuring that all proper plan review processes were completed prior to the permit being issued over-the-counter.

CDD management indicated that similar unilateral approval and circumvention issues were found in the five other examples provided to us. These project plans did not undergo all appropriate plan reviews and the permitting system indicated the plans were approved over-the-counter by the former CDD supervisor or other counter staff rather than being routed to any external entities for examination and approval. Further, the signature approval on the hard copy plans either reflected that of the former CDD supervisor or the signature approval was missing altogether. Not only did the former CDD supervisor avoid or circumvent the routing of plans to the various usual external entities, according to CDD management, the former CDD supervisor did not have the authority to approve project plans. Specifically, he was not employed with the City in a classification that included plan review and approval responsibilities and he lacked the more important and necessary practical plan review work experience and training required by the City.

Moreover, according to CDD management, these examples were accidentally discovered within one of many cubicles that function as disorganized holding areas for thousands of project plans until CDD can devote resources to resume a proper system to organize, store, and image project plans. As such, there is concern that many more permits could exist where plans did not undergo

proper reviews and were approved by individuals other than the qualified employees hired by the City to review and approve project plans.

According to CDD management, within the last several years, plans that counter staff route to CDD's Plan Review Unit are assigned in Accela to specific Plan Reviewers by the Supervising Engineer (Plan Review Manager) based on workload and expertise whereas, previously, Plan Reviewers simply picked up plans to review from a holding bin. While this change prevents CDD's plan reviewers from "cherry picking" plans to review, it does not address the system control weakness that plans may not be appropriately routed for review and all required review and inspection processes may not occur prior to permit issuance. Also, according to CDD management, within the last year, several other reviews have been incorporated within the permitting processes, including:

- During plan review activities, reviewing fee assessment processes input during the permit application processes for reasonableness to ensure all appropriate fees have been calculated and assessed; however, following plan review activities, any employee can easily modify and make additional adjustments rendering the plan reviewer's efforts futile.
- During processing activities, reviewing the results of the permit application intake process to ensure the correct permit type has been established, all required plan reviews have been identified and conducted, and all necessary inspection disciplines were identified; however, because the permit counter employees also handle processing activities, it is important that CDD ensure the review is conducted by someone other than the individual that initially targeted the plan review and inspections.

Overall, the lack of written policies and procedures, authoritative guidelines, supervisory oversight, and system controls created weaknesses within the internal control environment that allowed unilateral decision making and system circumventions.

We recommend that CDD management develop formal policies and procedures that cover all permitting processes, including points where supervisory review is conducted. Hold employees accountable for not following proper processes.

We recommend that CDD management insert automatic system process routing protocols that ensure all processes are completed prior to a permit being issued, including (but not limited to) ensuring construction plans have gone through all required reviews and approvals and all prerequisite permits have been properly obtained from other City entities.

We recommend that CDD management determine which system fields must be completed during permit application intake and program the system to not allow permits to proceed in the process without all required data inputs. Once project data is input and a permit application is accepted as complete, restrict the ability to make modifications to the permit record to managerial or supervisory staff.

We recommend that CDD management restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees given access to input approvals in the system have the necessary qualifications, training, and education to review and approve project plans. Also, only allow those employees with proper qualification to sign and approve the hard copy of project plans.

We recommend that CDD management ensure all professional approval stamps, such as engineering, plan review, etc. are secured and cannot be misused.

Permits Were Inappropriately Issued Without the Prerequisite Engineering Permits in Place

Within certain areas of the City, including the Natomas Basin, prior to CDD issuing a “stockpiling” permit⁹, Development Engineering (a unit within the City’s Department of Transportation) must issue the developer an urban development permit to allow grading activities and also collect certain fees, including Habitat Conservation Plan (HCP) Fees. Associated with the Natomas Landing project (one of our 14 projects and corresponding permits tested¹⁰), CDD inappropriately issued a permit, identified in Accela as a “stockpiling” permit, on February 14, 2008 even though Development Engineering neither issued the required urban development grading permit nor collected the required HCP fees. Further, urban development grading permits require that the City Council first approve the project and in this case, according to the CAO, a vote had not been taken prior to the issuance of the stockpile permit.

When it was discovered that City Council approval for the project had not been received, the urban development grading permit had not been issued, and HCP fees had not been collected, the City’s CAO met with various city staff to determine the amount of HCP fees due. Development Engineering calculated the fees to total more than \$1.5 million. On August 11, 2008, the CAO issued a memo instructing that either HCP fees due must be collected or an ordinance to deviate from the HCP requirements would have to be adopted by the City Council before the project could proceed. Yet, according to information within the Accela permitting system, on August 12, 2008, a CDD employee overrode the CAO’s opinion and extended the permit for an additional 180 days without the City Council’s approval of the project, Development Engineering issuance of a grading permit, or the collection of the HCP fees. Although stockpiling work began on August 13, 2008, a stop work order was issued the same day. Refer to Appendix B for a recap of testing results associated with the Natomas Landing project – Project #6.

In a similar but separate instance, CDD inappropriately issued a building permit on June 30, 2008 even though Development Engineering had neither issued a grading permit nor collected required HCP and (Willowcreek Assessment District) WAD fees as required prior to permit issuance. It appears that Development Engineering eventually issued the developer the required grading permit in September 2008 and collected a portion of the HCP fees in September 2008

⁹ A stockpiling permit is for the temporary storage of fill material for future use in a construction project.

¹⁰ Refer to detailed test methodology in the Objectives, Scope, and Methodology section of this report.

and the remainder in February 2009. Additionally, Development Engineering collected WAD fees in March 2009 prior to the issuance of the certificate of occupancy. Refer to Appendix B for a recap of testing results associated with the AM/PM Mini Market Camino Station project – Project #7.

According to CDD, the process flaw that allowed these permits to be issued before required engineering permits were issued was that CDD staff did not consider the special rules applying to certain areas of Natomas and CDD’s environmental planning group was not appropriately included in the process to issue this type of permit.

We recommend that CDD management create permitting process business mappings to ensure all required processes, participants, and stakeholders are identified and all corresponding roles are included and considered in the development of formal policies and procedures to ensure that key permitting process participants are not overlooked, such as CDD’s environmental planning group.

Permits were Issued After Permitting Conditions of Approval were Ignored

As described in Section 1, a significant system control weakness surrounds the Accela permitting system not preventing permits from being issued with unresolved “permitting conditions” and allowing the clearing or resolution of permitting conditions by any user rather than restricting the ability to those with appropriate authority. Specifically, permitting “conditions of approval”, intended to ensure that specific actions are conducted and met prior to plan approval or permit issuance or finalization, are easily ignored as Accela does not prevent permits from being issued with unresolved conditions and also allow the clearing or resolution of permitting conditions by any user rather than restricting the ability to those with appropriate authority. As a result, what could be a strong system control measure is wholly ineffective. We identified several instances where Accela allowed permitting conditions to be inappropriately cleared and allowed permits to be issued and finalized without conditions being properly addressed and resolved.

For example, in April 2009, CDD staff inappropriately cleared permitting conditions within the permitting system and allowed the construction of new residential homes in the Natomas Flood Zone in violation of the Federal Emergency Management Agency (FEMA) building ban within the project area that went into effect on December 8, 2008. Specifically, FEMA remapped the Flood Insurance Rate Maps for the Natomas Basin and under FEMA regulations and the City’s Floodplain Management Ordinance, all new construction or substantial improvements to structures in the Natomas Basin had to meet an elevation requirement of one foot above the 33-foot base flood elevation. Otherwise, building permits could not be issued and construction could not be conducted.

Between 2006 and 2008, 35 building permits were issued to construct new residential homes within a Natomas Central subdivision—all of which were appropriately issued just prior to the FEMA building ban. However, in 2009, the developer wanted to exchange the 35 original and appropriately issued permits for 35 new permits to build on completely different lots. Because City Code and building regulations do not allow permits to be transferred from one property to another, permit applications for 35 new permits were submitted in April 2009. However, despite

FEMA's building ban being in effect at this time, CDD staff ignored the FEMA related "conditions of approval" warning programmed into Accela and inappropriately created 35 new permit application records. Then, in direct violation of the FEMA building moratorium, CDD allowed construction to begin on the 35 new lots in late April 2009 via authorizations to start work—permits were not actually issued until September 22, 2009. In late September 2009, the City's Department of Utilities noticed building permits were issued and that projects were in various stages of construction in violation of the FEMA building ban. Construction was suspended on February 23, 2010 and, currently, most permits have expired. Nonetheless, the developer was able to sell nine of the homes between August and December 2009. The City of Sacramento provided FEMA with a corrective action plan on March 31, 2010 that describes immediate actions taken to prevent similar violations within the CDD such as restricting to certain staff the authority to remove a hold on a permit. The action plan also includes development site-specific remediation alternatives, such as purchasing, removing, relocating, elevating, and flood proofing the completed structures as well as having the home builder purchase private flood insurance for the occupied homes. The estimated costs to the City associated with the action plan mitigation alternatives range from just over \$500,000 to nearly \$4 million, which demonstrates the financial impact of the lack of controls that extend beyond just lost revenue. Refer to Appendix B for a recap of testing results associated with the Natomas Central Fee Issues Project – Project #12.

In another example, in August 2007, CDD staff inserted a permitting condition on a building permit associated the A-1 U-Stor storage facility stating the former CDD Director required the permittee to pay \$315,268 in previously voided Jacinto Creek planning area development impact fees prior to the finalization of the permit and issuance of the certificate of occupancy. However, the permitting condition was ignored, the permit was finalized, and the certificate of occupancy was issued on March 13, 2008—all without the outstanding fee issue being resolved. The development impact fees remain unpaid even though in November 2007 the City reduced the amount of fees due to \$235,780 after agreeing to remove channel improvement fees of nearly \$80,000. The City sued developer in 2008 and the developer filed bankruptcy. Refer to Appendix B for a recap of testing results associated with the A-1 U-Stor project – Project #2.

In another example, the developer of the Winterhaven Avenue residential community, an area also impacted by the FEMA building moratorium, applied for eleven residential permits in October 2008. On December 5, 2008, plans were approved and permits were ready to be issued. However, because the final map had not been approved to subdivide the parcels, permitting conditions were attached to the ten permits advising staff to not issue permits until approval of the final map. Additionally, the CAO advised CDD officials on December 5, 2008 that it was "unlawful to construct any building for sale on any proposed parcel until the final map is recorded." Nonetheless, against the advice of the CAO and ignoring permitting conditions set in Accela, CDD staff issued new residential building permits for eight of the lots the next day on December 6, 2008 (three permit applications expired)—just two days prior to the FEMA deadline stopping all building in Natomas. Although foundation inspections were conducted in June 2009, according to the CAO, in this case, the final map was never recorded and the property never subdivided. Refer to Appendix B for a recap of testing results associated with the Winterhaven project – Project #11.

In addition to permitting conditions being inappropriately cleared or ignored, we noted that required permitting conditions are not routinely established or attached to a permit record in the permitting system during the permit application intake process. For example, under City Code, before permits can be appropriately issued, applicants must provide proof that certain fees assessed and collected by external entities have been paid, such as school impact fees. As such, when permit applications are accepted, counter staff should insert all the associated proof of payment permitting conditions into Accela to notify CDD staff that verification of the payment of all appropriate fees due to external entities is required prior to permit issuance. However, through our testing, we did not see proof of payment regularly listed as a permitting condition.

Overall, there is a considerable lack of control related to ensuring project plans undergo the required plan review and approval processes. When any system user can insert project plan approvals in the permitting system, it makes it nearly impossible to determine which employee actually approved the hard copy project plans without going directly to the hard copy plan. Coupled with the disorganization of CDD's project plans, it is currently very difficult to determine if appropriate plan review and approvals occurred without significant case-by-case research and analysis. Additionally, while permitting conditions of approval could act as a strong control measure as mentioned previously, the current system renders the control useless as permitting conditions can be simply ignored or wrongly cleared.

We recommend that CDD management establish protocols to require that counter staff review permit applications and other appropriate notices for conditions of approval and proof of payment and input such stipulations into Accela. Employees must be trained to ensure all required conditions are appropriately entered and tracked.

We recommend that CDD management program the permitting system to ensure the acknowledgement and resolution of permitting conditions and require the signoff of such provisions by designated individuals before permits can be appropriately issued or finalized.

We recommend that CDD management limit approval or signoff authority to certain City employees and restrict access to the system for functions that would allow removal, resolution, or clearing of conditions of approval.

Work Allowed to Start on Projects Before Permits were Appropriately Issued

Despite clear mandates by the California Building Code that require a permit to be rightfully obtained before work can start on a project requiring a permit, CDD's weak internal control environment has allowed the circumvention of this requirement. Specifically, California Building Code Appendix Chapter 1 Section 105.1 states that before an owner or authorized agent can "construct, enlarge, alter, repair, move, demolish, or change the occupancy of a building or structure" they must first obtain a building permit unless the work is exempted by Section 105.2. Nonetheless, we found that CDD took advantage of the phased or partial permitting process to

inappropriately circumvent fee payment and plan review requirements associated with a main building permit. We also found that CDD routinely allowed work to start without a permit via the “authorization to start work process,” a process that the CAO recently declared to be inconsistent with City Code. Lastly, security gaps programmed into CDD’s permitting system has allowed inspection services to be rendered prior to the payment of permitting fees, and in some instances, prior to permits being issued.

Phased (Partial) Permits were Inappropriately Issued to Circumvent Required Full Fee Payments and Before Required Plans were Submitted

The California Building Standards Code requires a building permit to be issued before work starts and often a building permit can take considerable time to obtain due to the numerous required permitting and plan review processes. To address this condition, state building laws and City Code allow phased or partial permits to be issued on a project to expedite the start of construction while waiting for a project’s main permit to be approved and issued. However, we found that CDD has utilized this process to inappropriately delay the payment of required permitting fees. Also, phased permits have been issued before all of the necessary permit application and review steps have been completed. According to CDD management, the City’s interpretation of City Code related to issuing phased permits is somewhat rigid and requires considerable review effort before a phased permit can be issued—lessening the benefit of expediting the start of construction.

Specifically, to expedite or “fast track” construction activities, California Building Code Section 106.3.3 allows construction on specific aspects of a project to begin while waiting for the main permit to be approved and issued via the usage of a “phased” permit. According to California Building Code Section 106.3.3:

“A building official is authorized to issue a permit for the construction of foundations or any other part of a building or structure before the construction documents for the whole building or structure have been submitted, provided that adequate information and detailed statements have been filed complying with pertinent requirements of this code. The holder of such permit for the foundation or other parts of a building or structure shall proceed at the holder’s own risk with the building operation and without assurance that a permit for the entire structure will be granted.”

Although City Code does not speak directly to the issuance of phased permits, CDD’s interpretation of City Code Sections 15.08.060 and 15.08.070¹¹ regarding submission of plans and documents is that all project plans must be submitted and undergo at least the first cycle of review before a phased permit can be properly issued. Section 15.08.060 of the City Code states:

“In addition to the requirements of the 2007 California Building Standards Code for the submission of plans and specifications for checking, plans and specifications submitted shall include all work to

¹¹ City Code version in place at the time pertinent to areas reviewed- City Code was updated in June 2010 and code numbering may have changed.

be done including plumbing, mechanical and electrical work and shall contain all computation, details, systems, layouts, etc., that are necessary to assure that the proposed installations conform to the requirements of this code.”

Additionally, 15.08.070 of the City Code states that plans shall be reviewed and required fees paid before a permit can be issued:

“The application, plans, specifications, computations and other data filed by an applicant for permit shall be reviewed by the building official. Such plans may be reviewed by other departments of this jurisdiction to verify compliance with any applicable laws under their jurisdiction. If the building official finds that the work described in an application for a permit and the plans, specifications and other data filed therewith conform to the requirements of this code and other pertinent laws and ordinances, and that the required fees have been paid, he or she shall issue a permit therefore to the applicant.”

According to CDD management, the stated protocol to have a phased permit issued is that applicants must submit an entire permit application package related to the “main” or umbrella permit, including all plans for every scope of work related to the project. To get work started on a project, CDD could issue a “phased” permit for a specific scope of work provided all project plans had undergone at least the first cycle of plan review. For example, a phased permit to conduct grading work could be issued while the other project activities and plans were still being reviewed if the grading plans had been reviewed and there were no reviewer comments that would require revision. Further, CDD only collects a fraction of the permitting fees, including portions of the technology fee, building permit fee, and plan review fee, when a phased permit is issued with the bulk of permitting fees due upon the issuance of the main permit. Additionally, according to CDD management, once the main permit is issued: 1). No additional phased permits can be issued on a project and 2). Inspection activities related to the existing phased permits must be resolved and closed. Moreover, if a building permit is ready to be issued, phased permits should not be issued to simply avoid paying the entire outstanding balance of permitting fees that are due at permit issuance. While the phased or partial permit process is intended to expedite the appropriate start of construction, we found that CDD has utilized this process to inappropriately delay the payment of required permitting fees and phased permits have been issued before all of the necessary permit application and review steps have been completed.

Partial Permits were Inappropriately Issued to Delay or Avoid Paying Full Permitting Fees

While the phased permit process is intended to allow a project to progress, we noted several instances where partial permits were issued even though the project’s main permit was ready and available for issuance—apparently an effort to avoid paying all the permitting fees due. For example, according to the administrator of the City’s “official” fee deferral program, the developer of two commercial restaurant projects—Sonic and TGIF—was denied participation in the program—a program established by the City Council to formally defer certain development impact fees to reduce the financial burden on building projects and to act as an economic stimulus strategy for the City. To participate in the official fee deferral program, the City Attorney’s and Treasurer’s Offices must approve a security assessment regarding the risk of an

applicant not repaying fees approved to be deferred, and in this case, the developer was denied participation in the program. Nonetheless, CDD essentially informally deferred the vast majority of the developer's permitting fees anyway by allowing the developer to pay significantly less in permitting fees than required to get work started on the projects through the improper use of the partial permit process.

Specifically, in January 2008, CDD inappropriately issued the developer two significantly less costly "foundation-only" partial permits for the two projects even though the more expensive main building permits had long been ready to be finalized—nearly 18 months prior in July and August 2006. Specifically, the developer was only charged approximately \$2,000 combined for the two foundation-only permits to start construction rather than the required payment of approximately \$600,000 in outstanding permitting fees to have the main building permits properly issued. This action was in conflict with CDD management's statement that phased permits should not be issued when main permits are ready to be issued. Further, the partial permits were issued and work was allowed to start even though the developer already owed approximately \$44,500 in preliminary plan review and technology fees on the main permits—fees that were due no matter if permits were issued or not. Then, in May 2008, CDD authorized additional work to be conducted without permits—via the "authorization to start work" process discussed later in this section—at a minimal cost of \$700 combined. According to the CAO, CDD posted stop work notices for both projects in August 2008 when it became clear that the developer had completed substantial work beyond the scope of the authorizations and was having financial difficulties that would impact the ability to pay the outstanding permitting fees. In the end, the developer was allowed to circumvent proper permitting and fee assessment processes and was able to pay considerably less than required to start construction. If CDD had appropriately required the two main building permits to be properly issued to start construction rather than allowing less-costly phased permits to be issued instead, the City would have received more than \$600,000 in permitting fees between the two projects. However, because the main permits were never issued, CDD only received a little more than \$13,000 in preliminary application fees and partial permit fees as the bulk of permitting fees. In summary, the partial permits should not have been issued and associated fees not collected; rather, the CDD should have issued main building permits and collected the corresponding fees. In November 2008, the developer filed for bankruptcy and the project site is impacted by the FEMA building moratorium in the Natomas basin. Refer to Appendix B for a recap of testing results associated with the Sonic-TGIF project – Project #4.

In another instance, the residential developer of the Villa Terrassa community was inappropriately issued 23 "foundation-only" partial permits in July 2009 although 23 full building permits were ready to be issued. It is unclear why the CDD allowed this to occur but in actuality it allowed the developer to avoid or delay paying all of the permitting fees required at the time of permit issuance of the main building permits. For example, on just one of the 23 lots, the developer only paid \$1,692 in fees associated with the foundation-only partial permit rather than nearly \$16,000 in fees that would have been due if the full building permit had been issued rather than a partial permit. In total, the developer paid \$28,000 in fees associated with the 23 foundation-only permits rather than hundreds of thousands in permitting fees that would have been due had the 23 main building permits been issued. Subsequently, according to CDD management, the City opted to "start over" by issuing 23 new and separate building permits in

October 2009 with all of the required fees assessed, for the most part—the developer paid more than \$374,000 in fees prior to the issuance of the new permits. Refer to Appendix B for a recap of testing results associated with the Villa Terrassa project – Project #9.

In each of these examples discussed in this section, because the main permits were ready to be issued, these circumstances did not meet the reasonable usage of the partial permit process and conflicted with the Building Official’s statement that partial permits should never be issued if the main permit on a project is ready to be issued. Thus, CDD had no basis or authority to issue foundation-only partial permits and should have required the applicants to pay the appropriate fees for the issuance of the main permits. The partial permits should not have been issued and associated fees not collected; rather, the CDD should have issued main building permits and collected permitting fees corresponding to the main building permits. Consequently, CDD inappropriately and informally deferred thousands of dollars in fee revenue that the developers owed to allow commencement of work and ultimately the developers paid the City significantly less in permitting fees than would have been owed if the correct fees had been charged to issue the appropriate permits.

To ensure the City appropriately receives permitting fee revenues, the City recently changed the City Code effective June 24, 2010. Specifically, as described, it has been the stated practice of CDD to only collect a few fees when a phased permit was issued with the remainder of the permitting fees collected at the time the associated main permit was issued. According to CDD management, the practice going forward will be to collect all building permitting fees due on the main permit upon issuance of the first phased permit plus an additional phased permit fee (20 percent of the total plan review and building permit due on the main).

Partial Permits were Inappropriately Issued Prior to the Submission of the Main Permit Application and Building Plans

As previously discussed, the California Building Code allows the issuance of “phased” or partial permits so that certain aspects of project construction can begin while the main permit commences through the approval and issuance process. Further, CDD’s interpretation of City Code requirements to issue phased permits is fairly rigid in that all required project plans and documents related to the main permit must be completely submitted and must undergo the first cycle of review (which could involve multiple city departments) before a phased permit can be issued. The reasoning is that plan reviewers must be able to review all aspects of a project before a specific scope of work can be approved and a phased permit issued. For example, before the plans and scope of work related to pouring a foundation can be approved, plans in other areas of the project that could impact the foundation of the building have to be reviewed, such as the structural design of the building, to know whether the foundation plans are sufficient to support the building structure.

Nonetheless, despite CDD management’s stated protocol that the main permit application must be submitted and all associated project plans must undergo first round of review, we noted that the system allowed phased permits to be issued prior to the submission of the main permit application and construction allowed to start under a phased permit before the first cycle of plan review was complete on the main permit. For example, the large commercial high-rise developer of the SACA Towers was issued several individual phased permits between May and July 2006

related to foundation, shoring, excavation, and grading work for the construction of a new commercial building but the main permit application and corresponding plans for the main permit to construct the new commercial building was not submitted until September 2006. Not only were the phased permits issued outside of CDD management's stated protocol, the risk that critical aspects of plan review were missed was increased as the phased permits were issued before the main permit application and plans were submitted. Refer to Appendix B for a recap of testing results of permits associated with the SACA towers project – Project #1.

Because of the interpretation of City Code that all plans must be submitted and undergo the first cycle of review can involve lengthy reviews by multiple city departments and result in significant delays on projects while waiting for the plan review process, the City recently changed the City Code effective June 24, 2010. According to CDD management, the revised City Code provides the Building Official with greater ability to implement policies and procedures. As such, one new process will allow phased permits to be issued upon plan approval of a specific scope of work without the applicant having to wait for project plans that are not related to the scope of work of the phased permit to undergo the first cycle of reviews.

We recommend within policies and procedures, CDD management should clarify when phased or partial permits can be utilized and ensure proper protocol is followed. Particularly, eliminate the ability to utilize phased permits when main permits are ready for issuance to simply avoid paying required permitting fees.

Permitting System Does Not Link Together Various Related Permit Documents

Another significant problem related to the Accela permitting system relates to tracking and management of partial permits. Within its current operations, the permitting system does not link together or track all permit documents associated with a single specific project, particularly those projects where multiple phased or partial permits were issued. Because each phased permit has a unique identifier that is not associated with a project or main permit, determining all associated activities for a project related to permits is difficult. The system has not been configured to conjoin or link various partial permits either together or to a primary permit. Because there is no linkage in the system or with the permitting process to identify all permits that could potentially be associated with a project, phased permits were often not tracked or finalized as the main focus shifts to the primary permit once it is issued and phased permits could be issued before all necessary information was obtained on the main permit. With the focus on main permitting activities, closing out and ensuring the completion of activities under phased permits did not always occur.

According to CDD management, a new process has been developed to run Accela reports on expired permits to ensure that all permits appropriately expire or are finalized, including phased permits. However, this will not ensure that requirements relative to a phased permit are formally completed before the main permit is finalized; rather, such a process will just ensure that the status of all phased permits is eventually addressed.

We recommend that CDD management investigate the feasibility within the permitting system to link together related permit documents. Otherwise, develop an alternative process that will ensure all requirements of all permits associated with a project have been formally and appropriately completed and resolved prior to providing final approval of a project.

“Authorization to Start Work” Process Inappropriately Utilized to Allow Construction to Begin Prior to Permit Issuance

Our review of CDD’s processes also revealed that CDD regularly allowed construction to begin before a permit had been officially issued via the “Authorization to Start Work¹²” process contrary to provisions of Appendix Chapter 1 Section 105.1 of the California Building Standards Code that require a building permit to be obtained before work starts. As described earlier, according to CDD management’s interpretation of City Code, before a phased permit can be issued, all required plans must be submitted and undergo the first cycle of review, which could involve lengthy reviews by multiple city departments and result in significant delays on projects. As a result, the City inappropriately allowed permit applicants to proceed on specific work via the authorization to work process before plans were reviewed and approved at the “applicant’s own risk” and without the assurance that a permit for the project would ultimately be issued. The authorization to work process, handled independently by counter staff and is only good for 30 days, requires the applicant to sign a liability release form and pay a \$350 fee.

CDD management states that the start work authorization has been part of the City Council approved “Fees and Charges Reports” since at least the early 1990s and only recently have questions surfaced regarding this practice. For example, the Facility Permit Program (FPP), a “fast track” program, utilized this process to start work on approximately 1,500 projects before permits were issued and all permitting fees paid. According to CDD management, the FPP program was limited to certain types of projects such as the frequent tenant improvements for interior spaces of commercial or industrial buildings. CDD management suggests that utilizing the authorization to start work process on these the projects did not compromise public safety because full plans were submitted before any work began. However, we found the authorization to start work process was not limited to the FPP program and was utilized more broadly to start work before permits were issued and plans were submitted and reviewed—from large new commercial construction projects to new residential homes. For example, the developer of the SACA towers commercial high-rise project submitted a permit application in May 2006 to install production piles for a new commercial building and was allowed to start construction via the authorization to start work process—the permit was never issued and associated preliminary permitting fees due at permit application were not paid until August 2007. Refer to Appendix B for a recap of testing results of permits associated with the SACA towers project – Project #1.

In response to the questions surrounding the authorization to work processes that began to surface in October 2009, the CAO issued an opinion that this informal process is inconsistent with City Code as it did not involve the issuance of an actual permit document required by the

¹² Construction is typically deemed to have begun with the pouring of a foundation.

Sacramento City Code. The City terminated the authorization to start work process on November 3, 2009 and subsequently, work is no longer allowed to begin under any circumstances (except approved emergency situations) until either a phased or full permit has been issued.

We recommend that CDD management ensure process policies and system controls are developed and maintained that require building permits to be properly issued before any construction work begins.

Inspection Services were Rendered Prior to Fees Paid or Permits Issued

In conjunction with work allowed to start prematurely before permits were appropriately issued, system security gaps unreasonably allowed inspections to be rendered and permits finalized before all required fees were paid. Typically, inspections can only commence after a permit is issued and include separate disciplines, such as: life safety, plumbing/mechanical, electrical, fire, development engineering, utilities, and air quality.

Before CDD's automated Interactive Voice Response (IVR) inspection scheduling system was implemented in 2006, inspections were manually scheduled through the CDD's call center and could be scheduled to occur on projects where permits had not been issued or on permits with balances due. With the implementation of the IVR system, built-in controls were programmed in the system to guard against inspection services being provided before the City receives payment and permits being finalized with outstanding balances owed to the City. Normally CDD's IVR system does not allow inspections to be scheduled on permits that have not been issued or on permits that reflect an outstanding balance (such as reinspection fees) because the scheduling system checks the Accela system for permit status and outstanding balances prior to scheduling any inspections. However, we found security gaps were intentionally programmed into the system at CDD Management's direction that resulted in inspections being conducted when outstanding balances were owed and before permits were issued.

According to CDD, one security gap was created to accommodate the FPP. Specifically, this program was designed to facilitate rapid approval for reoccurring tenant alterations and improvements of commercial and industrial facilities, such as a large shopping center with multiple tenants. The FPP program utilizes a single team performing both plan review and inspections, which allows work to begin at the time of plan submittal and inspections are conducted concurrent with plan review. Participants pay an annual registration fee and receive monthly billings from CDD for inspection and plan review services rendered. Due to the nature of the program, participants often owed the City money at any given time because of timing differences between when CDD services were rendered and monthly billings were sent, which created difficulties scheduling inspections. To resolve the difficulties, CDD made a decision to no longer have the IVR system check with the Accela system to determine if outstanding balances were due except when scheduling the final inspection—in other words, IVR did not consider whether balances were due when scheduling inspections other than the final inspection. As a result of the intentional security gap, inspections, other than the final, could be scheduled by any permittee that owed the City money and the City would provide additional inspection services before being repaid for past services rendered. If a project folded prior to the final

inspection, this security gap could result in the City not being repaid for inspection services rendered before payment being received.

Another security gap was created to allow inspections to be scheduled before permits were issued to accommodate the authorization to start work process discussed earlier. Specifically, because the authorization to start work process allowed work to start before permits were issued; the system was modified to allow inspections to be scheduled before permits were issued. Additionally, according to individuals we spoke with, this security gap also allowed “courtesy inspections” to be scheduled, which were generally provided at no charge to the permittee. For example, a residential developer applied for 23 building permits in the spring and summer of 2009 to construct new homes in the Villa Terrassa community. While the building permits were never issued and more than \$12,000 in required preliminary fees were never collected, CDD still scheduled and conducted inspections on the 23 lots between June and August 2009—between 2 and 13 inspections were conducted on each lot and inspection fees were never paid. Thus, the City not only ignored rules for collecting all fees up front, but provided inspection services before permits were properly issued. Refer to Appendix B for a recap of testing results of permits associated with the Villa Terrassa project – Project #9.

Moreover, a more concerning security gap was created related to projects associated with the City’s seldom used formal deferral program that allowed final inspections to be conducted and permits finalized before payment was received even when outstanding balances were owed to the City. Specifically, in November 2008, the Sacramento City Council approved the establishment of a formal Development Impact Fee Deferral program to reduce the financial burden on building projects and to act as an economic stimulus strategy for the City. As such, the new ordinance allowed developers to defer payment of specified city fees in accordance with specific criteria and conditions. The fees that could be deferred included:

- Transportation Impact Fees
- Geographic-Specific Impact Fees (Jacinto, Natomas, Willowcreek)
- Park Development Impact Fees
- Construction Excise Tax
- Water and Sewer Development Fees

However, developers that wanted to participate in the program had to meet certain conditions, including having a project within the City, ensuring all taxes and assessments on the project site were current, and demonstrating low risk of non-repayment of deferred fees. The developer had to sign an agreement with the CAO and the City Manager had to provide final approval of participation in the program. Deferred fees were due either upon issuance of a certificate of occupancy (or temporary certificate of occupancy), when the City conducts the final inspection of the project, or no later than three years after the effective date of the agreement. According to CDD’s fee deferral program administrator, since the program began only seven participants were approved to defer fees (several had fee deferrals on multiple projects) through the City’s formal fee deferral process. Those seven participants and corresponding fee amounts deferred and repaid as of May 2010 are reflected on Table 1. (Participants of the City’s fee deferral program are associated with permit testing of Project #14 – East Sacramento Fee Deferral Agreement reflected in Appendix B of this report.)

Table 1. List of Fee Deferral Program Participants, Fee Amounts Deferred and Repaid as of May 2010

Fee Deferral Program Participants	Fees Deferred	Repayments
K Hovnanian	\$126,800.95	\$126,800.95
Granite Bay (RB)	\$131,749.06	\$92,351.58
Taylor-Morrison	\$104,329.08	\$43,470.45
Kare4Kids	\$499,414.84	\$0.00
Wong Family	\$328,749.50	\$328,749.50
Cunningham	\$15,674.42	\$0.00
Young Clifford	\$17,686.28	\$0.00
Totals	\$1,224,404.13	\$591,372.48

According to CDD, a security gap was created in the permitting system, Accela, to accommodate participants of the City’s official fee deferral program. Because Accela was programmed to not issue permits or schedule inspections if any fees are shown as outstanding, deferral program participants had difficulties getting permits issued and inspections scheduled because their permit records reflected outstanding balances related to the deferred impact fees—fees not due until the permit is near finalization. To resolve the difficulty issuing permits to participants of the deferral program, CDD management made a decision to temporarily enter fake payments into Accela (via the payment method of “billed”) in the amounts of the approved deferred fees so that the system would reflect a zero outstanding balance, permits could be issued, and inspections scheduled. As real payments were made on the deferred fees, the fake payment entries would be voided and replaced by actual payments. As a result of this intentional security gap and CDD’s failure to track payments and project activities on permits with deferred fees, final inspections could be scheduled and permits finalized before actual payments related to the deferred impact fees were received. While most of the permits associated with the deferral program participants are still active and deferred fees not yet due, at least one of the seven participants received final inspection approvals before more than \$15,000 in deferred fees owed to the City were paid and has since refused to pay. The deferral program expired on December 31, 2009 with no new deferrals authorized after that date.

We recommend that CDD management ensure process policies and system controls are developed and maintained that require building permits to be properly issued before inspection services are rendered, including removing related existing system security gaps.

We recommend immediately prior to permit issuance, CDD management should establish a formal, final review process of permit applications to ensure all required reviews and approvals have occurred and all fees have been assessed and paid prior to permit issuance. Assign the responsibility to conduct the final review to specific individuals that have sufficient training and ensure these employees provide their signatures acknowledging their acceptance of the processes undertaken and granting approval for the permit to be issued.

We recommend CDD management develop regular “spot check” processes where a sample of permits are selected and reviewed to ensure all required processes were appropriately completed. Determine any training needs or increase in frequency of spot checks based on the outcome of the review process.

Overall, as described throughout this section of the report, CDD’s control environment over its building permitting processes is weak, which allowed building permits to be inappropriately issued before all necessary permitting processes were completed and work to start before all appropriate permits were issued and fees paid. The lack of written policies and procedures, guidelines, protocols, customary supervisory oversight, and system controls left the process vulnerable to the system circumventions and stated protocols.

Recommendations:

To improve the strength of its business cycles and protect against unilateral decision making and system circumventions, City leaders and CDD executive management should:

15. Develop formal policies and procedures that cover all permitting processes, including points where supervisory review is conducted. Hold employees accountable for not following proper processes.
16. Insert automatic system process routing protocols that ensure all processes are complete prior to a permit being issued, including (but not limited to) ensuring construction plans have gone through all required reviews and approvals and all prerequisite permits have been properly obtained from other City entities.
17. Determine which system fields must be completed during permit application intake and program the system to not allow permits to proceed in the process without all required data inputs. Once project data is input and a permit application is accepted as complete, restrict the ability to make modifications to the permit record to managerial or supervisory staff.
18. Restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees given access to input approvals in the system have the necessary qualifications, training, and education to review and approve project plans. Also, only allow those employees with proper qualification to sign and approve the hard copy of project plans.

19. Ensure all professional approval stamps, such as engineering, plan review, etc., are secured and cannot be misused.
20. Create permitting process business mappings to ensure all required processes, participants, and stakeholders are identified and all corresponding roles are included and considered in the development of formal policies and procedures to ensure that key permitting process participants are not overlooked, such as CDD's environmental planning group.
21. Establish protocols to require that counter staff review permit applications and other appropriate notices for conditions of approval and proof of payment and input such stipulations into Accela. Employees must be trained to ensure all required conditions are appropriately entered and tracked.
22. Program the permitting system to ensure the acknowledgement and resolution of permitting conditions and require the signoff of such provisions by designated individuals before permits can be appropriately issued or finalized.
23. Limit approval or signoff authority to certain city employees and restrict access to the system for functions that would allow removal, resolution, or clearing of conditions of approval.
24. Within policies and procedures, clarify when phased or partial permits can be utilized and ensure proper protocol is followed. Particularly, eliminate the ability to utilize phased permits when main permits are ready for issuance to simply avoid paying required permitting fees.
25. Investigate the feasibility within the permitting system to link together related permit documents. Otherwise, develop an alternative process that will ensure all requirements of all permits associated with a project have been formally and appropriately completed and resolved prior to providing final approval of a project.
26. Ensure process policies and system controls are developed and maintained that require permits to be properly issued before any construction work begins.
27. Ensure process policies and system controls are developed and maintained that require permits to be properly issued before inspection services are rendered, including removing related existing system security gaps.
28. Immediately prior to permit issuance, establish a formal, final review process of permit applications to ensure all required reviews and approvals have occurred and all fees have been assessed and paid prior to permit issuance. Assign the responsibility to conduct the final review to specific individuals that have sufficient training and ensure these employees provide their signatures acknowledging their acceptance of the processes undertaken and granting approval for the permit to be issued.
29. Develop regular "spot check" processes where a sample of permits are selected and reviewed to ensure all required processes were appropriately completed. Determine any training needs or increase in frequency of spot checks based on the outcome of the review process.
30. Require that any deviations from regular permitting processes defined through formal policies and procedures are formally approved and documented by CDD management and sufficient and detailed justification for decisions and approvals is maintained.

Section 3: City May Not Have Received Sufficient Revenues Due To Fee Assessment Processes that Lack Sufficient Controls and are Easy to Circumvent

According to CDD, the department is obligated to collect all appropriate and required permitting fees prior to issuance of a building permit, with the exception of the City's formal Fee Deferral Program where certain development impact fees are authorized to be collected just prior to finalizing a permit. Also, according to the CAO, the City Council has not delegated any employee of the City the authority to deviate from collecting required permitting fees established by City Code and state law. Certain system, business, and regulatory processes include key control points, such as:

- Automatically assessing and calculating permitting fees.
- Requiring all preliminary permitting fees to be paid prior to conducting plan review.
- Requiring all permitting fees to be paid prior to permits being issued or scheduling inspections.

However, we found that these key controls were easily circumvented. Additionally, policies, procedures, and protocols do not require or reflect independent supervisory reviews of CDD's various permitting and fee assessment processes for approval or to determine accuracy or appropriateness. As a result, the City cannot be assured it has received all required permitting revenues. In fact, our testing of 509 individual permits identified that the City did not receive at least \$2.3 million in required permitting fees.

Fees were Inappropriately Modified and Permits were Issued and/or Finalized Prior to the City Receiving All Required Permitting Fees

In addition to the lack of formal and comprehensive fee manuals as described in Section 1, another control weakness is the fact that permitting fees are not always automatically assessed by CDD's permitting system and fees can be easily modified by any system user. Even though permitting fees are not always automatically assessed and many fees have to be manually inserted, neither the preliminary fee assessment nor the final invoice undergo a supervisory review to ensure the amounts assessed and invoiced were appropriate and accurate.

Due to the lack of fee assessment manuals and policies, system controls, and supervisory review, we found several instances where permitting fees were not assessed correctly or were inappropriately voided. As a result, permits were issued or finalized prior to the City receiving all required permitting fees even though City Code Section 15.08.070¹³ requires all permitting fees be paid prior to the issuance of a building permit:

“...If the building official finds...that the required fees have been paid, he or she shall issue a permit therefore to the applicant.”

¹³ City Code version in place at the time pertinent to areas reviewed- City Code was updated in June 2010 and code numbering may have changed.

Additionally, according to Building Code Appendix Chapter 1 Section 108.1:

“A permit shall not be valid until the fees prescribed by law have been paid...”

The City of Sacramento sets their permitting fees via their “Fees and Charges Reports” that are approved by City Council resolution, typically annually through the budget process. In addition to the building permit fee that generally covers the cost of inspections, the City assesses a number of other fees and taxes that apply to almost all building permits, such as plan review fee, technology fee, general plan fee, and City business operation tax as well as geographical-related fees for building within specific areas of the City. Additionally, CDD collects fees during the permitting process that are not set by the City, such as the Strong Motion Instrumentation Fee set by state statute and transportation and sewer fees that are set by regional measures. While there are more than 150 potential fees and taxes that can be assessed on a building permit depending on the project type and scope of work, there are certain common fees and taxes assessed and collected by CDD that apply to most commercial and/or residential building permits—these common fees are reflected on Table 2¹⁴.

Table 2. Common Permitting Fees and Taxes Assessed and Collected by CDD

Building Permit Fee	City Business Tax	Fire Department Inspection Fee
Plan Check Fee	Construction Excise Tax	Landscape Review Fees
Plan Revision Fee	Development Engineering Review Deposit	Regional Sanitation Fees (residential only)
General Plan Fee	Green Fee	Residential Construction Tax
Sign Permit Fee	Fire Department Review Deposit	Strong Motion Instrumentation Fee
Technology Fee	Technician Hourly Fee	Utilities Review Deposit

The method of calculation can vary: some fees are based on flat rates while others are calculated based on variables such as square footage or project valuation, as shown on Table 3.

¹⁴ There are also certain permitting fees that are not assessed or collected by CDD, such as school impact fees and regional sanitation fees (commercial projects) that must be paid by the applicant directly to the appropriate agency prior to permit issuance.

Table 3. List of Common Fee Descriptions and Methods of Fee Calculation

Fee Description	Method of Fee Calculation
Building Permit	Project Valuation
Plan Check	Project Valuation
City Business Tax	Project Valuation
General Plan Fee	Project Valuation
Green Fee	Project Valuation
Technology Fee	Project Valuation
Construction Excise Tax	Project Valuation Less Shell Reduction
Strong Motion Instrumentation Fee	Project Valuation Less Shell Reduction
Development Engineering Review Deposit and Fee	\$300 initial deposit plus \$140 hourly rate
Fire Department Review Deposit and Fee	\$140 initial deposit plus \$140 hourly rate
Fire Department Inspection Fee	\$.038 per square foot
Utilities Review Deposit and Fee	\$300 initial deposit plus \$140 hourly rate
Technician Hourly Fee	\$140 hourly rate

During the initial permit application intake process, counter staff preliminarily determine which permitting fees apply and calculate the amounts to be collected by CDD. According to CDD, the preliminary fee assessment includes certain initial fees that are invoiced and due at the time of permit application submission, including plan review fees and deposits, counter staff (technician) hourly fees, and technology fees. According to City Code Section 15.08.100¹³, plan review fees are intended to cover CDD’s costs to conduct plan review and must be paid at the time of application submittal and before plans are routed to plan review. All other permitting fees, including taxes and impact fees, are finalized, invoiced, and payable when a permit is issued.

To arrive at the amount of permitting fees due, the Accela permitting system is used to automatically calculate some fees, such as building permits and plan review fees that are based on specific project information input into the system, such as project type, job valuation estimate, square footage, project location, etc. While Accela can automatically determine many fees, there are various others that CDD staff or other stakeholder departments must add, such as hourly plan review fees, landscape review fees, reinspection fees, and utilities fees. Within CDD, staff must remember or be taught when to include these other fees as no checklist guide or system will prompt such addition. Moreover, it is important to note that any fee that is automatically generated by the Accela system can be manually overridden to insert any desired amount.

Additionally, in the days, weeks, or months between when permitting fees are preliminarily assessed by permit counter staff and when all outstanding permitting fees are finalized at permit issuance, any of the fees due can be easily modified and voided by nearly any user with access to the system without justification, approval, or oversight. At the point when permit counter staff finalize the fees due and prepare the invoice reflecting all outstanding permitting fees, any changes made to the preliminary fee assessments, including amendments resulting from plan reviewers' evaluation of the application intake process, could be noticed and reviewed for reasonableness. However, according to CDD staff, changes are generally accepted because permit counter staff often do not know the underlying rationale for modifications and generally assume changes are appropriate, particularly since other City departments involved in permitting processes, such as Code Enforcement, Utilities, Development Engineering, and the Fire Department also make such adjustments. In addition, even though permitting fees are not always automatically calculated and many are subject to personal knowledge, skill, and memory, neither the preliminary fee assessment nor the final invoice undergo a supervisory review to ensure the amounts assessed and invoiced were appropriate and accurate. The combination of this wide array of processes and system weaknesses renders the permit fee collection system highly vulnerable to inappropriate manipulation, omission, error, and abuse.

These process and system control weaknesses can be illustrated in the several instances where permits were issued or finalized prior to the City receiving all required permitting fees. For example, a commercial building permit was issued on August 8, 2007 to construct the A-1 U-Stor storage building. Before permit issuance, the developer should have paid approximately \$352,000 in outstanding permitting fees, which included development impact fees. Although initially assessed, we found \$315,268 in Jacinto Creek planning area development impact fees were inappropriately voided in the system to circumvent the system control that prevents permits from being issued before all invoiced fees are paid. This action effectively and inappropriately reduced the amount of total permitting fees required to be remitted for permit issuance from nearly \$352,000 to approximately \$35,000, the amount paid by the developer. Subsequently, in November 2007, the City reevaluated the permit and approved a reduction in the amount of impact fees due from the previously voided \$315,268 to \$235,780 after removing channel improvement fees of nearly \$80,000—this type of reduction is allowable per City Code and documentation was present to support the reduction. Unfortunately, a permitting condition requiring the development impact fees be paid prior to the final inspection was ignored as the permit was finalized and a certificate of occupancy was issued in March 2008 without payment of the voided fees. The City sued the developer in 2008 and the developer filed bankruptcy. Refer to Appendix B for a recap of testing results of permits associated with the A-1 U-Stor project – Project #2.

In addition to the control weakness discussed in Section 1 associated with the Natomas Central project where 35 permits were inappropriately issued in violation of the federal building ban, additional control breakdowns occurred with this project as many of the associated permitting fees were assessed incorrectly or were not assessed at all. Specifically, in 2009, the developer wanted to build on 35 different lots and was issued 35 new building permits in September 2009. While there is not much consistency in treatment from permit to permit, it appears that CDD used the 2006 fee schedules for assessing many of the permitting fees—essentially using the fee structures in place when the 35 original permits were first issued. In addition, not only were

outdated schedules used for fees applied, new fees such as the Green Building, Sacramento Area Flood Control, and Sacramento Transportation Mitigation fees were not assessed for most of the 35 new permits—fees that were not in place in 2006 but were in place in 2009. Additionally, several development impact fees, such as the Park Development Impact Fees and North Natomas Development Fees, were based on 2006 fee amount structures. For example, one of the 35 permits was assessed about \$9,500 in North Natomas development fees but should have been assessed more than \$14,000. In total, not only were the 2009 building permits issued in violation of a federal building ban, the 35 new permits should have been assessed at least \$1.096 million but were only assessed \$770,000—a difference of more than \$325,000. Refer to Appendix B for a recap of testing results of permits associated with the Natomas Central Fee Issues Project – Project #12.

We recommend CDD management ensure fees are finalized and approved by staff with sufficient training and experience and require signature approval and sign-off acknowledging acceptance of final fee assessment calculations. Once fee assessments are finalized, restrict the ability to make modifications to the fee assessment to managerial staff. Ensure sufficient support and justification for any fee assessment change is maintained.

We recommend CDD management develop formal and detailed policies to guide fee assessment processes, including the proper establishment of job valuation figures on a project as well as points in the process where supervisory review is conducted. Hold employees accountable for not following proper processes.

We recommend CDD management insert automatic system calculation of all permitting fees to reduce the risk that required fees are missed as well as the ability of employees to disregard or circumvent proper fee assessment processes.

We recommend CDD management establish strong system controls so that only employees with sufficient managerial authority have the ability to make critical changes in the permitting system, including changes to fee assessments (voids, deletions, etc.) and to key aspects of permit records such as addresses, parcel numbers, etc.

Project Valuations are not Always Submitted, Supported, or Compliant with Stated Protocol

CDD utilizes project valuation as a driver to calculate several of its key permitting fees, which we found to be a consistent practice regionally. Specifically, in addition to the City of Sacramento, we reviewed ten other regional building departments¹⁵ and found that the majority (nine) utilize job valuation as part of their process to calculate building permitting fees and most

¹⁵ We reviewed the following building departments: Bakersfield, Corona, Fresno, Los Angeles, Oakland, Riverside, Sacramento County, San Diego, San Francisco, and San Jose.

relied solely on job valuation while a few also considered other factors, such as project square footage. While utilizing job valuation appears to be an industry accepted practice, we found that CDD did not always comply with its stated protocol to utilize the highest job valuation figure available to calculate key permitting fees, which resulted in lower fees assessed and collected as well as potentially unfair practices among individuals seeking building permits. Additionally, applicants do not always submit job valuation estimates at the time of permit application submittal, and when valuations are provided, the City does not require any documentation to support valuation figures provided—even when the information supplied appears questionable.

Project Valuations Do Not Always Comply with CDD's Stated Protocol

While fee calculations based on flat or hourly rates or project square footage are generally straight forward, CDD's key permitting fees and taxes are based on project valuation, which is typically defined as the amount that a licensed contractor would charge for labor and materials at fair market value. When project valuation is the method of fee calculation, CDD first establishes the total value of a project in order to estimate the amount of permitting fees required to cover the cost of services, such as inspections and plan reviews. There are two ways CDD derives project valuation:

- International Code Council (ICC)'s (formerly the International Council of Building Officials) established Building Valuation Data (BVD) tables; and,
- Contractor-provided total job valuation figures.

The ICC's BVD is commonly utilized by building departments around the country to establish the project value of new construction. In conjunction with the International Building Code (IBC), the BVD provides the average construction costs per square foot with adjustments for specific jurisdictions and is updated every six months. The City of Sacramento has utilized the April 2002 BVD valuation tables since July 2006 and only recently updated its 2002 tables to conform to the most recently published BVD (2010). According to the ICC, the square footage construction cost figures are broken down by the type of construction (i.e. unprotected wood frames and fire resistive non-combustible structures) and building usage (i.e. professional office buildings and residential occupancies) to ensure more expensive construction is assessed greater permit fees than less expensive construction. The permitting system automatically calculates the BVD job valuation based on specific project information input at the time of permit application submission.

When selecting the valuation method in which to establish a project valuation, CDD's long-standing policy has been to use the *higher* of the BVD and applicant-provided job value when the project is new construction. For projects that are not new construction, such as remodels or additions, job valuations are based on information provided by the applicant and not the BVD because the scope of alterations and repairs to an existing building can vary greatly. According to CDD, for projects that are not new construction, the BVD valuation figure is used as a "reasonability check." Once the total value of the project is established, the permitting system calculates the building permit and plan check fees utilizing a valuation-based fee schedule. For example, a job valuation of between \$99,000 and \$99,999.99 would result in a building permit fee of \$1,078 and a CDD plan review fee of \$866 (commercial) or \$453 (residential). The Technology Surcharge Fee is eight percent of the total of building permit and plan review fees

while the City Business, General Plan, Green, Construction Excise, and Strong Motion Instrumentation Taxes and Fees are assessed as a flat percentage of the total job value or total job value less shell reduction.

While it is CDD's stated policy to use the higher of the BVD and applicant-provided job value when project is new construction, we noted several examples where the lower of either the applicant-supplied valuation figure or building valuation data (BVD) calculations were used as the basis for fee assessment. For example, the commercial developer of the A-1 U-Stor storage facility was issued a permit to construct a new storage building in July 2006. The BVD-calculated valuation reflected a job valuation of \$800,000 while the applicant-provided valuation reflected \$600,000. CDD utilized the lower applicant-provided valuation even though protocol requires utilizing the higher BVD-calculated valuation. Under a \$800,000 job valuation and utilizing the same 2002 BVD tables, permitting fees derived from job valuation figures (building permit, plan review, city business tax, general plan, and technology fee) would have totaled approximately \$11,800 while under the \$600,000 job valuation, these fees were invoiced at \$9,033—a difference of more than \$2,700. Related to another permit issued to the same commercial developer to construct a new building in August 2007, the BVD-calculated job valuation reflected \$1,156,547 while the applicant-supplied valuation reflected \$1,312,747. Again, CDD utilized the lower valuation figure even though protocols stipulate utilizing the higher of the two valuations (except for plan review fees—the higher valuation was applied appropriately). Under a \$1,312,747 job valuation, permitting fees derived from valuation figures would have totaled appropriately \$18,886 while under the \$1,156,547 job valuation, these fees were invoiced at \$17,628—a difference of more than \$1,250. Refer to Appendix B for a recap of testing results of permits associated with the A-1 U-Stor project – Project #2.

In an example related to the commercial developer of the AM/PM Mini Market Camino Station who was issued a building permit in June 2008 to construct a new mini-market and gas station, the BVD-calculated valuation reflected \$995,480 while the applicant provided valuation reflected \$2,955,000. Again, CDD utilized the lower job valuation even though procedure calls for utilizing the higher contractor valuation. Under a \$2,955,000 job valuation and utilizing the same 2002 BVD tables, permitting fees derived from job valuation figures would have totaled about \$42,000 while under the lower \$995,480 valuation, these fees were invoiced at about \$15,000—a difference of about \$27,000. CDD was unable to provide documentation supporting the use of the significantly lower job valuation to assess the permitting fees. Refer to Appendix B for a recap of testing results of permits associated with the AM/PM Mini Market Camino Station project – Project #7.

Project Valuations Are Not Always Submitted

Although required by both state building statutes and City Code, it does not appear that applicants always submit job valuation estimates at the time of permit application submittal. Specifically, both the California Building Standards Code Appendix Chapter 1 Section 108.3 and City Code Section 15.08.110¹³ require applicants to provide a total job value at the time of permit application whether the project is a remodel, addition, or new construction. Specifically, California Building Standards Code Appendix Chapter 1 Section 108.3 states:

“The applicant for a permit shall provide an estimated permit value at time of application. Permit valuations shall include total value of work,

including materials and labor, for which the permit is being issued, such as electrical, gas, mechanical, plumbing equipment and permanent systems.”

Additionally, City Code Section 15.08.110¹³ states:

“An application for a permit required by this code shall include an estimate of value of work to be done pursuant to such permit.”

Throughout our testing, we noted several instances where either the applicant-provided or BVD-calculated valuation was blank in the permitting system, which impacts CDD’s ability to fully analyze the reasonableness of a project’s total job value as well as ensure the highest valuation is utilized when calculating permitting fees.

Project Valuations Are Not Typically Supported with Documentation

While BVD valuation figures are fairly reliable as new construction costs are generally straightforward, applicant-provided job valuations are less reliable as applicants have cause to minimize the real scope of work and submit unreasonably low valuation figures to reduce potentially very expensive permitting fees. Given this fact, the California Building Standards Code allows the building official to require applicants provide support for valuations submitted, such as contracts or bids. Specifically, California Building Standards Code Appendix Chapter 1 Section 108.3 states:

“If, in the opinion of the building official, the valuation is underestimated on the application, the permit shall be denied, unless the applicant can show detailed estimates to meet the approval of the building official.”

However, it has not been CDD’s practice to require applicants to submit any documentation to support valuation figures provided, even when the information supplied appears questionable.

According to CDD management and staff, management’s past practice was to support the permittee when CDD inspectors raised questions regarding the noted value of a project. Inspectors in the field have noted that the scope and value of work actually being conducted on a project is not always consistent with the information provided by an applicant. According to CDD staff, in the past, management tended to not support the inspector in these types of issues and tended to side with the permittee. This lack of consistency between the inspectors’ observations and the data provided by the applicant can have a significant impact on the BVD and on a number of fees calculated. To address these issues, the Building Official, recently given control over building permitting activities, has directed:

- Counter staff to accept the higher of the BVD calculated and applicant-provided job valuations for new construction projects.
- Counter staff to require documentation when valuation figures appear unreasonably low for non-new construction projects (additions, remodels, etc.) and to always utilize the BVD calculator as a reasonableness check.

- Inspectors to report discrepancies between job valuations and on-site observation and make any and all necessary adjustments, including fee and permit revisions. Further, permit jackets on the job site now show the amount of building permit fees paid (inspection services) and the reported valuation of the job so that inspectors can more easily identify discrepancies.

When staff is able to make unilateral decisions and circumvent stated protocols, such as utilizing the lowest job valuation figures when calculating permitting fees, not only does the City miss out on potential revenue, but management's authority is undermined. Additionally, when project valuations are not submitted or the figures insufficiently supported, CDD's ability to fully analyze the reasonableness of a project's total job value is limited and its ability to ensure the highest valuation is utilized when calculating permitting fees is negatively impacted.

We recommend CDD management develop formal and detailed policies to guide fee assessment processes, including requiring project valuations to be submitted by all applicants and supported with sufficient justification and documentation, such as customer contract.

Expired or Transferred Permits Inappropriately Allow Fee Avoidance

A critical aspect of CDD's responsibilities is to guard against construction taking place without required building permits, or construction beginning or resuming on projects where permits have expired. As described in Section 1, until recently CDD's permitting system was not programmed to automatically expire or deactivate permits after 180 days of construction inactivity which is required by state law and City Code.

According to City Code Section 15.08.160¹³, a permit expires after 180 days if no work has commenced or if work has been abandoned for a period of 180 days, which, according to CDD management, includes failing to request inspections. An unexpired permit may be granted a one-time extension of an additional 180 days if it is deemed that work is unable to commence for good reason. Nonetheless, we found that expired permits were allowed to remain active in the system without preventive or detective controls in place to guard against construction inappropriately starting, continuing, or resuming without requiring a new permit submission.

However, CDD did not appropriately deactivate expired permits within the permitting system. For example, a residential developer was issued 14 permits in April 2006 to construct homes in the Natomas community; however, because construction activity had not commenced within 180 days these 14 permits should have expired in the fall of 2006. To properly deactivate the expired permits and ensure that all activity related to the permits ceased, CDD should have disabled the expired permits in the permitting system. However, the permits maintained their active status and construction commenced in December 2008—nearly two and half years after the permits were issued. Not only were the permits expired when construction activity was allowed to restart, but the permits were also invalid as, according to the CAO, ownership had changed on the property. In the end, the 14 building permits issued to the original owner in 2006 should have expired and the associated fees paid by the original owner forfeited (there was no evidence that the original owner submitted a request for refund or credit associated with any refundable or

creditable fees). In 2009, the new property owner should have applied for 14 new building permits and paid the corresponding additional permitting fees. Refer to Appendix B for a recap of testing results of permits associated with the Granite Bay Land Fund project – Project #8.

Additionally, under city provisions, it is unlawful to transfer permits from one property to another or from one owner to another. Specifically, according to Sacramento City Code Section 15.08.150¹³:

“No person to whom a permit has been issued shall transfer, assign, or convey such permit to another person for the purpose of completing the work for which the permit was issued. When the permittee to whom the permit has been issued no longer has a vested interest in the project or is no longer responsible for the project or work covered by the permit, the permit shall automatically become null and void. No person shall proceed with such a project or work without first obtaining a new permit from the manager.”

Even though City Code is clear that permits cannot be transferred, the lack of controls within CDD’s permitting system related to editing critical project information allowed 14 permits issued on one set of lots to be transferred to a completely different set of lots. Specifically, in a separate project from the one discussed above, the developer of a Natomas residential community was issued 14 building permits in March 2007 for new residential construction and paid appropriately \$371,559 in associated permitting fees. Nine months later, in December 2007, the same developer submitted another 14 permit applications for construction on completely separate lots and in October 2008, the developer paid a little more than \$200,000 in associated permitting fees. According to the CAO, within a few days of the October 2008 payments on the second group of permit applications, the original 14 permits were altered to change the addresses and parcel numbers of the lots to those of the second group of 14 permit applications. Then, two months later, the October 2008 payments to the City on the permit applications were voided—except for approximately \$6,700 in combined master plan review fees—and the second set of permits were never issued. It appears the modifications were to make it appear that the original permits were related to the second set of 14 lots so that construction that resumed in April 2009 on those lots could be conducted under the original building permits; thus, avoiding paying permitting fees on the second set of lots. Complicating the matter, construction authorized by the original set of permits was allowed to resume in April 2009 even though the original permits expired in September 2007 due to inactivity, but CDD allowed the permits to remain active. Therefore, under city provisions, it was unlawful to transfer the original permits to the second set of lots and CDD should have required 28 individual permits be issued for the 28 separate lots (14 original lots and 14 new lots) for a total of approximately \$765,000. However, the developer only paid permitting fees in the amount of approximately \$378,000. As a result of these actions, the City never collected significant amounts of fee revenue totaling more than \$387,000. Refer to Appendix B for a recap of testing results of permits associated with the Natomas Central 15 Permits project – Project #13.

To address some of these issues, according to the former Accela System Administrator, CDD recently deactivated all expired permits—permits that reflected more than 180 days of construction inactivity—which resulted in the expiration of more than 20,000 permits during the

first four months of 2010. Also, Accela has recently been modified to automatically deactivate permits after 180 days of construction inactivity.

We recommend CDD management ensure expired permits are appropriately deactivated or removed from the permitting system in compliance with building rules and laws.

We recommend CDD management ensure that users cannot inappropriately modify critical project information of permits, such as addresses, parcel numbers, etc. Significant changes to project information and fee assessments should only be made by supervisory staff upon determination that changes are appropriate and justified.

Fee Payments were Not Collected in Advance of Providing Plan Review Services

Although the City Code stipulates that before plan reviews can be conducted, all preliminary fees must be paid. City Code Section 15.08.100¹³ clearly states that plan review fees must be paid at permit application submittal: "...At the time a plan is submitted with the application for a permit, the applicant shall pay a plan check fee..." Regardless of this requirement, we found that CDD has not implemented sufficient controls to ensure required preliminary fees are appropriately paid prior to CDD staff providing plan review services, as well as the permitting system does not have controls in place to prevent plans from being routed to plan reviewers without appropriate payment of fees. As a result of the lack of controls, we found examples where plan review services were provided prior to payment.

For example, in direct violation of City Code Section 15.08.100¹³, the City provided a significant amount of plan review service in 2006 to the developer of the SACA Towers commercial high-rise without invoicing or requiring payment prior to providing the services. Specifically, the developer owed the City approximately \$750,000 associated with plan review services provided in 2006 on six permit applications; however, the developer wasn't invoiced any fees until July 2007. Ultimately, permits associated with the six applications were never issued because the development project folded. In August 2007, approximately \$546,500 of the outstanding bill was paid by a third party. The remaining amount, approximately \$200,000, was noted in the system as a reduction in plan review fees on one of the permit applications even though City Code states that no part of plan review fees are refundable. According to the former CDD management that oversaw the project, despite the fact that City Code prohibits the refunding of plan review fees, in this instance plan review fees were reduced as part of negotiations to resolve issues associated with the failed project in order for the City to receive some payment for the services provided and because the project was halted before all the plans could be reviewed.

Related to the same SACA Towers project, approximately \$5,400 was owed in permitting fees associated with two permits—grading and foundation—that were issued in 2006. While the permitting fees should have been paid prior to plans reviewed and permits issued, fees related to the grading permit were not invoiced until June 2007—more than a year after the permit was issued. Of further note, permitting fees related to the second permit—a foundation permit—were voided in the system on November 3, 2006 and the permit issued the same day without any

payment required from the applicant. These two permits were never finalized and most of the fees were eventually paid in August 2007 as they were included in the \$546,500 amount eventually remitted for this project. Refer to Appendix B for a recap of testing results of permits associated with the SACA Towers project – Project #1.

In several other instances, residential developers did not pay preliminary fees prior to plan review services being provided and/or received inspections prior to permits issued and permitting fees paid:

- A residential developer applied for 23 building permits in the spring and summer of 2009 to construct new homes in the Villa Terrassa community. While the building permits were never issued, required preliminary fees were never collected even though CDD utilized resources reviewing project plans. In total, at the time of permit application submittal for these permits, the developer should have paid more than \$12,000 in plan review and technology fees, but paid nothing. Also, even though permits were never issued and building permit fees never paid, CDD conducted inspections on all 23 lots between June and August 2009—ranging from 2 to 13 inspections conducted on each lot. Thus, the City not only did not follow rules for collecting fees up front, but provided inspection services before permits were properly issued. Refer to Appendix B for a recap of testing results of permits associated with the Villa Terrassa project – Project #9.
- A residential developer submitted six new building permit applications in June 2009 to construct production homes in the Wickford community. Although permits were never issued, plans were reviewed in June 2009, but more than \$2,800 in preliminary fees were not collected on the six permit applications. Refer to Appendix B for a recap of testing results of permits associated with the Wickford project – Project #10.
- A residential developer applied for ten building permits between October and December 2008 to construct homes in the Winterhaven Avenue community. On December 5, 2008, CDD approved the project plans and eight of the building permits were issued the following day—three of the permit applications expired and did not result in permits being issued. While most permitting fees are due at permit issuance, certain preliminary fees are due prior to plan check, including plan review and technology fees. Related to the three expired permit applications, the developer owed just over \$950 for plan review and technology fees, but paid nothing. Refer to Appendix B for a recap of testing results of permits associated with the Winterhaven project – Project #11.
- A residential developer submitted permit applications to construct production homes on 35 lots within the Natomas Central subdivision. Even though building permits were not issued and permitting fees were not processed until September 22, 2009, inspections on the lots began in late April 2009 on foundations that were poured and completed between May 6, 2009 and June 1, 2009. Refer to Appendix B for a recap of testing results of permits associated with the Natomas Central Fee Issues project – Project #12.
- A commercial hotel developer was issued a new building permit on December 7, 2007, but the first inspection occurred on the project six months earlier on June 1, 2007. Refer to Appendix B for a recap of testing results of permits associated with the La Rivage project – Project #3.

Our audit shows that overall the system has few effective controls in place to assure that fees and related services are appropriately paid for and provided as expected and intended. Not only is this a loss of revenue, but also reflects a breakdown in the City's management and fiduciary responsibility related to these services. Without ensuring the proper steps are followed, from permit application—including prompt fee payment—through partial and full permit issuance, the public cannot be assured the City is fulfilling its responsibilities.

Non-refundable or Non-transferrable Fee Payments were Inappropriately Credited Against Permitting Fees Owed on New Permits

Although City Code is very specific as to the circumstances under which permitting fees and development impact fees can be refunded, we found that CDD does not have sufficient controls in place to ensure payment transfers and credits are appropriate. Specifically, refunding of permitting fees varies from expressly non-refundable to potentially refundable if requested within 120 days. According to the following sections of Title 15 of the City Code¹³:

- 15.08.120—no permit fee or portion thereof shall be refunded where any portion of the work authorized by the permit has commenced or where the permit has been lawfully suspended or revoked by the manager.
- 15.08.130—except where the refunding of permit fees is expressly prohibited, permit fees may be refunded only if a written demand for refund, together with the paid permit form, is presented to the building official within one hundred twenty (120) days following the issuance of the permit.
- 15.08.140—no plan check fee or portion thereof shall be refunded.

According to Title 18 of the City Code, certain permitting fees, such as development impact fees (Jacinto, Natomas, and Willowcreek), park development impact fees, and transportation impact fees, can be credited in the manner specified by the City and is generally left to the discretion of the department director as to the amount of fees to credit or refund. The amount of development impact fees that can be credited to the applicant is generally left to the discretion of the applicable department director. Further, development impact fees can only be refunded if a permit expires before construction begins and refund requests are submitted to the City Manager within 90 days—failure to do so constitutes an absolute waiver of any right to the refund.

Once fees have been processed and paid, only the Accela System Administrator and CDD accounting staff can modify payments, including transferring and crediting payments between permits. While the payment transfers, credits, and refunds are typically handled by CDD's accounting department, these employees indicated that when they receive requests from building services or counter staff to make the adjustments, they do not review requests for appropriateness and assume all required approvals have already occurred. A formal process to review and approve requests to modify, credit, or transfer payments for appropriateness does not exist within CDD. As a result of the lack of controls, we found instances where CDD ignored the clear mandates outlined in City Code on numerous occasions by allowing nonrefundable permitting fee payments to be directly or indirectly transferred or credited to different permits—sometimes years later and without the necessary justification or authorization. Several of the examples described below have been previously discussed in relation control issues and weaknesses that are distinct from those outlined in the paragraphs that follow.

For example, related to a project discussed previously, between 2006 and 2008, the City issued 35 permits for specific lots within the Natomas Central subdivision. In 2009, the developer wanted to build on different lots and submitted 35 new permit applications. However, contrary to city provisions, all fee payments—approximately \$700,000—made on the original 35 permits were inappropriately credited two years later against the permitting fees owed on the 35 new permits even though the new permits were for entirely different lots. Moreover, plan review fees paid on the original permits are expressly nonrefundable per City Code, whereas certain other permitting fees paid on the original permits may have been able to be credited or refunded if appropriate steps were followed. However, there is no evidence that the developer requested any permitting fee refunds, credits, or transfers within the allowable timeframes outlined in City Code nor is there evidence of city approval for any refunds, credits, or transfers. Thus, the fees paid on the 35 original permits should not have been credited against the fees owed on the 35 new permits and the City should have received all required permitting fee payments on the 35 new permits issued in 2009. In total, the City should have received nearly \$1.8 million in combined payments associated with the 35 original and 35 new permits, but only received about \$770,000 in total—a difference of more than \$1 million. Refer to Appendix B for a recap of testing results of permits associated with the Natomas Central Fee Issues project – Project #12.

In another instance, the commercial hotel developer of the La Rivage hotel submitted a permit application in June 2003 that expired at the end of 2003 due to the lack of activity. Because a permit was not issued, only preliminary fees related to plan review and technology fees that are due when a permit application is submitted were collected—approximately \$38,000. When the developer applied for another permit application two years later in 2005, the entire amount of preliminary fees paid on the 2003 expired permit application was inappropriately credited against the permitting fees due on the new permit even though plan review services were conducted on the original permit application and City Code expressly prohibits refunding plan review fees. According to the former Operations Manager involved with the project, even though plan review fees are explicitly nonrefundable, the fees from the 2003 permit application were credited against the permitting fees owed on the 2007 permit with the approval of the former building official to help the developer cover the costs of the project and to get the project moving. However, CDD was unable to provide evidence that the developer requested or was approved to receive any permitting fee refunds, credits, or transfers. Refer to Appendix B for a recap of testing results of permits associated with the La Rivage project – Project #3.

In another example, a residential developer purchased lots from another developer in 2009, including six lots where building permits were previously issued in 2006 to construct production homes in the Villa Terrassa community. In the spring and summer of 2009, the new residential developer applied for new building permits related to the six lots where permits were previously issued. In April 2009, the six building permits were issued, but only a fraction of the required fees were invoiced and paid—apparently as an offset because the original developer previously paid some permitting and development impact fees in 2006, such as park development impact fees. While City Code allows some development impact fees to be credited at the discretion of the applicable department director, CDD was unable to provide evidence that the new developer requested or was approved to receive any related transfers, credits, or offsets in 2009 as compensation for the previous owner's 2006 fee payments. Further, due to the lack of

documentation, it is also nearly impossible to determine if the former owner actually received any related credits, refunds, or transfers related to their 2006 fee payments, which would also impact the new developer's ability to appropriately request and receive approval for permitting fee credit offsets. As such, the documentation available within the Accela permitting system indicates that, in total, the new developer paid about \$18,400 in permitting fees associated with these six building permits rather than more than \$74,800 in total permitting fees due—an underpayment of about \$56,400. Refer to Appendix B for a recap of testing results of permits associated with the Villa Terrassa project – Project #9.

As described, payment credits, refunds, and transfers are typically handled by CDD's accounting department and are generally simple accounting entries made in the permitting system to the balances of affected permits records. While the fiscal recording system remains unaffected, difficulties arise for accounting staff when attempting to reconcile information between the permitting system and the fiscal system as the permitting system views transfers and credits as "new money." As a result, the accounting staff rely most heavily on information contained within the fiscal recording system as those numbers are what is recorded in the City's general ledger accounts.

We recommend that CDD management develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City Code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with city rules.

Permit Testing Results Summary

Although CDD has not developed formalized policies, procedures, and protocols over its permitting or fee assessment processes, we attempted to document and test CDD's permitting activities to evaluate the uniformity, integrity, and soundness of its practices, actions, and decisions as well as compliance with city and state laws and codes. Given the broad system access assigned to both employees and external entities, combined with ability to easily modify and void required permitting fees, transfer/credit payments, and the lack of supervisory review processes, a significant portion of our testing focused on CDD's fee assessment practices. Our testing utilized a multifaceted testing strategy where we created two test segments resulting in a total of 509 individual permits tested:

- The first segment of testing was required by the scope of the audit and focused on the permitting and fee assessment activities of specific projects identified by the CAO as warranting further audit review. Approximately 2,500 pages of associated documentation were gathered by the CAO from various interviews and whistleblower telephone calls. From within the CAO documentation, we identified 14 separate projects and 363 unique permits requiring further review and testing; any additional permits associated with the 14 projects, but not identified within the documentation were not analyzed, tested, or included in the test results.

- The second segment of testing focused on permitting and fee assessment activities related to permits issued in 2007, 2008, and 2009. We judgmentally selected 146 individual permits to review and test by varying the project valuation amounts, permit fees assessed and paid, permit types, etc.

Altogether, the results of our testing and calculations reflect that at least \$13,668,517 in permitting fees was due across the 509 individual permits tested, but CDD only collected \$11,335,657—a difference of more than \$2.3 million. The \$2.3 million calculated as underpaid is based on information contained within CDD’s Accela permitting system and compared to CDD processes and City rules in place at the time of permit activity. Refer to Appendix B of this report for detailed information regarding test results and refer to the Scope and Methodology section of this report for a detailed description, including limitations of the testing process. The examples provided throughout the body of this report also describe key results of our testing.

As mentioned in Section 3, due to the lack of comprehensive permitting policies and procedures and fee assessment guidelines and manuals and the numerous entities involved in assessing amounts due, we could not always verify or validate the amount of fees (permitting and development impact) or taxes due or collected. Where we were unable to validate fees due, we assumed the amounts assessed, as reflected in Accela, were correct—if actual discrepancies exist, those amounts are not included in the \$2.3 million reflected as not collected by CDD noted above. Also, the unpaid amount does not include the underassessment of fees (including permitting and development impact) and taxes where:

- Permits were not properly issued when project permits expired, ownership changed, etc.
- Partial or phased permits were inappropriately issued in lieu of main building permits.
- Project information, such as project type, was not set correctly.

It is important to note that determining whether collecting some of these unpaid or uncollected fees is possible was not within the scope of this audit. However, the magnitude and collectability of the City’s revenue losses should be reviewed and analyzed by City management.

Similarly, the most recent Sacramento Regional County Sanitation District audit (draft as of March 2010) of CDD’s assessment and collection of sewer impact fees reviewed 120 permits and found that some permits had been assessed incorrect sewer impact fees, including permits where no sewer impact fees were due while others were not correctly assessed sewer impact fees when required—resulting in a net over-billing of applications of about \$33,000. The draft report also concluded that controls were not in place to prevent permits from being issued before all required sewer impact fees were appropriately assessed and collected.

Given the broad system access assigned to both employees and external entities and lack of policies and procedures and managerial oversight, no one is left responsible for ensuring all required fees are assessed correctly and appropriately. Ultimately, the City loses fee revenue and permittees are treated unfairly when permitting fees are under assessed or inappropriately credited or transferred from one permit to another in violation of the City Code.

Recommendations:

To improve process controls over permitting fee assessment practices and to ensure the City receives all required revenue, City leaders and CDD executive management should:

31. Ensure fees are finalized and approved by staff with sufficient training and experience and require signature approval and sign-off acknowledging acceptance of final fee assessment calculations. Once fee assessments are finalized, restrict the ability to make modifications to the fee assessment to managerial staff. Ensure sufficient support and justification for any fee assessment change is maintained.
32. Develop formal and detailed policies to guide fee assessment processes, including the proper establishment of job valuation figures on a project as well as points in the process where supervisory review is conducted. Hold employees accountable for not following proper processes.
33. Insert automatic system calculation of all permitting fees to reduce the risk that required fees are missed as well as the ability of employees to disregard or circumvent proper fee assessment processes.
34. Establish strong system controls so that only employees with sufficient managerial authority have the ability to make critical changes in the permitting system, including changes to fee assessments (voids, deletions, etc.) and to key aspects of permit records such as addresses, parcel numbers, etc.
35. Develop formal and detailed policies to guide fee assessment processes, including requiring project valuations to be submitted by all applicants and supported with sufficient justification and documentation, such as customer contract.
36. Develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City Code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with City rules.

Section 4: CDD's Fee Structure Appears Out-of-Balance and Not Regularly Updated

Over the last few years, the Sacramento area, like most areas of the country, has faced an economic recession, decline in construction activity, and corresponding reduction in permitting revenue. As a result, the Community Development Department's (CDD) customer service focus has begun to shift to issues related to budget, resources, workload, and service levels, which has exposed the fact that CDD's fee structure appears to be out-of-balance. Additionally, while CDD has only recovered between 65 and 71 percent of its total expenses through its collection of fees, it retains well more permitting revenue associated with Building Services' activities than it expends providing those services. Further, CDD offers certain specialized customer service programs that do not have a corresponding fee to recover the cost of providing the service, but are supported by fees generated by Building Services' activities, perhaps at the expense of service levels. Moreover, certain Building Services' fees have not been updated or analyzed in more than a decade even though the City's Fees and Charges Policy requires a comprehensive cost of service analysis be conducted every five to seven years.

CDD's Building and Planning Fee Structures Appear Out-of-Balance

CDD collects much of the City's building permit-related fees for many city and non-city entities. As shown on Table 4, fee revenue has fallen drastically over the last several years due to the economic recession and corresponding decline in construction activity—from nearly \$40 million in permit collections during Fiscal Year 2007-2008 to a low of just over \$15 million during Fiscal Year 2009-2010.

Table 4. Fees Collected by Receiving Entity, Fiscal Years 2007-2008 through 2009-2010

Receiving Entity	Fiscal Year 2007/2008	% of Collections	Fiscal Year 2008/2009	% of Collections	Fiscal Year 2009/2010	% of Collections
CDD	13,864,491	35.28%	11,275,189	43.15%	7,996,356	52.26%
Code Enforcement	555,582	1.41%	589,889	2.26%	591,633	3.87%
Department of Transportation	3,329,298	8.47%	1,960,046	7.50%	1,320,480	8.63%
Finance	4,747,819	12.08%	2,478,912	9.49%	879,325	5.75%
Fire Department	402,423	1.02%	395,812	1.51%	462,617	3.02%
Regional County Sanitation	427,999	1.09%	206,544	0.79%	111,347	0.73%
Building Standards Administration	0	0.00%	7,962	0.03%	19,657	0.13%
Sacramento Flood Control	113,059	0.29%	116,037	0.44%	470,720	3.08%
Sacramento Housing	2,124,302	5.41%	1,130,838	4.33%	325,202	2.13%
Sacramento Transportation	0	0.00%	143,515	0.55%	783,617	5.12%
Department of Conservation	78,802	0.20%	65,643	0.25%	43,267	0.28%
Special Districts	5,140,933	13.08%	3,356,233	12.84%	(14,363)	-0.09%
Parks & Recreation	5,322,437	13.54%	2,275,659	8.71%	1,373,395	8.98%
Utilities	3,070,138	7.81%	1,907,455	7.30%	755,888	4.94%
Other (City)	124,303	0.32%	220,747	0.84%	182,136	1.19%
Total Fee Revenue	\$39,301,586	100%	\$26,130,482	100%	\$15,301,277	100%

As overall fee revenue collected has fallen, CDD has also experienced a corresponding fall in the amount of permitting fee revenue it retains associated with the plan review and inspection services it provides—from more than \$13.8 million in 2007-2008 to only about \$8 million in 2009-2010. In addition to the decline in revenue from Fiscal Years 2007-2008 through 2009-2010, as shown in Table 5, CDD has only recovered between 65 and 71 percent of its total expenses through fees it collected and retained—requiring millions of dollars in subsidies from the City’s general fund.

Table 5. CDD Expenses and Fee Revenue, Fiscal Years 2007-2008 through 2009-2010¹⁶

CDD Unit	Fiscal Year 2007-2008 Expenses	Fiscal Year 2007-2008 Fees Retained	Fiscal Year 2008-2009 Expenses	Fiscal Year 2008-2009 Fees Retained	Fiscal Year 2009-2010 Expenses	Fiscal Year 2009-2010 Fees Retained
Administrative Services	\$4,503,193	N/A ¹⁷	\$3,762,077	N/A ¹⁷	\$2,487,363	N/A ¹⁷
Customer Service	\$3,599,748	N/A ¹⁷	\$2,142,330	N/A ¹⁷	\$1,059,620	N/A ¹⁷
Building Services	\$8,004,736	\$11,842,103	\$6,306,922	\$9,912,116	\$4,164,566	6,704,839
Planning Services	\$4,825,241	\$2,022,388	\$3,806,030	\$1,363,073	\$4,544,230	1,291,517
Other	N/A	N/A	-\$203,912	N/A	\$11,550	N/A
Total	\$20,932,918	\$13,864,491	\$15,813,447	\$11,275,189	\$12,267,328	\$7,996,356
General Fund Subsidy Required	\$7,068,427		\$4,538,258		\$4,270,972	
Overall Cost Recovery	66 percent		71 percent		65 percent	

According to the City’s Fees and Charges Policy, the types of fees collected by CDD fall within three fee categories: development impact, service, and regulatory. Additionally, the City’s cost recovery goals consider the following:

- The amount of a fee should not exceed the overall cost of providing the facility, infrastructure, or service for which the fee is imposed.
- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Fees should be sensitive to the “market” for similar services.
- Fees will be set at levels that fully cover the total direct and indirect costs, including operations, capital outlay, and debt service of the enterprise programs.

Moreover, the cost recovery strategies indicate that 100 percent of development impact fees must be recovered as they fall within the “enterprise” cost recovery level classification. Also, full direct cost recovery—81 to 100 percent of total costs—is required for building permitting, plan checking, and inspection fees as these fees fall within regulatory-type services that are classified as “high” cost recovery. Furthermore, the policy indicates that the City may choose to set fees at less than full recovery to ensure program access.

¹⁶ Source: CDD’s cashiering system and City of Sacramento’s eCaps Financial System.

¹⁷ Fees not directly charged for these services.

During Fiscal Year 2009-2010, approximately \$4.2 million was expended on direct building services while \$6.7 million in fees were generated by building permitting activities—a difference of approximately \$2.5 million in additional revenues.¹⁸ Conversely, during the same fiscal year, CDD retained approximately \$1.3 million in planning fees, but expended more than \$4.5 million—a deficit of more than \$3 million. In the two prior years, building services has also generated more revenues than it expended—between about \$3.6 million and \$3.8 million more revenue generated—while planning services has expended more revenue than it has generated—between approximately \$2.4 and \$2.8 million each year. Additionally, during Fiscal Year 2009-2010, Administrative Services and Customer Service (units that support the entire CDD organization, but generate no direct fee revenue) had expenses totaling approximately \$3.5 million. Of that amount, 70 percent could have been covered by the \$2.5 million in additional fee revenue generated by Building Services’ than Building Services’ expended that year. Due to a lack of reliable information, we were unable to determine how the additional revenues generated by Building Services’ were utilized or what portion of Administrative and Customer Services activities are consumed by the Building Services’ unit. However, because fees generated by Building Services activities provide sufficient fee revenues to subsidize a majority of activity costs for the two units that appear support the entire organization in addition to the Building Services activities and goals, CDD’s fee structure should be reevaluated.

Furthermore, a specialized customer service program targeted for large-scale construction projects and staffed by CDD employees does not have a corresponding fee structure to support its activities. This function appears to be supported by fees generated by Building Services through building permit and plan review fees even though the specialized services provided extend beyond those of Building Services. Specifically, in 2006, the City instituted the “Matrix” program—developed to “Get the Customer to Success” through a timely, seamless, and predictable development process. While projects served through the Matrix program still undergo the required planning and permitting review and approval processes, Matrix offers these large scale projects the benefit of a dedicated project team consisting of staff from CDD divisions and other city departments that are involved in the project from beginning to end. A key component of the Matrix program was the formation of CDD’s Process Assessment Unit to manage project teams and facilitate all activities from project design through permit issuance and construction as well as ensuring communication and coordination with external city departments involved in the projects.

While the Matrix program has been well-received by the development community as a significant improvement in customer service, CDD’s cost of providing the Matrix services do not have a dedicated user fee nor are the associated costs linked directly to specific revenue streams. Rather, Building Services fee schedules were increased to cover the cost of the Matrix program even though some specialized services extended beyond activities provided by CDD’s Building Services Division. Matrix services involve the following city departments in addition to CDD’s Planning Services Division.

- Parks and Recreation
- Department of Transportation

¹⁸ Based on our cursory review, it does not appear that there is a Proposition 218 compliance issue.

- Department of Utilities
- Fire Department
- Office of the City Attorney

Specifically, on July 2006, the City Council approved an increase of 32 full time employees in various development-related city departments and approved an increase in the corresponding revenue and expense budgets of \$3.5 million—CDD’s specific staffing levels were approved to increase by 22 employees across Building, Planning, Administration, and Customer Service Units with a related increase in its budget of nearly \$2.26 million. At the same time, the City Council updated the City’s valuation tables (method CDD utilizes to calculate building permit fees) and increased the residential plan check fee to 42 percent of the building permit fee from the previous 32 percent. The adjustments to the CDD’s building fees were expected to generate sufficient revenue—\$3.5 million annually—to cover the City’s expected costs (\$3.5 million) of providing the Matrix program. However, due to the economic downturn, decline in development activity, and city-wide layoffs, a limited portion of only three CDD Process Assessment Unit employees’ time is currently assigned to the Matrix program. It is unclear how many employees in other city departments are still dedicated to the Matrix program.

Furthermore, even though fees generated from services provided by Building Services alone were expected to support the activities of the entire city-wide Matrix program as well as the activities of the Process Assessment Unit that also facilitate building processes, CDD’s Process Assessment Unit was not placed within the organizational reporting structure of Building Services, as described in Section 1. In addition, we are told that because the Process Assessment Unit reports directly to the Operations Manager, Process Managers have the ability to reallocate Building Services resources by adjusting the assignments of counter staff, plan reviewers, and inspectors without approval by simply redirecting Building Services’ staff without discussion with the Building Official or other Building Services’ management in an effort to give the high-profile projects even greater priority than regular projects not associated with the Process Assessment Unit. However, staff within the Process Assessment Unit provided a different perspective and stated that employees within this unit are required to discuss project priorities and seek building resources in coordination with CDD’s management team. Given the conflicting perspectives, it is important that CDD management establish a clear reporting structure and system so that Business Services’ limited resources are efficiently allocated among competing priorities.

Moreover, although Building Services consistently generates more revenue than it expends providing services, according to CDD management, the additional funds are not reinvested to improve inspection and plan review activities; in fact, the associated service levels have been negatively impacted, particularly related to plan checking. Our review notes that over the recent years, while CDD’s overall staffing levels have fallen due to funding issues, Building Services staffing levels have fallen slightly more. Specifically, as shown in Table 6, CDD’s overall staffing levels between Fiscal Years 2009-2010 and 2007-2008, fell by 57 percent while Building Services’ division’s staffing by level was reduced slightly more, by 59 percent, and Planning Services staffing levels by less again, only 47 percent. Due to the lack of data, we were

unable to review changes in staffing levels within Building Services, such as changes in inspectors and plan reviewers.

Table 6. CDD Staffing Levels by Division, Fiscal Years 2006-2007 through 2009-2010¹⁹

CDD Unit	Fiscal Year 2009-2010 FTEs	Fiscal Year 2008-2009 FTEs	Fiscal Year 2007-2008 FTEs	Fiscal Year 2006-2007 FTEs
Administration	23.50	30.50	40.50	29.50
Customer Service	9.00	29.00	48.00	34.00
Building Services	33.00	61.00	80.00	179 ²⁰
Planning Services	41.00	45.00	78.00	
Total Employees	106.50	165.50	246.50	242.50

As a result of reductions in staffing and the failure to reinvest excess fee revenue back into Building Services activities, CDD management indicates that a corresponding drop in service levels has occurred over the last several years that is demonstrated in increased turnaround times, potentially reduced quality of reviews (cursory versus thorough), and limits in CDD’s ability to provide some services. For example, CDD reduced the counter plan review hours to offset the resource constraints—previously over-the-counter review was provided all day, but has been limited to three hours, three days a week.

According to CDD management, while inspection turnaround times and related service levels have remained fairly consistent and with inspections typically able to be scheduled within 24 hours of an appointment request, service levels related to plan review activities have diminished over the last several years and current turnaround times are poor and below industry standard service levels. Although processes are not in place to track performance measures due to resource and system limitations, the data utilized to manage the current day-to-day workload of employees reveals that plan review activities are projected to require 25 working days for a single family residential unit compared to CDD’s target of 15 working days. Just a year earlier, during Fiscal Year 2008-2009, the average number of days for residential plan review increased from 14 to 18 days. However, CDD management also points out that plan review turnaround times have remained within the building code time limitations established by Health and Safety Code 19837, which indicate structural plans must be reviewed within 50 days of submittal of a complete application.

¹⁹ Source: City of Sacramento budget documents.

²⁰ During Fiscal Year 2006-2007, building services and planning services were combined within a single development services group.

Table 7. Permits Issued—Calendar Years 2007, 2008, and 2009²¹

Permit Type	2007	2008	2009	2007 % of total	2008 % of total	2009 % of total	2007 to 2009 % Change in the Make-up of Total
New Building	1742	1290	386	12.5%	9.6%	3.4%	-73.0%
Signs	451	316	309	3.2%	2.3%	2.7%	-16.6%
Minor	8310	8933	8318	59.7%	66.3%	72.7%	21.8%
Remodel/ Additions	1804	1610	1359	13.0%	12.0%	11.9%	-8.3%
Tenant Improvement	330	200	189	2.4%	1.5%	1.7%	-30.3%
Other ²²	1278	1116	876	9.2%	8.3%	7.7%	-16.6%
Total Permits Issued	13,915	13,465	11,437	100%	100%	100%	
Total valuation of Permits Issued	\$798,116,079	\$824,606,872	\$337,644,695				

Although we did not conduct a comprehensive workload study, we noted a few statistics related to changes in the Building Division’s workload and workforce that warrant CDD management’s attention and consideration. Specifically, Building Services’ workforce has fallen by 57 percent over the last several years as mentioned previously whereas the total number of permits issued each calendar year—one measure of its workload—experienced only an 18 percent reduction as reflected on Table 7 (14,000 permits in 2007 down to about 11,500 in 2009). However, CDD’s total valuation of all of its permits—another measure of Building Services’ workload—fell by

Minor permits include projects such as:

- Sidings
- Heating and air conditioning installations (HVAC)
- Water heaters
- Electric services change
- Re-wiring
- Water and sewer service replacement
- Gas line replacement
- Re-plumbing
- Public utility safety inspections

about the same amount as its workforce. The value of all permitted projects in 2007 was nearly \$800,000,000, but was less than half of that in 2009 at approximately \$340,000,000—a decline of about 58 percent. As such, it is difficult to determine without an in-depth study if the fall in workforce was warranted when compared against the various measures of workload.

Additionally, the change in total project valuation—driver of many key permitting fees—can be linked to the change in the make-up of CDD’s workload. Specifically,

the types of permits issued have shifted considerably from many new building permits issued in 2007 to few new building projects in 2009. In 2009, nearly 73 percent of Building Services’

²¹ Source: CDD’s Accela permitting system.

²² Other permit types include pool, repair/maintenance, demolition, etc.

workload was made up of minor permits whereas minor permits made up only about 60 percent of workload in 2007. Further, the number of new building permits issued fell by 73 percent compared to all permits issued between 2007 and 2009. Conversely, the change in make-up of workload associated with minor permits has increased 22 percent during the same time period. Minor permits have considerably lower project valuations when compared to new building permits, which explains much of the large fall in CDD's total valuation of permits issued reflected on Table 7.

As a result of the change in types of permits issued and the resulting lower project valuations, permitting fees were lower and less revenue was collected and retained (as shown on Table 5). Consequently, fewer staff have had to handle larger and different workloads than in the past resulting in the decline in service levels described earlier. Currently, CDD's overall staffing level is below the 106.5 full-time equivalents reflected in the Fiscal Year 2009-2010 approved budget as twelve more employees were laid off in July 2009—nine in administration and two engineers from building and planning. By August 2009, CDD was down to 88.5 employees, excluding Code Enforcement employees brought into CDD as a result of the recent merger of the two departments. Also, CDD believes it may lose additional employees as a result of labor negotiations and concessions. While a full-scale staffing and workload study would be needed to assess the appropriate levels of staffing meet the City's goals for service level and quality, the reduction in resources committed to Building Services' activities has impacted services levels, including services offered and review turnaround times.

Conduct a review of past Building Services' revenues to analyze how the monies were utilized and determine whether the usage was appropriate, complied with regulations, and was in the best interest of CDD and Building Services' operations. Make necessary adjustments in revenue utilization going forward.

We recommend CDD conduct a full-scale staffing and workload study to determine the appropriate levels of staffing to ensure service level goals can be met and related service fees are sufficient. Also, ensure the study includes analyzing and establishing a clear reporting structure and system so that Business Services' limited resources are efficiently allocated among competing priorities.

Building Services Fees Not Regularly Reviewed and Updated

Of the more than 150 fees that CDD collects, there are only a few key permitting fees that are retained by CDD to cover their costs of providing services—these key fees are shown in Table 8. The method of calculation can vary: some fees are based on flat rates while others are calculated based on variables such as square footage or project valuation, as shown earlier in Table 3.

Table 8. Fees Levels Established between 1998 and April 2010

Fee Description	Services Provided	1998 Fee Level	2006 Fee Level	2010 Fee Level
Building Permit	Inspections	1998 BVD Tables	2002 BVD Tables	2002 BVD Tables ²³
Building Permit (Minor)	Inspections	\$75-\$175	\$75-\$175	\$75-\$175
Plan Check (Commercial)	Plan Review	1998 BVD Tables	2002 BVD Tables	2002 BVD Tables
Plan Check (Residential)	Plan Review	32 % of Building Permit Fee	42 % of Building Permit Fee	42 % of Building Permit Fee
Technology Fee	Support Technology Systems	4%	4%	8%

Although services provided by CDD’s Building Division are more than covered by the fees collected and retained as shown earlier on Table 5, the City’s methods to calculate building permit, plan review, and technology fees have not been regularly analyzed or adjusted. For example, the City has not kept pace with the methods used to establish project valuation, which is used to assess building permit and commercial plan check fees as project valuation is the basis used to estimate the amount of permitting fees required to cover the cost of services, such as inspections and plan reviews. Specifically, in 1998, the City adopted the 1998 version of the Building Valuation Data (BVD) tables—described earlier in Section 3 of this report—that provide the current average construction costs per square foot and are used to establish the total value of a new construction project. Although BVD tables are updated bi-annually, the City continued to use the 1998 BVD tables until it eventually upgraded to the 2002 BVD tables in July 2006. In May 2010, the City adopted the 2010 BVD tables and established a policy of updating the BVD tables every 6 months to keep current with construction costs and estimating job valuation.

Because the City has not kept up-to-date with BVD tables, past valuations established on new construction projects have not been based on average construction costs current at the time of permit application submission, but were based on costs current at the time when either the 1998 or 2002 tables were adopted. As such, CDD has calculated key permitting fees based on outdated valuation calculations—the outdated valuation calculations could have been too high or too low depending on the average construction costs at the time of permit application submission. The two examples of new construction permits—a commercial high-rise and a residential new family—provided on Table 9 compares the amount of permitting fees assessed when utilizing the outdated 2002 BVD calculations to arrive at the project value to the amount of permitting fees assessed when utilizing updated BVD calculations that were current as of the permit application date—2007 and 2009. Each example reveals that CDD could have generated additional fee revenues if updated BVD tables had been utilized.

²³ Toward the end of audit fieldwork, the City passed an ordinance effective June 24, 2010 that allows CDD to utilize the most recent 2010 BVD tables.

Table 9. Project Valuation and Permitting Fee Comparison²⁴

New Construction Permit Type	Application Date	Project Valuation Comparison			Permitting Fees Comparison		Fee Differences
		April 2002 BVD Tables	Feb 2007 BVD Tables		April 2002 BVD Tables	Feb 2007 BVD Tables	
Commercial (High Rise)	03-15-2007	\$70,078,856	\$91,421,861	Building Permit Fee	\$365,077	\$474,630	-\$109,554
				Business Operations Tax	\$5,000	\$5,000	\$0
				General Plan Fee	\$41,347	\$53,938.90	-\$12,592
				Plan review fee	\$298,701	\$388,342	-\$89,641
				Technology Fee	\$26,551	\$34,519	-\$7,968
				TOTAL	\$736,676	\$956,430	-\$219,754

New Construction Permit Type	Application Date	Project Valuation Comparison			Permitting Fees Comparison		Fee Differences
		April 2002 BVD Tables	Feb 2009 BVD Tables		April 2002 BVD Tables	Feb 2009 BVD Tables	
Residential (Single Family)	04-21-2009	\$209,151	\$237,947	Building Permit Fee	\$1,819	\$2,014	-\$195
				Business Operations Tax	\$84	\$95	-\$12
				General Plan Fee	\$418	\$476	-\$58
				Green Building Fee	\$8	\$10	-\$2
				Master Plan review Fee	\$382	\$423	-\$41
				Technology Fee	\$176	\$195	-\$19
				TOTAL	\$2,887	\$3,213	-\$326

Further, most minor building permit fees were established years ago and current CDD staff members are unable to explain how the fees were set. According to a 1998 City Council resolution, minor permit fees were set between \$75 (one inspection required) and \$175 (more than one inspection), which is the same amount at which the minor fees are currently set. Currently, the hourly rate for inspectors is \$140, which exceeds the fees charged for minor permits. However, according to the City’s Fees and Charges Policy adopted in 2006, the City may choose to set fees at less than full cost recovery. For example, some minor building permit fees, such as replacing a water heater, may fall under the low cost recovery level (0-40%) of fees due to the fact that full cost recovery may discourage compliance with regulatory compliance, adherence is primarily self-identified, and failure to comply would not be readily detected by the City.

²⁴ A 2007BVD example was specifically utilized because this year was at the height of the “housing boom.”

Moreover, it is unclear the methodology used by CDD to establish hourly staff rates. In 2008, a single hourly rate for all staff, including inspectors, engineers, technicians, and clerical, was established at \$140 an hour. Previously, staff hourly rates varied between \$65 and \$135, depending on position and type of service provided. According to CDD, the \$140 hourly rate was based on the 2008 average cost of all employees in CDD's building operations. However, they were unable to provide support to demonstrate how the \$140 hourly rate was calculated. Because CDD utilizes a single staff hourly rate in spite of cost (salaries) variances associated with the various employee categories involved in providing services, it is difficult for management to know if the costs of providing services are covered by the fees collected.

Overall, the City has not conducted regular and comprehensive reviews of its building services fees to analyze the relationships between the cost of providing service and fees charged to ensure its fee structure is set appropriately. Per the City's Fees and Charges Policy, the City should conduct a comprehensive cost of service analysis every five to seven years to ensure fees and charges are set appropriately. Additionally, the 2006 policy states that fees should be reviewed and updated on an ongoing basis as part of the annual budget process to ensure they keep pace with changes in the cost of living and methods or levels of service delivery. However, the City has not had a comprehensive fee study conducted in at least the last 10 years—in fact, CDD was unable to identify when or if a fee study was conducted and completed. The only mention of a cost study we could locate was reflected in a 2006 council report that a cost study conducted for the City was used to set building fees in 1998.

We recommend that CDD management conduct a comprehensive fee study of its building services fees and analyze the relationship between the cost of providing service and fees charged, including whether fees should be assessed for services.

Recommendations:

To ensure its fee structure is appropriately structured and the City meets its goals for service level and quality, City leaders and CDD executive management should:

37. Conduct a review of past Building Services' revenues to analyze how the monies were utilized and determine whether the usage was appropriate, complied with regulations, and was in the best interest of CDD and Building Services' operations. Make necessary adjustments in revenue utilization going forward.
38. Conduct a full-scale staffing and workload study to determine the appropriate levels of staffing to ensure service level goals can be met and related service fees are sufficient. Also, ensure the study includes analyzing and establishing a clear reporting structure and system so that Business Services' limited resources are efficiently allocated among competing priorities.
39. Conduct a comprehensive fee study of its building services fees and analyze the relationship between the cost of providing service and fees charged, including whether fees should be assessed for services provided by CDD that do not currently have an associated fee.

Section 5: Recent Process Change Initiatives are Being Implemented, but More Are Needed

As a result of recent high profile problems that surfaced related to the City's building permitting processes, including the issuance of building permits in violation of federal law, several city officials and managers have resigned or been demoted, including the departure of the former Director of Sacramento's Community Development Department (CDD) in March 2010. Nonetheless, the impact of the past improper permitting practices remains and much work needs to be done to instill integrity into CDD's Building Services Division. Based on conversations with CDD management and staff, it is apparent that the current employees of CDD acknowledge and recognize the need for significant improvement to the control environment surrounding permit and fee assessment processes. In fact, in the spring of 2010, a process improvement task force was created by Interim CDD Director (at the time) and the Acting Building Official to develop and implement process improvement initiatives aimed at taking immediate action to address some process and system weaknesses, including a "Book of Changes." Some of these recent changes, as described throughout the report, include:

- During plan review activities, fee assessments input during the permit application processes are reviewed for reasonableness to ensure all appropriate fees have been calculated and assessed; however, following plan review activities, any employee can easily modify and make additional adjustments rendering plan reviewer's efforts futile.
- During processing activities, reviewing the results of the permit application intake process to ensure the correct permit type has been established, all required plan reviews have been identified and conducted, and all necessary inspection disciplines were identified. However, because the permit counter employees also handle processing activities, it is important that CDD ensure the review is conducted by someone other than the individual that initially targeted the plan review and inspections.
- Supporting concerns raised by inspectors related to inconsistencies between job site activities and information provided by applicants during the permit application process, particularly related to job valuation and scope of work.
- Programming the permitting system to automatically expire permits after 180 days of inactivity.
- Updating the Building Valuation Data tables to calculate building fees based on current job valuations.
- Disabling the Authorization to Start work program.

Additionally, when the current CDD Director was promoted to the position in July 2010, he made it a priority to systematically identify, analyze, consolidate, and prioritize changes needed to improve CDD's overall culture and environment as well as the Building Division's processes and systems of controls. As such, we were recently provided a September 2010 consolidated listing of process improvement initiatives that included many of the change requirements

previously identified by the Interim CDD Director (at the time) and Acting Chief Building Official and also included additional proposed improvements. While we have not validated the sufficiency of the new Director's September 2010 dynamic list of proposed change initiatives, the changes appear to address some of the key issues identified by the audit. The new CDD Director's consolidated list of process change initiatives fall into three categories: 1) culture, 2) system, and 3) technology, and include 50 top priority initiatives, such as:

- Identifying department strategic initiatives
- Coordinating the implementation of audit report recommendations
- Developing organizational structure and communication strategies that integrate staff
- Implementing an Accela permitting system training program
- Developing policies and procedures for fee collection and handling
- Programming the system to expire permit applications after 180 days
- Creating new plan review process, including verifying construction job valuation
- Developing FEMA process flow and controls and providing FEMA training

Refer to Appendix C for the September 2010 listing of all 50 of the consolidated process change initiatives.

We recommend that CDD management request the City Auditor follow-up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD's progress with implementing the various initiatives.

While the various process improvement changes and initiatives are a good start and suggest that CDD management is interested in taking action to improve the considerable weaknesses that face the department, there is still much work needed to address all of the significant challenges identified throughout the report. As such, city leaders and CDD management must establish a building services reporting structure and control system that demands unwavering accountability and adherence to building laws and regulations. Additionally, Sacramento's leaders must create a firm "zero tolerance" approach to any circumvention of the City's building rules and regulations.

Recommendation:

To continue improving CDD's culture, internal control environment, and oversight, city leaders and CDD executive management should:

40. Request the City Auditor follow up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD's progress with implementing the various initiatives.

Appendix A: Narrative Description of the Community Development Department's Building Permitting Processes

CDD's Building Division is responsible for structural and life-safety concerns related to construction, demolition, or alteration of buildings within the City of Sacramento—the Building Division governs parcels, but not public ways. As such, the Building Division is responsible for reviewing construction plans, issuing permits (building, wrecking, demolition, grading, etc.) and conducting inspections on permitted projects. The California Building Standards Code determines when a project requires a permit—Appendix Chapter 1 Section 105.1 states:

“Any owner or authorized agent who intends to construct, enlarge, alter, repair, move, demolish, or change the occupancy of a building or structure, or to erect, install, enlarge, alter, repair, remove, convert or replace any electrical, gas, mechanical or plumbing system, the installation of which is regulated by this code, or to cause any such work to be done, shall first make application to the building official and obtain the required permit.”

According to CDD, a building permit is required for projects such as new construction, additions, tenant improvements, swimming pools, spas, signs, and remodeling, as well as repair and maintenance work on electrical, mechanical, and plumbing systems. Unless the project is within a design review area or preservation district (or a historic landmark), a building permit is not required for projects such as:

- One story detached accessory buildings used as tool and storage sheds where the floor area does not exceed 120 square feet.
- Fences, other than masonry walls, that are less than six feet in height.
- Retaining walls that are less than four feet in height.
- Painting, papering, and similar finish work.

Permit Application Submittal

One of CDD's key responsibilities is issuing building permits, which allow construction to begin on a building project and provide the means for inspectors to ensure project activities comply with all applicable building codes and standards. The typical process to obtain a building permit typically begins when property owners or contractors submit a permit application and project plan (including Scope of Work) via the application intake process at CDD's permit counter. CDD's permit counter is the City's public information and service center that assists customers with building, planning, engineering, and transportation inquiries and issues. While CDD counter staff handle the bulk of the permit counter workload, employees from CDD's Planning Division and employees from other city departments are also available to respond to permitting inquiries related to their specialties, such as Development Engineering (Public Works), Fire, and Utilities.

The permit counter workload is managed by CDD receptionists who sign applicants into the service console system—“Q-flow” implemented in 2009—that automatically places individuals

into service queues, including: Building, Planning, Minor Permits, Development Engineering, Fire, Housing, Utilities, General Questions, and Cashier. The Department of Code Enforcement also issues housing permits for corrections required by Code Enforcement officers—these permits are separate and distinct from CDD’s building permits.

According to California Health and Safety Code Section 19825 (a), an application must be submitted for any project that requires a building permit:

“Every city, county, or city and county, whether general law or chartered, that requires the issuance of a permit as a condition precedent to the construction, alteration, improvement, demolition, or repair of any building or structure, shall require the execution of a permit application, in substantially the same form set forth under this subdivision, and require any individual who executes the Owner-Builder Declaration to present documentation sufficient to identify the property owner and, as necessary, verify the signature of the property owner.”

Along with completing the permit application, during the initial permit application intake process applicants submit basic project information that CDD counter staff input into Accela, the City’s automated permitting system (implemented in 2006), including:

- Description of the work.
- Legal address of the project.
- Owner name and telephone number.
- Applicant name, address, telephone number, fax number, and email address.
- Contractor, architect and/or engineer name, license number, address, and telephone number (if applicable).
- Valuation of the proposed work (including materials and labor).
- Plans (if required)—one plan set for each discipline required (minimum two).
- If a historic landmark or within a preservation district, a completed Certificate of Appropriateness (COA).
- If within a design review district, a completed Design Review Submittal Matrix.

Depending on the scope and type of project, additional forms may be required to be submitted, such as Title 24 Energy Code Alteration Forms. In addition to providing basic project data at the time of application submittal, CDD requires applicants to also present either proof of property ownership, such as a copy of the Deed of Trust, or a signed letter of authorization by the property owner.

Relying on the specific project information provided by the applicants, CDD counter staff are responsible for:

- Establishing the type of permit needed,
- Determining the plan reviews/approvals required (if any),
- Estimating the total amount of permitting fees due required at time of permit issuance,
- Invoicing preliminary fees required at time of application submittal as well as invoicing outstanding fees due at time of permit issuance, and
- Identifying the inspection disciplines required.

After establishing the type of building permit needed and determining which city departments must be involved in reviewing and approving building plans, CDD counter staff route the plans accordingly via “target” boxes located within CDD. Permitting requirements can range from not requiring any plans be submitted for review to requiring plans be reviewed and approved by plan reviewers within multiple city departments, including CDD, Fire, Development Engineering, and Utilities. Counter staff also identify which inspection disciplines will be required after plans are approved, permits are issued and work begins, which typically include the same entities involved in the plan review.

Also during the initial permit application intake process, counter staff preliminarily estimate all permitting fees related to a building permit. In addition to the building permit fee (covers inspections), there are numerous other fees and taxes that apply to almost all building permits, such as plan review fee, technology fee, general plan fee, and city business operation tax as well as geographical related fees for building within specific areas of the City. The preliminary fee estimate includes certain initial fees that are invoiced and due at the time of permit application submission, including plan review, counter staff hourly fees, and technology fees, which must be paid by the applicant before plans are routed for plan review. These fees must be paid at the time of application submittal (prior to plan review) and are due whether or not a permit is issued. All other permitting fees are finalized, invoiced, and payable when the permit is issued after the building plans are approved. Additionally, there are certain fees that are not collected by CDD, such as school impact fees and regional sanitation fees (commercial projects), but must be paid prior to permit issuance.

Expiration of a Permit Application

Permit applications where a permit has not been issued expire in 180 days of inactivity. According to California Building Code 105.3.2:

“An application for a permit for any proposed work shall be deemed to have been abandoned 180 days after the date of filing, unless such application has been pursued in good faith or a permit has been issued; except that the building official is authorized to grant one or more extensions of time for additional periods not exceeding 90 days each. The extension shall be requested in writing and justifiable cause demonstrated.”

Plan Review and Approval

According to California Building Code 106.3:

“The building official shall examine or cause to be examined the accompanying construction documents and shall ascertain by such examinations whether the construction indicated and described is in accordance with the requirements of this code and other pertinent laws or ordinances.”

Building permits requiring plans may require the following types of plans and documents be reviewed and approved, which must be prepared by the owner (residential only), architect, engineer, draftsman or designer:

- Site Plan
- Floor Plan
- Exterior Elevations
- Structural Plan
- Structural Engineering Calculations
- Energy Compliance Demonstration
- Product “Listing” Numbers
- Automatic Fire Extinguishing System Plans

As previously described, counter staff “target” or route plans to Plan Reviewers (engineers and a few inspectors) within CDD’s Plan Review Unit (electrical, structural, life safety, mechanical/plumbing). Plans are also routed to other city departments such as Fire, Utilities, and Development Engineering (within Department of Transportation) for specialized review and approval processes to ensure plans are in compliance with Federal, State and City Codes, laws, and ordinances. For example, Development Engineering is concerned with projects that involve areas that are accessible to the public, such as sidewalks, trees, and streetlights. Their plan review process is to ensure projects are designed properly and maintain the public infrastructure adequately. Plans may also be required to be reviewed for compliance with the City’s design review districts and/or historical preservation districts, if applicable.

Master Plan Review Process

The plan review process for residential communities goes through a similar process, but allows for some streamlining through the utilization of an approved master plan. A master plan is essentially a “cookie cutter” plan that is assigned a specific master plan number and will be used repetitively to construct “production homes.” The site specific building permit application is the submittal of a particular master plan on an individual parcel. Because most of the plan review is completed during the master plan review approval process, when the site specific building applications are submitted, the review time and cost is significantly reduced.

Specifically, master plan approvals related to site specific parcels are dropped off and reviewed in batches by qualified plan reviewers and inspectors outside of the formal “targeted” plan review workflow. The permit application has a simple plot plan showing a footprint of the pre-approved master plan model as well as the site-specific set backs from property lines that require additional approval. According to CDD management, the verification process is simple and processing typically takes a couple of days to issue permits.

Over-the-Counter Plan Review

Generally, nearly all commercial building projects require plans; however, not all residential permit applications require plans, such as minor permits related to water heater replacement, re-roof, siding, and sewer/water replacements projects that are outside of design review areas and/or historical districts. According to CDD, plans that require less than 20 minutes of review can be handled “over the counter” during the application intake process by a qualified plan reviewer. CDD assigns “plan reviewers of the day” on a rotational basis to the permit counter to handle over-the-counter plan reviews three hours on three days a week. This service was offered on a more regular basis when CDD had a larger plan review staff, but as plan review staff levels have diminished, the hours and days over-the-counter review could be provided was reduced.

Permit Processing

Permits are ready to be processed when all required plans on a project have been reviewed and approved and each plan reviewer has updated Accela granting approval, which prompts the system to automatically assign the permit application the status of “processing.” Each day, the system generates a report listing all projects that reflect the status of processing and processing activities are currently handled by a dedicated member of the permit counter staff. Key processing activities include ensuring the hard copies of all reviewed plans reflect approval signatures and assembling the various approved plans into two identical sets—a city copy and job copy.

Once all processing activities are complete and necessary corrections are resolved, the processor changes the permit application status from “processing” to “ready for issuance” and finalizes and invoices all outstanding permitting fees that are due and payable before the permit is issued. Lastly, the processor calls the applicant to inform them their permit is ready to be issued and the amount of outstanding fees that are due.

Permit Issuance

Once processing activities are complete and a permit is deemed “ready to be issued,” the applicant has a final meeting with a member of the counter staff to go over the permit and plan documents. At this time, the plans are stamped “issued” and the applicant remits all outstanding fees to the cashier counter.

According to Building Code Appendix Chapter 1 Section 108.1:

“A permit shall not be valid until the fees prescribed by law have been paid, nor shall an amendment to a permit be released until the additional fee, if any, has been paid.”

According to City Code 15.08.070²⁵:

“...If the building official finds...that the require fees have been paid, he or she shall issue a permit therefore to the applicant.”

Cashiers process payments utilizing a separate cashiering system, updates the Accela system by changing the permit status to “Issued,” and prints the permit document.

Minor Permits

According to CDD, permits that do not require plans can be issued, and are considered “minor” permits that can be issued immediately by completing an application and remitting the required fees via that counter or through the fax/email permit application program. Minor permits involve the following type of projects:

- Sidings
- Heating and air conditioning installations (HVAC)
- Water heaters
- Electric services change
- New electric circuits
- Re-wiring
- Water service replacement
- Sewer service replacement
- Gas line replacement
- Re-plumbing
- Public utility safety inspections

The “Fax” or “E-permit” application program allows applicants to request certain types of minor residential building permits that do not require plan checks via email or fax. Applicants must register for the program at CDD’s permit counter and provide a credit card to be kept on file with proof of identification. Approved permits can be picked up at the permit counter or sent via email.

Inspections on Permitted Work

Once a permit is issued and work begins, inspections can be scheduled as necessary and include separate disciplines, such as: life safety, plumbing/mechanical, electrical, fire, development engineering, utilities, and air quality. Common types of inspections include:

- Foundation

²⁵ City Code version in place at the time pertinent to areas reviewed- City Code was updated in June 2010 and code numbering may have changed.

- Girder and/or Under-Floor Inspection (raised floor only)
- Under-floor Insulation (raised floor only)
- Shear and Roof-ply Nail
- Framing (above floor)
- Insulation
- Final (ready for occupancy)

According to CDD staff, the vast majority of inspections are scheduled using the automated scheduling system that interfaces with Accela and inspection requests can be made 24 hours a day—requests made before 4:00 p.m. are scheduled for the following work day and requests made after 4:00 p.m. and on weekends or holidays are scheduled two working days later. The issued permit and set of city-approved plans must be kept on the project site at all times throughout construction and available during each inspection.

If permit work does not pass inspection the first time, a re-inspection is necessary and a correction notice from the inspector is given to the project owner or contractor listing the items that need to be fixed before work can pass inspection. Inspectors also input inspection results and requirements into Accela. Only after the required changes are completed and additional inspection fees are paid can additional inspections be scheduled.

A permit is considered complete when approvals from all inspectors in all required disciplines are obtained. For commercial projects, the City issues a Certificate of Occupancy or Compliance once all inspections have cleared and all aspects of the permit have been completed. A Temporary Certificate of Occupancy may also be issued for a time period of sixty days or less provided no Fire or Life Safety items are outstanding and all inspectors provide approval for the temporary certificate. Certificates of Occupancy or Compliance are not issued for residential structures.

Expiration of Building Permits

According to City Code Section 15.08.160²⁶, a permit expires after 180 days if no work has commenced or if work has been abandoned for a period of 180 days, which includes failing to request inspections. However, an unexpired permit may be granted a one-time extension of an additional 180 days if it is deemed that work is unable to commence for good reason. If a permit expires, the process is to send a letter to the permittee and then turn the case over to the City's Code Enforcement Department. However, due to a lack of resources, these processes have not been enforced.

Appendix B: Audit Testing Detail Summary

Although CDD has not developed formalized policies, procedures, and protocols over its permitting or fee assessment processes, we attempted to document and test CDD's permitting activities to evaluate the uniformity, integrity, and soundness of its practices, actions, and decisions as well as compliance with city and state laws and codes. Given the broad system access assigned to both employees and external entities, combined with the ability to easily modify and void required permitting fees, transfer/credit payments, and the lack of supervisory review processes, a significant portion of our testing focused on CDD's fee assessment practices. Our testing utilized a multifaceted testing strategy where we created two test segments resulting in a total of 509 individual permits tested:

- **Project Specific Testing**—The first segment of testing was required by the scope of the audit and focused on the permitting and fee assessment activities of specific projects identified by the City Attorney's Office (CAO) as warranting further audit review. Approximately 2,500 pages of associated documentation were gathered by the CAO from various interviews and whistleblower telephone calls. From within the CAO documentation, we identified 14 separate projects and 363 unique permits requiring further review and testing; any additional permits associated with the 14 projects, but not identified within the documentation were not analyzed, tested, or included in the test results. Testing details begin on page 82.
- **Judgmental Sample Testing**—The second segment of testing focused on permitting and fee assessment activities related to permits issued in 2007, 2008, and 2009. We judgmentally selected 146 individual permits to review and test by varying the project valuation amounts, permit fees assessed and paid, permit types, etc. Testing details begin on page 94.

Altogether, the results of our testing and calculations reflect that at least \$13,668,517 in permitting fees was due across the 509 individual permits tested, but CDD only collected \$11,335,657—a difference of more than \$2.3 million. The \$2.3 million calculated as underpaid is based on information contained within CDD's Accela permitting system and compared to CDD processes and City rules in place at the time of permit activity. Refer to the Scope and Methodology section of this report for a detailed description, including limitations of the testing process.

As mentioned in Section 3, due to the lack of comprehensive permitting policies and procedures and fee assessment guidelines and manuals and the numerous entities involved in assessing amounts due, we could not always verify or validate the amount of fees (permitting and development impact) or taxes due or collected. Where we were unable to validate fees due, we assumed the amounts assessed, as reflected in Accela, were correct—if actual discrepancies exist, those amounts are not included in the \$2.3 million reflected as not collected by CDD noted above. Also, the unpaid amount does not include the underassessment of fees (including permitting and development impact) and taxes where:

- Permits were not properly issued when project permits expired, ownership changed, etc.
- Partial or phased permits were inappropriately issued in lieu of main building permits.

- Project information, such as project type, was not set correctly.

It is important to note that determining whether collecting some of these unpaid or uncollected fees is possible was not within the scope of this audit. However, the magnitude and collectability of the City's revenue losses due to these lapses should be reviewed and analyzed by City management.

Project Specific Permit Test Results

Overall, our calculations reflect that at least \$8,093,914 in permitting fees was due across the 363 permits tested, but only \$5,886,601 was collected by CDD—a difference of more than \$2.2 million. The remainder of this section summarizes the test results by project.

Project #1—SACA Towers on Capitol Mall—13 permits and/or permit applications tested

In direct violation of City Code, the City provided a significant amount of plan review service in 2006 to the developer of the downtown commercial high-rise project without invoicing or requiring payment prior to providing the services. Specifically, the developer owed the City approximately \$750,000 associated with plan review services provided in 2006 on six permit applications; however, the developer wasn't invoiced any fees until July 2007. Ultimately, permits associated with the six applications were never issued because the development project folded. In August 2007, approximately \$546,500 of the outstanding bill was paid by a third party. The remaining amount, approximately \$200,000, was noted in the system as a reduction in plan review fees on one of the permit applications even though City Code states that no part of plan review fees are refundable. According to the former Operations Manager that oversaw the project, the fees were reduced as part of negotiations to resolve issues associated with the failed project so that the City would receive some payment for the services provided and because the project was halted before all the plans could be reviewed.

Additionally, one of the six permit applications was to install production piles for the project and the developer was allowed to start construction in 2006 via the authorization to start work processes even though a building permit was not approved or issued and fees were not paid. As mentioned, the permit was never issued and associated preliminary permitting fees due at permit application were not paid until August 2007.

Related to the same project, approximately \$5,400 was owed in permitting fees associated with two permits (grading and foundation) that were issued in 2006. While the permitting fees should have been paid prior to plans reviewed and permits issued, fees related to the grading permit were not invoiced until June 2007—more than a year after the permit was issued. Of further note, permitting fees related to the second permit—a foundation permit—were voided in the system on November 3, 2006 and the permit issued the same day without any payment required by the applicant. These two permits were not finalized and most fees were eventually paid in August 2007 as they were included in the \$546,500 amount eventually remitted for this project.

Moreover, a shoring/excavation permit was issued to the developer of this project in September 2006 before all permitting fees were paid. While \$6,170 in permitting fees was due before the

permit could be properly issued, only approximately \$1,400 was paid in June 2006 before the permit was issued and another \$782 was paid in August 2007. In total, approximately \$2,180 was paid, leaving about \$4,000 left unpaid. According to former CDD management, only preliminary fees were charged because construction never commenced and the City wanted to resolve the project’s issues and receive some payment.

Summary of fee discrepancies identified for Project 1*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$763,348.46	\$552,972.86	-\$210,375.60

*Summary figures include additional small discrepancies not described in the narrative.

Project #2—A-1 U-Stor—4 permits and/or permit applications tested

CDD issued a permit to the developer of this project to construct a new commercial storage building in July 2006. The Building Valuation Data (BVD)²⁶-calculated valuation reflected a job valuation of \$800,000 while the applicant-provided valuation reflected \$600,000. CDD utilized the lower applicant-provided valuation even though protocol requires utilizing the higher BVD-calculated valuation. Under a \$800,000 job valuation, permitting fees derived from job valuation figures (building permit, plan review, city business tax, general plan, and technology fee) would have totaled approximately \$11,800 while under the \$600,000 job valuation, these fees were invoiced at \$9,033—a difference of more than \$2,700.

Related to another permit issued to the same commercial developer to construct a new building in August 2007, the BVD-calculated job valuation reflected \$1,156,547 while the applicant-provided valuation reflected \$1,312,747. Again, CDD utilized the lower valuation figure even though protocols stipulate utilizing the higher of the two valuations (except for plan review fees—the higher valuation was applied appropriately). Under a \$1,312,747 job valuation, permitting fees derived would have totaled appropriately \$18,886 while under the \$1,156,547 job valuation, these fees were invoiced at \$17,628—a difference of more than \$1,250.

Additionally, related to the permit issued in August 2007, before proper permit issuance, the developer should have paid all outstanding permitting fees, including development impact fees. Although initially assessed, we found \$315,268 in Jacinto Creek planning area development impact fees were voided in the permitting system, effectively reducing the amount of total permitting fees required to be remitted from nearly \$352,000 to approximately \$35,000—the amount paid by the developer. Subsequently, in November 2007, the City reevaluated the permit and approved a reduction in the amount of impact fees due from the previously voided \$315,268 to \$235,780 after removing channel improvement fees of nearly \$80,000—this type of reduction is allowable per City Code and documentation was present to support the reduction. Unfortunately, a permitting condition requiring the development impact fees be paid prior to the final inspection was ignored as the permit was finalized and a certificate of occupancy was

²⁶ Refer to Section 3 of the main body of the report for discussion of the project valuation determination process.

issued in March 2008 without payment of the \$235,780 voided and outstanding fees. The City sued the developer in 2008 and the developer filed bankruptcy.

Summary of fee discrepancies identified for Project 2*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$310,739.39	\$71,137.51	-\$239,601.88

*Summary figures include additional small discrepancies not described in the narrative.

Project #3—Le Rivage—5 permits and/or permit applications tested

This commercial hotel developer submitted a permit application in June 2003 that expired at the end of 2003 due to the lack of activity. Because a permit was not issued, only preliminary fees related to plan review and technology fees that are due when a permit application is submitted were collected—approximately \$38,000. When the developer applied for another permit application two years later in 2005 that was eventually issued in 2007, the entire amount of preliminary fees paid on the 2003 expired permit application was inappropriately credited against the permitting fees owed on the new permit even though plan review services were conducted on the original permit application and City Code expressly prohibits refunding plan review fees. According to former CDD management involved with the project, even though plan review fees are explicitly nonrefundable, the fees from the 2003 permit application were credited to the 2007 permit with the approval of the former Chief Building Official to help the developer cover the costs of the project and to get the project moving. However, CDD was unable to provide evidence that the developer requested or was approved to receive any permitting fee refunds, credits, or transfers.

Additionally, the second building permit was issued and the vast majority of building permitting fees paid in December 2007, but the first inspection occurred on the project six months earlier on June 1, 2007; thus, CDD provided inspection services before the building permit was issued and all outstanding fees paid.

Summary of fee discrepancies identified for Project 3*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$528,331.55	\$487,623.46	-\$40,708.09

*Summary figures include additional small discrepancies not described in the narrative.

Project #4—Sonic-TGIF—6 permits and/or permit applications tested

According to the administrator of the City’s “official” fee deferral program, the developer of these two commercial restaurant projects was denied participation in the program—a program established by the City Council to formally defer certain development impact fees to reduce the

financial burden on building projects and to act as an economic stimulus strategy for the City. Nonetheless, CDD essentially informally deferred the vast majority of the developer’s permitting fees anyway by allowing the developer to pay significantly less in permitting fees than required to get work started on the projects through the improper use of the partial permit process.

Specifically, in January 2008, CDD inappropriately issued the developer significantly less costly “foundation-only” partial permits for the two projects even though the more expensive main building permits had long been ready to be finalized—nearly 18 months prior in July and August 2006. Specifically, the developer was charged approximately \$2,000 combined for the two foundation only permits rather than the required payment of approximately \$600,000 in outstanding permitting fees to have the main permits issued. Further, the partial permits were issued and work was allowed to start even though the developer already owed approximately \$44,500 in preliminary plan review and technology fees—fees that were due regardless if permits were issued or not.

Then, in May 2008, CDD authorized additional work to be conducted without permits—via the “authorization to start work” process discussed later in this section—at a minimal cost of \$700 combined. According to the CAO, CDD posted stop work notices for both projects in August 2008 when it became clear that the developer had completed substantial work beyond the scope of the authorizations and was having financial difficulties that would impact the ability to pay the outstanding permitting fees.

In the end, the partial permits should not have been issued and associated fees not collected; rather, the CDD should have issued main building permits and collected permitting fees corresponding to the main building permits. Not only was the developer allowed to circumvent the full permit process, if CDD had required the two building permits be properly issued, the City stood to receive more than \$600,000 in permitting fees between the two restaurant projects versus a little more than \$13,000 it actually received in preliminary application fees and partial permit fees. In November 2008, the developer filed for bankruptcy and the project site is impacted by the Federal Emergency Management Agency’s (FEMA) building moratorium in the Natomas basin that went into effect in December 2008.

Summary of fee discrepancies identified for Project 4* :

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$47,016.63	\$13,286.50	-\$33,730.13

*Summary figures include additional small discrepancies not described in the narrative.

Project #5—500 Capitol Mall—1 permit tested

The CAO documentation that served as the testing universe for the project specific testing group identified only issues that related to planning activities associated with the 500 Capitol Mall project; thus, no further testing conducted as part of this testing group planning activities were deemed outside the scope of this audit. However, 500 Capitol Mall was included in the

judgmental sample testing we conducted and the results of that portion of permit testing starts on page 94 of this appendix.

Project #6—Natomas Landing—1 permit tested

Within certain areas of the City, including the Natomas Basin, prior to CDD issuing a “stockpiling” permit²⁷, Development Engineering (a unit within the City’s Department of Transportation) must issue the developer an urban development permit to allow grading activities and collect certain fees, including Habitat Conservation Plan (HCP) Fees. Specifically, CDD inappropriately issued a permit, identified in Accela as a “stockpiling” permit, on February 14, 2008 even though Development Engineering neither issued the required urban development grading permit nor collected the required HCP fees. Further, urban development grading permits require that the City Council first approve the project and in this case, according to the CAO, a vote had not been conducted prior to the issuance of the stockpile permit. When it was discovered that City Council approval for the project had not been received, the urban development grading permit had not been issued, and HCP fees had not been collected, the City’s CAO met with various city staff to determine the amount of HCP fees due. Development Engineering calculated the fees to total more than \$1.5 million. On August 11, 2008, the CAO issued a memo instructing that either HCP fees due must be collected or an ordinance to deviate from the HCP requirements would have to adopted by the City Council before the project could proceed. Yet, according to information within the Accela permitting system, on August 12, 2008, a CDD employee overrode the CAO’s opinion and extended the permit for an additional 180 days without the City Council’s approval of the project, Development Engineering issuance of a grading permit, or the collection of the HCP fees. Although stockpiling work began on August 13, 2008, a stop work order was issued the same day.

According to CDD, the process flaw that allowed these permits to be issued before required engineering permits were issued was that CDD staff did not consider the special rules applying to certain areas of Natomas and CDD’s environmental planning group was not appropriately included in the process to issue this type of permit.

Summary of fee discrepancies identified for Project 6*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$6,253.12	\$4,778.12	-\$1,475.00

*Summary figures include additional small discrepancies not described in the narrative and amounts do not include the approximate \$1.5 million in uncollected HCP fees as those amounts are not collected by CDD.

Project #7—AM/PM Mini Market/Camino Station—8 permits and/or permit applications tested

The developer of this project was issued a building permit in June 2008 to construct a new mini-market and gas station. The BVD-calculated valuation reflected \$995,480 while the applicant

²⁷ A stockpiling permit is for the temporary storage of fill material for future use in a construction project.

provided valuation reflected \$2,955,000 and, similar to other projects, CDD utilized the lower job valuation even though procedure calls for utilizing the higher contractor valuation. Under a \$2,955,000 job valuation, permitting fees derived from job valuation figures would have totaled about \$42,000 while under the lower \$995,480 valuation, these fees were invoiced at about \$15,000—a difference of about \$27,000. CDD was unable to justify the use of the significantly lower job valuation to assess the permitting fees.

Similar to issues within Project #6, before CDD could properly issue a building permit to the developer of this project, Development Engineering should have issued an urban development permit for grading activities and collected certain fees from the developer, including Habitat Conservation Plan (HCP) Fees and Willowcreek Assessment District (WAD) fees. Specifically, CDD inappropriately issued a building permit on June 30, 2008 even though Development Engineering had neither issued the grading permit nor collected the HCP and WAD fees as required prior to permit issuance. It appears that Development Engineering eventually issued the developer the required grading permit in September 2008 and collected all outstanding HCP and WAD fees by March 2009.

Summary of fee discrepancies identified for Project 7*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$86,106.02	\$57,964.53	-\$28,141.49

*Summary figures include additional small discrepancies not described in the narrative.

Project #8—Granite Bay Land Fund—49 permits and/or permit applications tested

This residential developer was issued 14 permits in April 2006 to construct homes in the Natomas community; however, because construction activity had not commenced within 180 days these 14 permits should have expired in the fall of 2006. To properly deactivate the expired permits and ensure that all activity related to the permits ceased, CDD should have disabled the expired permits in the permitting system. However, the permits maintained their active status and construction commenced in December 2008—nearly two and half years after the permits were issued. Not only were the permits expired when construction activity was allowed to restart, but the permits were also invalid as, according to the CAO, ownership had changed on the property. In the end, the 14 building permits issued to the original owner in 2006 should have expired and the associated fees paid by the original owner forfeited—there was no evidence that the original owner submitted a request for refund or credit associated with any refundable fees. In 2009, the new property owner should have applied for 14 new building permits and paid the corresponding additional permitting fees.

This residential developer was also issued an additional 32 permits issued in December 2008 even though, according to the CAO, they did not appear to be the owner of record. However, the property owners and permittee contend that a sufficient ownership relationship existed between the parties. Nonetheless, park development impact fees were credited on all 32 permits in the amount approximately \$155,000 in total. However, CDD could not provide justification for the credit or evidence of approval by the City’s Parks and Recreation Department.

Another permit application was submitted by the developer in September 2007 where plan reviews were conducted, but the permit was never issued. Because the permit was not issued, the permittee only owed preliminary fees in the amount of about \$553 for plan review, technology, and utility erosion control review fees. However, the developer paid \$9,082; thus, overpaying by \$8,529.

Summary of fee discrepancies identified for Project 8* :

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$1,184,840.71	\$1,042,302.27	-\$142,538.44

*Summary figures include additional small discrepancies not described in the narrative.

Project #9—Villa Terrassa—84 permits and/or permit applications tested

The residential developer of this project purchased lots from another developer in 2009, including six lots where building permits were previously issued in 2006 to construct production homes in the Villa Terrassa community. In the spring and summer of 2009, the new residential developer applied for new building permits related to the six lots where permits were previously issued. In April 2009, the six building permits were issued, but only a fraction of the required fees were invoiced and paid—apparently as an offset because the original developer previously paid some permitting and development impact fees in 2006, such as park development impact fees. While City Code allows some development impact fees to be credited at the discretion of the applicable department director, CDD was unable to provide evidence that the new developer requested or was approved to receive any related transfers, credits, or offsets in 2009 as compensation for the previous owner’s 2006 fee payments. Further, due to the lack of documentation, it is also nearly impossible to determine if the former owner actually received any related credits, refunds, or transfers related to their 2006 fee payments, which would also impact the new developer’s ability to appropriately request and receive approval for permitting fee credit offsets. As such, the documentation available within the Accela permitting system indicates that, in total, the new developer paid about \$18,400 in permitting fees associated with these six building permits rather than more than \$74,800 in total permitting fees due—an underpayment of about \$56,400.

In addition to the six building permits discussed above, the residential developer applied for 23 additional building permits in the spring and summer of 2009 to construct new homes within the Villa Terrassa community. While these “main” building permits associated with the project were never issued, required preliminary fees were never collected even though CDD utilized resources reviewing project plans. In total, at the time of permit application submittal for these permits, the developer should have paid more than \$12,000 in plan review and technology fees, but paid nothing. Also, even though permits were never issued and building permit fees never paid, CDD conducted inspections on all 23 lots between June and August 2009—ranging from 2 to 13 inspections conducted on each lot. Thus, the City not only did not follow rules for collecting fees up front, but provided inspection services before permits were properly issued.

Related to the 23 main building permits discussed above, the residential developer was inappropriately issued 23 “foundation-only” partial permits in July 2009 although 23 main building permits were ready to be issued. As such, the partial permits should not have been issued and associated fees not collected; rather, the CDD should have issued main building permits and collected permitting fees corresponding to the main building permits. It is unclear why CDD allowed partial permits to be issued when the main building permits were ready for issuance, which created a substantial loss of revenue for the City. For example, on just one of the 23 lots, the developer only paid \$1,692 in fees associated with the foundation only partial permit rather than nearly \$16,000 in fees that would have been due if the full building permit been issued rather than a partial permit. In total, the developer paid \$28,000 in fees associated with the 23 foundation only permits that should not have been issued rather than hundreds of thousands in permitting fees that would have been due had the 23 main building permits been appropriately issued.

Subsequently, according to CDD management, the City opted “start over” by issuing 23 new and separate building permits in October 2009 with all of the required fees appropriately assessed for the most part—the developer paid more than \$374,000 of the fees prior to the issuance of these new permits.

Summary of fee discrepancies identified for Project 9* :

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$544,064.65	\$510,034.32	-\$34,030.33

*Summary figures include additional small discrepancies not described in the narrative.

Project #10—Wickford—30 permits and/or permit applications tested

This residential developer submitted six new “main” building permit applications for this project in June 2009 to construct production homes in the Wickford community. Although building permits were ready to be issued in June 2009 pending payment of approximately \$100,000 in permitting fees, the permits were never issued. However, plans were reviewed and more than \$2,800 in associated preliminary fees was not collected on the six permit applications.

Further, although the main building permits were ready to be issued in June 2009, the developer applied for six “foundation only” partial permits in August 2009—apparently to avoid or delay paying all of the permitting fees required at the time of permit issuance of the six main building permits. However, the foundation only permits were not issued, but inspections were allowed to be conducted anyway—five inspections on each of the six lots. In total, the developer paid \$0 in fees associated with any of the main or partial permits rather than potentially nearly \$100,000 in permitting fees that would have been due had the 6 main building permits been issued.

Summary of fee discrepancies identified for Project 10* :

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$203,087.12	\$202,048.99	-\$1,038.13

*Summary figures include additional small discrepancies not described in the narrative.

Project #11—Winterhaven—11 permits and/or permit applications tested

The residential developer of the Winterhaven project applied for eleven building permits between October and December 2008 to construct new residential homes. On December 5, 2008, plans were approved and permits were ready to be issued. However, because the final map had not been approved to subdivide the parcels, permitting conditions were attached to the ten permits advising staff to not issue permits until approval of the final map. The CAO advised CDD officials on December 5, 2008 that it was “unlawful to construct any building for sale on any proposed parcel until the final map is recorded.” Nonetheless, CDD staff issued new residential building permits for eight of the lots the next day on December 6, 2008 (three permit applications expired)—just two days prior to the December 8, 2008 FEMA deadline stopping all building in the Natomas Basin. Although foundation inspections were conducted in June 2009, according to the CAO, in this case, the final map was never recorded and the property never subdivided.

Additionally, while most permitting fees are due at permit issuance, certain preliminary fees are due prior to plan check, including plan review and technology fees. Related to the three expired permit applications, the developer owed just over \$950 for plan review and technology fees, but paid nothing.

Summary of fee discrepancies identified for Project 11* :

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$82,741.50	\$81,453.07	-\$1,288.43

*Summary figures include additional small discrepancies not described in the narrative.

Project #12—Natomas Central Fee Issues—70 permits and/or permit applications tested

In April 2009, CDD staff inappropriately cleared permitting conditions within the permitting system and allowed the construction of new residential homes in the Natomas Flood Zone in violation of the Federal Emergency Management Agency (FEMA) building ban within the project area that went into effect on December 8, 2008. Specifically, FEMA remapped the Flood Insurance Rate Maps for the Natomas Basin and under FEMA regulations and the City’s Floodplain Management Ordinance, all new construction or substantial improvements to structures in the Natomas Basin had to meet an elevation requirement of one foot above the 33-

foot base flood elevation. Otherwise, building permits could not be issued and construction could not be conducted.

Between 2006 and 2008, 35 building permits were issued to construct new residential homes within a Natomas Central subdivision—all of which appeared to be appropriately issued just prior to the FEMA building ban. However, in 2009, the Natomas Central developer wanted to exchange the 35 original permits for 35 new permits to build on completely different lots. However, City Code and building regulations do not allow permits to be transferred from one property to another; thus, permit applications for 35 new permits were submitted in April 2009. Despite FEMA’s building ban being in effect at this time, CDD staff ignored the FEMA related permitting condition warning programmed into Accela and inappropriately created 35 new permit application records.

Then, in direct violation of the FEMA building moratorium, CDD allowed construction to begin on the 35 new lots in late April 2009 via authorizations to start work—permits were not actually issued until September 22, 2009, again contrary to the FEMA ban and the “conditions of approval.” In late September 2009, the City’s Department of Utilities noticed permits were issued and that projects were in various stages of construction in violation of the FEMA building ban. Construction was suspended on February 23, 2010 and, currently, most permits have expired. Nonetheless, the developer was able to sell nine of the homes between August and December 2009. The City of Sacramento provided FEMA with a corrective action plan on March 31, 2010 that describes immediate actions taken to prevent similar violations within the CDD such as restricting authority to remove a hold on a permit to certain staff. The action plan also includes development site-specific remediation alternatives, such as purchasing, removing, relocating, elevating, and flood proofing the completed structures as well as having the home builder purchase private flood insurance for the occupied homes. The estimated costs to the City associated with the action plan mitigation alternatives range from just over \$500,000 to nearly \$4 million.

Further, not only were the 2009 building permits issued in violation of a federal building ban, many of the associated permitting fees were assessed incorrectly or were not assessed at all. While there is not much consistency in treatment from permit to permit, it appears that CDD used the 2006 fee schedules for assessing many of the permitting fees—essentially using the fee structures in place when the 35 original permits were first issued. In addition, not only were outdated schedules used for fees applied, new fees such as the Green Building, Sacramento Area Flood Control, and Sacramento Transportation Mitigation fees were not assessed for most of the 35 new permits—fees that were not in place in 2006, but were in place in 2009. Additionally, several development impact fees, such as the Park Development Impact Fees and North Natomas Development Fees, were based on 2006 fee amount structures. As an example, on one of the new 35 building permits, about \$9,500 in North Natomas development fees was paid, but more than \$14,000 should have been assessed. In total, the 35 new 2009 building permits should have been assessed at least \$1.096 million, but were only assessed \$770,000—a difference of more than \$325,000.

What is more, contrary to city provisions, all fee payments—approximately \$700,000—made on the original 35 permits were inappropriately credited years later to the 35 new permits that were

issued in 2009 even though the new permits were for entirely different lots. Moreover, plan review fees paid on the original permits cannot be credited towards the fees of other permits as they are expressly nonrefundable per City Code, whereas certain other types of fees paid on the original permits may have been able to be refunded or credited if appropriate steps were followed. However, there is no evidence that the developer requested any permitting fee refunds or credits within the allowable timeframes outlined in City Code nor is there evidence of city approval for any refunds, credits, or transfers. In total, the developer owed approximately \$750,000 in permitting fees related to the 35 original permits and paid approximately \$700,000, all of which was inappropriately credited against what was owed on the 35 new permits that related to different lots than the original permits.

Overall, permitting fees paid on the 35 original permits should not been credited against permitting fees owed on the new permits and the City should have received all required permitting fee payments on the 35 new permits issued in 2009. Thus, across all 70 permits (35 original permits and 35 new permits) tested associated with this project, the City should have received more than \$1.8 million in payments, but only received about \$770,000 in total—a difference of more than \$1 million.

Lastly, even though the building permits on the 35 new lots were not issued and permitting fees were not processed until September 22, 2009, inspections on the lots began in late April 2009 on foundations that were poured and completed between May 6, 2009 and June 1, 2009.

Summary of fee discrepancies identified for Project 12*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$1,844,255.41	\$770,503.44	-\$1,073,751.97

*Summary figures include additional small discrepancies not described in the narrative.

Project #13—Natomas Central 15 Permits—28 permits and/or permit applications tested

The developer of a Natomas residential community related to this project was issued 14²⁸ building permits in March 2007 for new residential construction and paid appropriately \$371,559 in associated permitting fees. Nine months later, in December 2007, the same developer submitted another 14 permit applications for construction on completely separate lots and in October 2008, the developer paid a little more than \$200,000 in associated permitting fees. According to the CAO, within a few days of the October 2008 payments on the second group of permit applications, the original 14 permits were altered to change the addresses and parcel numbers of the lots to those of the second group of 14 permit applications. Then, two months later, the October 2008 payments to the City on the permit applications were voided (except for approximately \$6,700 in combined master plan review fees) and the second set of permits were never issued. It appears the modifications were to make it appear that the original permits were related to the second set of 14 lots so that construction that resumed in April 2009 on those lots

²⁸ We could only locate 14 related building permits even though the City Attorney’s Office documentation indicates there were 15 associated permits.

could be conducted under the original building permits; thus, avoiding paying permitting fees on the second set of lots. Complicating the matter, construction authorized by the original set of permits was allowed to resume in April 2009 even though the original permits expired in September 2007 due to inactivity, but CDD allowed the permits to remain active. Therefore, under city provisions, it was unlawful to transfer the original permits to the second set of lots and CDD should have required 28 individual permits be issued for the 28 separate lots (14 original lots and 14 new lots) for a total of approximately \$765,000. However, the developer only paid permitting fees in the amount of approximately \$378,000. Because of these actions, the City never collected significant amounts of fee revenue totaling more than \$387,000.

Summary of fee discrepancies identified for Project 13*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$764,663.93	\$378,732.35	-\$386,931.58

*Summary figures include additional small discrepancies not described in the narrative.

Project #14—East Sacramento Fee Deferral Agreement—53 permit and/or permit applications tested

According to CDD’s fee deferral program administrator, since the program began only seven participants were approved to defer fees (several had fee deferrals on multiple projects) through the City’s formal fee deferral process. As discussed in Section 2 of this report, a security gap was created within CDD’s permitting system related to projects associated with the City’s formal deferral program that allowed final inspections to be conducted and permits finalized before payment was received even when outstanding balances were owed to the City. As a result of this intentional security gap and CDD’s failure to track payments and project activities on permits with deferred fees, final inspections could be scheduled and permits finalized before actual payments related to the deferred impact fees were received. In fact, at least one of the seven participants received final inspection approvals before more than \$15,000 in deferred fees owed to the City were paid and has since refused to pay.

Summary of fee discrepancies identified for Project 14*:

Auditor Calculation	Amount Paid by Applicant Per Accela	Total Over/Under Paid
\$1,728,465.63	\$1,713,763.81	-\$14,701.82

*Summary figures include additional small discrepancies not described in the narrative.

Judgmental Sample Permit Test Results

Overall, our calculations reflect that at least \$5,574,600 permitting fees was due across the 146 permits within the permits we tested via our judgmental sample, but only approximately \$5,450,000 was collected by CDD—a difference of more than \$125,000. We also found a couple instances where we were unable to conclude on the appropriateness or reasonableness of permitting or fee assessment activities.

The following are the key issues identified:

- A commercial high-rise developer (500 Capitol Mall) was issued a new building permit in April 2008. The BVD-calculated valuation reflected \$70,078,856 while the applicant (contractor) provided valuation reflected \$66,528,856—again, CDD utilized the lower job valuation. Under a \$70,078,856 job valuation, permitting fees derived from job valuation figures would have totaled just over \$731,676 while under the lower \$66,528,856 valuation, these fees were invoiced at just over \$695,123—a difference of more than \$36,500.

Additionally, this commercial high-rise developer received a credit of nearly \$100,000 identified as plan revision fee credit even though the developer did not pay any plan revision fees. It appears that the credit was meant to reduce plan review fees, but CDD staff we spoke with were unable to provide any justification for the credit.

- A residential developer was issued a new building permit in October 2009. The BVD-calculated valuation reflected \$380,000 while the applicant (contractor)-provided valuation reflected \$100,000—again, CDD utilized the lower job valuation. Under a \$380,000 job valuation, permitting fees derived from job valuation figures would have totaled just over \$5,300 while under the lower \$100,000 valuation, these fees were invoiced at just over \$1,850—a difference of about \$3,450.
- Interestingly, we found an example where a permittee appeared to be over-assessed permitting fees as we could not verify the appropriateness of the job valuation utilized. Specifically, the developer of a new commercial retail store paid all outstanding permitting fees in June 2007 and was issued a new building permit in August 2007. While the BVD-calculated valuation reflected \$4,227,850, permitting fees were based on a job valuation figure of approximately \$6.12 million; however, we could not determine where or how the higher valuation figure was derived as the permitting system did not contain a job valuation figure provided by the applicant (contractor). Under a \$4,227,850 job valuation, permitting fees derived from job valuation figures totaled nearly \$54,000 under the higher \$6.12 million valuation, these fees were invoiced at nearly \$74,000—a difference of nearly \$20,000. CDD staff we spoke with were unable to explain the discrepancy.
- A developer submitted a permit application and plans to construct a new commercial building on April 29, 2008. The developer paid approximately \$103,000 on June 19, 2008 and was issued a permit on July 20, 2009—more than six months after the FEMA building ban that went into effect December 8, 2008. We are unable to determine if construction commenced on the property, but according to information within Accela, no inspections were scheduled or conducted. Then, on October 30, 2009, the permit was revoked because the

permit was issued after the FEMA building moratorium. Notes input into Accela by CDD's accounting staff indicate that the CAO approved a partial refund of nearly \$14,000 related to construction excise tax and development impact fees.

A permitting condition was input into Accela directing CDD staff to contact Development Engineering prior to issuing a building permit because the property owner was required to pay 25 percent of the cost to build a new bridge over the Natomas Main Drainage Canal and contribute to the widening of River Plaza Drive and construction of a traffic signal at the intersection of Gateway Oaks Drive & River Plaza Drive. However, as of the time of our audit, the condition remained unresolved in Accela and it is unclear if the requirements were met prior to the issuance of the building permit.

- A permit application and plans to construct an addition to a residential building was submitted on June 24, 2004 and the permit issued on June 22, 2005. The project had two sheet rock inspections—one on August 11, 2005 and the second on February 13, 2006. Because of the lack of subsequent activity, the permit expired. However, without justification, on March 25, 2009 the permit was “reissued” (reactivated in the system)—nearly three years after the last recorded activity on the project and no additional permitting fees were paid beyond the initial approximate \$400 dollars paid in 2005. The next day on March 26, 2009, the permit was finalized and the final inspection was conducted and approved on unpermitted construction work as the permit previously expired in 2006 and was not reissued until the day before the final inspection.
- A minor permit was issued to conduct work on a residential half-plex and approximately \$240 in permitting fees should have been paid; however, no fees were assessed or paid. It appears that this permit was associated with another minor permit that was issued on the other related half-plex (with a unique parcel number) and fees of approximately \$240 were paid. However, according to CDD staff, each permit should have been assessed separate permitting fees, but in this case, only one of the two minor permits were assessed and paid permitting fees.
- In July 2009, a building permit was issued to the new owners of a property and about \$680 was paid in permitting fees. According to information in the permitting system, the new building permit was issued to complete the construction of a residential home started by the previous owners under the original permit that was issued in July 2007. The original permit expired at the end of December 2008 as the last inspections occurred on the project at the beginning of June 2008. Under the new permit and more than a year after the last inspections occurred under the original permit, inspections restarted in August 2009 and were finalized in December 2009. However, due to the lack of criteria and permitting policies and procedures, the appropriateness of the permitting activities and fee assessments associated with the new permit is unclear. CDD staff was unable to determine why such actions were taken.

Appendix C: CDD’s Process Improvement Matrix of Recently Implemented or Future Changes

As discussed in Section 6, it is apparent that the current employees of CDD acknowledge and recognize the need for significant improvement and have developed process change initiatives aimed at improving CDD’s overall culture and environment as well as the Building Division’s processes and system of controls. While we have not validated the sufficiency of the September 2010 listing of initiatives that follow, the proposed changes—which consolidate previous initiatives developed by the Interim CDD Director (at the time) and Acting Chief Building Official, including CDD’s book of changes—appear to address some of the key issues identified by the audit and described throughout this report. We recommend the City Auditor follow-up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD’s progress with implementing the initiatives outlined in the following matrix.

Category	Description	Status
Culture	Identify department strategic initiatives	In Progress
Culture	Coordinate implementation of audit report recommendations	In Progress
Culture	Improve operations and efficiency of public counter	In Progress
Culture	Develop organizational chart, internal and external ongoing communication strategies, and facilitate team building to establish foundation for integrated staff	In Progress
Culture/System	Perform and develop comprehensive written (including updates) divisional policies and procedures manuals in CDD	In Progress
System	Refine Facility Permit Program (FPP)	Completed
System	Implement a new Permit Application and Plan Review Submittal form	Completed
System	Implement an Accela Training Program	Completed
System	Reallocated Help Desk Duties and inspection line inquiries to 311 Call Center	Completed
System	Implemented verification process for construction valuation as part of the plan review process	Completed
System	Implemented Cashiers to verify Credit Card information and authorization	Completed
System	Create audit reports to check for minor permit fee abnormalities	Completed
System	Manually created Pre-Application summary reports for applicants for staff to enter and summarize comments in report format	Completed

Category	Description	Status
System	Implemented over the counter plan review process to decreased counter waiting time	Completed
System	Revised plan labels to indicate Flood Restrictions.	Completed
System	Add additional City Code information on permit envelopes (i.e. permit expiration, extension, and completed requirements, and non-transferrable regulations)	Completed
System	Developed a template and guidelines for training staff in CDD .	Completed
System	Water Development Fee Form	Completed
System	Revamp Encroachment Permit Process	Completed
System	Create volunteer checklist for use by volunteer	Completed
System	Correct system rules to extend date only upon completed inspection results	In Progress
System	System in place for authorized staff to address Permit extensions status and expiration date status.	Completed
System	Citywide upgrade to new cashiering system includes interface to CDD's Permit System	In Progress
System	Developed FEMA Process Flow and Controls	Completed
System	Provide FEMA updates at staff meetings and provide formal FEMA training	Completed
System	Provide ongoing reports to Dept. of Utilities to follow up on permits issued in Flood Zones to ensure compliance	Completed
System	Develop procedures for Fee collection and handling	In Progress
System	Investigate electronic plan review and options available for funding	In Progress
System	Require new contractors to be registered with a credit card prior to Fax Back permit issuance	In Progress
System	Implement and certify staff to manage projects within the Flood Plain	In Progress
System	Define process for legalizing structures built w/out a permit (w/ & w.o HBD case)	In Progress
System	Train all Inspectors on Combo Inspections	In Progress
System	Develop process and procedures for residential Master Plan processing	In Progress
System	Develop a permit process for trailers, coaches and portables and determine fee	In Progress
System	Review Process for State owned/occupied properties	In Progress

Category	Description	Status
System	Implement counter kiosk	In Progress
System	Implement an annual fee training crash course for new counter staff	In Progress
System	Develop and document in policies and procedures manual permitting process when CDD performs plan reviews or inspections for city projects	In Progress
Technology	Website Update: Transferring permits; expired permits; reactivation; extensions:	Completed
Technology	Website Update: Contractors Information; Builder verification; and property owners	Completed
Technology	Added rules in system to auto add Flood Cert related inspections at foundation and final	Completed
Technology	Disabled Authorization to Start Work fields and fees no longer able to initialize in the system or collect the corresponding \$350 fee	Completed
Technology	Changed system criteria regarding inspection scheduling via desk top and IVR to address fees owed prior to Inspections	Completed
Technology	Added penalty checkbox and housing case # field that will automatically assess new penalty fee	Completed
Technology	Added automatic GIS hold condition if any property is outside city limits	Completed
Technology	Protocols put in place to address application status in Accela system.	Completed
Technology	System in place to automatically expire permit application after 180 day filing (per Building Code).	Completed
Technology	Create interface with Contractor State License Board to validate license & populate information automatically and to validate current information.	Completed
Technology	Implemented system in Accela to perform the following: a) Updated Flood Zone GIS Layerb) Updated rules to enter new flood zone on permit, c) Updated rules to add flood related Conditions based on flood data, d) Added rules to auto calc SI% when applicable, e) Added rules to HOLD permits in Triage for DOU if SI% >40% or if no calc can be determined, f) Restricted to 5 staff who can lift Triage HOLD	Completed

Category	Description	Status
Technology	Incorporate Fire Inspection Application Type in Accela system	In Progress
Technology	When funding becomes available, implement electronic plan review for efficiency and to accommodate customer needs, eliminate the handling of paper and interaction between internal and external customer	In Progress

Appendix D: CDD Management's Response to the Audit Report



COMMUNITY DEVELOPMENT
DEPARTMENT

CITY OF SACRAMENTO
CALIFORNIA

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MEMORANDUM

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DATE: October 5, 2010

TO: City of Sacramento Mayor and City Council

FROM: Max Fernandez 
Director of Community Development Department

SUBJECT: Community Development Department's Response to Audit Report

In recognition of the significance of the issues raised in the report by the City Auditor, the Community Development Department consider it a matter of priority to provide an initial response to the report, to thank the City Auditor and their staff for the depth and thoroughness of the report, and to pledge to the Mayor, City Council and City Manager that CDD will exercise its best effort to implement and consider the recommendations set forth in the City Auditor's report.

The Community Development Department takes very seriously the findings made in the report. While the City Auditor's Office worked on this Audit, and based on its recommendations, action was immediately taken by the department to restrict and safeguard system access for permit issuance, identify process improvements, and develop and formalize policies and procedures manuals in the department. We also want to emphasize that training is imperative to correcting permitting processes and practices that have been identified. The department will continue to take steps in coordination with the City Auditor's Office to ensure in an open and transparent manner that the issues raised in the report are fully and completely addressed. Staff will also make every effort to ensure a positive, controlled and productive environment for the staff and customer.

We consider it important to respond and immediately commence the implementation of many of the recommendations identified in the report. The report includes in Appendix C lists of process improvement initiatives in progress, completed or ongoing. The report also includes in Appendix D our responses and suggested best practices CDD will consider for each recommendation identified in the Audit report.

We thank the City Auditor and staff for having set out in a clear and concise manner those areas in need of improvement and what should be considered to correct matters in the Department of Community Development. We are committed to doing so and trust that our actions taken will constitute a response to the City Auditor's report that is powerful and accepted.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
Section 1. TO IMPROVE CDD'S INTERNAL CONTROL ENVIRONMENT, TO BUILD INTEGRITY AND RELIABILITY INTO CRITICAL BUSINESS PROCESSES, AND TO ENSURE CONSISTENT HANDLING OF PROJECTS AND RELATED TRANSACTIONS, CITY LEADERS AND CDD MANAGEMENT SHOULD:			
1. Ensure the necessary changes are made to the automated permitting system to limit access based upon critical job needs and position—analysis should include CDD employees as well as external users. This will likely require contracting with the system vendor as CDD recently lost it's in-house Accela expert.	In Progress	City Council approved new 2010 Building Valuation rates (BVD) on 4/1/10; These rates became effective on June 18, 2010. BVD rates, new construction and occupancy types were implemented into the accela system in 6/2010. BVD rates are automatically calculated in accela to ensure accuracies. Access to all components of Accela will be limited to only those that need it or have been authorized to use it. Revisions, updates, corrections in accela system will be limited to managers and supervisors only. Fees will be applied in accela by authorized personnel specific to their job duties.	IT staff will be responsible for updates in accela and provide on-going training as needed (i.e. new staff, system updates). IT staff must periodically test formulas built into accela system to avoid fee error calculations. Updates to accela should be tested by IT group and consultant one month prior to start-up to ensure accuracy.
2. Develop processes to create and regularly utilize system exception reports to monitor system usage, detect process errors, or identify unusual or abnormal activities to ensure all employees and system users follow proper permitting processes and policies and procedures.	In Progress	Chief Building Official checks report weekly and provides weekly training at weekly counter meeting.	Email correspondence will be sent to all staff as a reminder of the process. Full reports are generated to catch all abnormalities
3. Formalize a complete reconciliation process between the three systems: Accela permitting system, CDD's cashing system, and City's eCaps financial systems.	In Progress	Manuals are being drafted	Modifications will occur as needed.
4. Draft a complete, detailed, formal, and comprehensive set of policies, procedures and guidelines, and standards for operations with specific parameters that cover all of CDD's permitting and fee assessment processes and practices that are widely distributed to all employees. Hold all employees accountable for following and adhering to all system and process policies and procedures.	In Progress	A selected manager is drafting policies and procedures for their sections , including but not limited to the permit process, how to calculate and interpret fees; fee assessment protocol etc; Draft policies and procedures will be collected and assembled by the end of October 2010. Review, edits and final manuals will be completed and available to staff by the end of December 2010.	Because these are living documents, an quarterly assessment by the author of each manual must occur to update and revise the document if necessary. Manuals must be placed on the intranet as a "read only" document and a hard copy of all manuals should be made available for staff reference in a central location.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
5. Establish a formal employee training program to ensure all employees have sufficient knowledge and experience to handle job responsibilities and functions, particularly employees that handle permit counter operations and all employees that interact with the permitting system.	On- Going	A formalized Training Program has been developed. Training is included at weekly staff meetings with all counter staff. Additional training in a separate venue is available when more extensive training is required. Training facilities are available on-site. Details of the types of training, phasing and staffing is being discussed.	Allocate a funding source in the annual budget to contract out for professional trainers when necessary (i.e. training of updated accelera programs, system improvements etc.). Periodically review and explore new systems and innovations in the market to improve current operations and systems.
6. Develop conflict of interest policies that require employees to disclose any conflict or appearance of conflict related to their job responsibilities and duties that could adversely influence their judgment, independence, or objectivity.	Done City-wide	The City currently requires all exempt managers to complete a conflict of interest statement before the end of the fiscal year	Explore creating a similar MOU/statement or other form type for sign off by all staff. All managers, building inspectors and code enforcement officers must complete and sign an annual conflict of interest statement.
7. Establish an organizational culture that places importance on adhering to proper policies and processes while also meeting service level goals. Also, create a "tone at the top" that circumvention of proper permitting and fee assessment policies and processes will not be tolerated.	On-going	Current Director schedules monthly meetings with exempt managers to discuss department goals, policies and procedures and system controls to avoid and address errors and inconsistencies. Department strategic initiatives have been identified.	All staff quarterly meetings should be considered to re-enforce department tone and cultural and solicit feedback. Exempt employees must re-enforce line staff of department's processes and procedures and reassess areas for improvement. Each division must outline departmental inconsistencies relative to permitting and fees and develop a strategy & timeline to correct; Exempt managers must report out improvements at monthly meeting w/Director
8. Complete a comprehensive analysis of employee positions and organizational reporting structure to ensure proper control, oversight, and authority is present.	In Progress	Management team currently assessing existing positions and roles and responsibilities in the Building Section	Periodically review roles and responsibilities of staff to ensure proper control and make sure there are no conflicts of interest with a project assigned
9. Ensure that the City's Chief Building Official, who is held responsible by state law and City Code for enforcing the City's building laws, codes, and regulations, has the ability to control all of the activities and processes for which he or she is responsible.	In Progress	The Chief Housing and Dangerous Buildings Inspector has Ex Officio powers as the Building Official for H&DB matters. The Building Official will continue to make all building code and permitting decisions. The counter supervisor currently reports to the Building Official. Operations Manager assist in the decision making and issue resolution.	Be sure to include in procedures manuals

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
10. Ensure that the City's Chief Building Official has reporting authority over the positions that carry out those activities and processes for which he or she is responsible, including but not limited to Permit Counter staff, Process Assessment Unit staff, inspectors, plan reviewers, etc.	In Progress	Chief Building Official has authority over building related matters as they pertain to building code. The Building Official will continue to make all building code and permitting decisions.	Oversight of non-related building functions will be reviewed by management
11. Consider the City's Chief Building Official's responsibilities related to housing and code enforcement activities, and ensure that proper control and reporting authority is provided, particularly since Building Services already provides plan review related to housing permits.	In Progress	The Chief Housing and Dangerous Buildings Inspector has Ex Officio powers as the Building Official for H&DB matters. The Building Official will continue to make all building code and permitting decisions. The Building Official has no jurisdiction over Code Enforcement activities. The Code Enforcement Officer has no jurisdiction over building code issues and interpretations. Further clarification is needed to address these roles	There is an established protocol and authority embodied in City Ordinance which empowers Code Enforcement activities.
12. Analyze the duties of CDD staff to ensure all conflicting responsibilities are sufficiently segregated and controlled.	In Progress	Specific roles and responsibilities are being evaluated based on classifications and available resources in the organization. Further clarification of duties will be assessed during review and completion of procedures manuals for the CDD organization. Specific staff will be authorized to enter specific data and/or controls will be put in place to limit entries into accelera.	Exempt managers must evaluate the roles and responsibilities of line staff periodically to ensure that duties are being performed based on job classification. Exempt managers must self evaluate each other's roles and responsibilities during performance evaluation reviews.
13. Continue working to create a systematic process to organize, store, and image CDD's project plans.	In Progress	A contract has been secured. Plans and documents are being scanned, imaged and cataloged. Coordination w/City Clerk's office for storage of documents is on-going.	CDD must make sure a contract is always in place. This will avoid plans and document clutter and minimize the need for storage space. This "storage" process must be formalized and documented in the procedures manual.
14. Develop processes to ensure key documentation is maintained to support process decisions.	In Progress	Exempt and representative staff have begun to document and upload supporting data in accelera along with a rationale for the changes. If necessary, these changes will be modified in the applicable procedures manuals or forms.	Management must run a report to evaluate changes in accelera quarterly and determine patterns and if process improvements are needed.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
Section 2: TO IMPROVE THE STRENGTH OF ITS BUSINESS CYCLES AND PROTECT AGAINST UNILATERAL DECISION MAKING AND SYSTEM CIRCUMVENTIONS, CITY LEADERS AND CDD MANAGEMENT SHOULD:			
15. Develop formal policies and procedures that cover all permitting processes, including points where supervisory review is conducted. Hold employees accountable for not following proper processes.	In Progress	A manager has been assigned to focus full time on drafting policies and procedures specifically relative to the permitting process. Other duties will resume upon completion of this task. The permitting process will be updated as needed. A series of flow charts and timelines will accompany the procedures	Prior to implementation of the new business practices, management and IT staff must test the permitting process and train staff to ensure a smooth transition. Accountability with all staff is required to ensure consistency and utilization of the system and procedures. Zero tolerance for any deviation of written policies and procedures.
16. Insert automatic system process routing protocols that ensure all processes are complete prior to a permit being issued, including (but not limited to) ensuring construction plans have gone through all required reviews and approvals and all prerequisite permits have been properly obtained from other City entities.	In Progress	Plan reviewers are currently doing this task. Staff is reminded on a weekly basis of this practice	Discuss and explore options with accelera team and consultant any methods we could consider to improve the process. This process can not be completely automated.
17. Determine which system fields must be completed during permit application intake and program the system to not allow permits to proceed in the process without all required data inputs. Once project data is input and a permit application is accepted as complete, restrict the ability to make modifications to the permit record to managerial or supervisory staff.	In Progress	Selected staff is authorized to perform this process. Open system has been removed.	Discuss and explore options with accelera team and consultant any methods we could consider. This process can not be completely automated.
18. Restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees given access to input approvals in the system have the necessary qualifications, training, and education to review and approve project plans. Also, only allow those employees with proper qualification to sign and approve the hard copy of project plans.	In Progress	Access to specific entries in accelera will be regulated by authorized staff	Procedures and protocols must be put in place which authorizes staff to utilize accelera for approvals
19. Ensure all professional approval stamps, such as engineering, plan review, etc., are secured and cannot be misused.	Done	Storage is being organized for plans and all stamps are monitored. Reasonable precautions are in place.	Current activity to follow code

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
20. Create permitting process business mappings to ensure all required processes, participants, and stakeholders are identified and all corresponding roles are included and considered in the development of formal policies and procedures to ensure that key permitting process participants are not overlooked, such as CDD's environmental planning group.	In Progress	A manager has been assigned to focus full time on drafting policies and procedures specifically relative to the permitting and business mapping. Other duties will resume upon completion of this task. The permitting process will be updated as needed. A series of flow charts will accompany the procedures	Prior to implementation of the new business practices, management and IT staff must test the permitting process and train staff to ensure a smooth transition. Transparency to all applicable staff is necessary for consistency and utilization of the system
21. Establish protocols to require that counter staff review permit applications and other appropriate notices for conditions of approval and proof of payment and input such stipulations into Accela. Employees must be trained to ensure all required conditions are appropriately entered and tracked.	Done	All approved conditions are noted on the plans and reviewed by: Planning, Building Plan Check, Counter, and Field Inspection staff. Processing staff reviews payment schedules, remaining balances due and resolve conditions prior to permit issuance. Review of construction valuation is reinforced by management at counter meetings. Professional designers and/or contractors must be authorized agents and will be the legal permit owner.	Note timing of each review of conditions and tracking in policies and procedures manual.
22. Program the permitting system to ensure the acknowledgement and resolution of permitting conditions and require the signoff of such provisions by designated individuals before permits can be appropriately issued or finalized.	Done	All approved conditions are noted on the plans and reviewed by: Planning, Building Plan Check, Counter, and Field Inspection staff. Processing staff reviews payment schedules, remaining balances due and resolve conditions prior to permit issuance. Review	Note timing of each review of conditions and tracking in procedures manual. Reinstigate IVR system to inform customers of outstanding fee balances owed and expired plan reviews when inspections are requested.
23. Limit approval or signoff authority to certain City employees and restrict access to the system for functions that would allow removal, resolution, or clearing of conditions of approval.	In Progress	Access to specific entries in accela will be regulated by authorized staff.	Further explore with IT methods for additional security with resolving conditions. Staff may be limited with existing software.
24. Within policies and procedures, clarify when phased or partial permits can be utilized and ensure proper protocol is followed. Particularly, eliminate the ability to utilize phased permits when main permits are ready for issuance to simply avoid paying required permitting fees.	In Progress	Policies and procedures for phased and partial permits are being drafted.	IT staff must diagram in accela the appropriate processing and entries for phased and partial permits for application submittal, cycles and final. Train appropriate staff of process within CDD and other departments involved with this method of review.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
25. Investigate the feasibility within the permitting system to link together related permit documents. Otherwise, develop an alternative process that will ensure all requirements of all permits associated with a project have been formally and appropriately completed and resolved prior to providing final approval of a project.	In Progress	City management will be speaking with vendors to determine if can be done.	Explore with IT opportunities to pair all permits and reveal on software
26. Ensure process policies and system controls are developed and maintained that require permits to be properly issued before any construction work begins.	Done	Authorization to Start Work process reengineered under the Facilities Permit Program. Major change requires a phased or full permit issuance prior to commencement of any construction work (effective June 18, 2010)	Process change now complies with Building Codes.
27. Ensure process policies and systems controls are developed and maintained that require permits to be properly issued before inspection services are rendered, including removing related existing system security gaps.	Done	Authorization to inspect work reengineered under the Facilities Permit Program and per building code requirements.	Process change now complies with Building Codes.
28. Immediately prior to permit issuance, establish a formal, final review process of permit applications to ensure all required reviews and approvals have occurred and all fees have been assessed and paid prior to permit issuance. Assign the responsibility to conduct the final review to specific individuals that have sufficient training and ensure these employees provide their signatures acknowledging their acceptance of the processes undertaken and granting approval for the permit to be issued.	Done	System has been put in place to assess fees and ensure that all conditions are resolved during processing of plans. Further review of outstanding balances owed, accurate notes and supporting data is input in accelera prior to Certificate of Occupancy. Specific staff has been assigned to perform these duties.	Process change now complies with Building Codes. Specific staff are assigned to review and ensure that all associated elements with the project are completed and finalized prior to permit issuance
29. Develop regular —spot check processes where a sample of permits are selected and reviewed to ensure all required processes were appropriately completed. Determine any training needs or increase in frequency of spot checks based on the outcome of the review process.	On-going	Deviations made in accelera system are being checked at the time of occurrence and on a weekly basis by the Chief Building Official	Suggest assigning more than one manager for oversight of various sections in the report. More eyes on the material and checks and balances.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
30. Require that any deviations from regular permitting processes defined through formal policies and procedures are formally approved and documented by CDD management and sufficient and detailed justification for decisions and approvals is maintained.	On-going	Draft policies and procedures for the permitting process are being drafted by an assigned staff member.	Develop a process for deviation of policies and procedures. Assigned management must assess recommended deviation, determine feasibility of change and document. All applicable staff must be informed of change and scheduled training sessions must occur if needed prior to implementation of the change
Section 3: TO IMPROVE PROCESS CONTROLS OVER PERMITTING FEE ASSESSMENT PRACTICES AND TO ENSURE THE CITY RECEIVES ALL REQUIRED REVENUE, CITY LEADERS AND CDD SHOULD:			
31. Ensure fees are finalized and approved by staff with sufficient training and experience and require signature approval and sign-off acknowledging acceptance of final fee assessment calculations. Once fee assessments are finalized, restrict the ability to make modifications to the fee assessment to managerial staff. Ensure sufficient support and justification for any fee assessment change is maintained.	In Progress	Access to all components of accelera will be limited to only those that have been authorized to make changes. Revisions, updates, corrections in accelera system will be limited to managers and supervisors only. Fees will be applied in accelera by authorized personnel specific to their job duties.	Process change now complies with Building Codes. Specific staff are assigned to review and ensure that all associated elements with the project are completed and finalized prior to permit issuance
32. Develop formal and detailed policies to guide fee assessment processes, including the proper establishment of job valuation figures on a project as well as points in the process where supervisory review is conducted. Hold employees accountable for not following proper processes.	In Progress	Full time task assigned to a manager.	Policies and procedures will be updated as needed. Adequate training with all applicable staff must occur on an as needed basis.
33. Insert automatic system calculation of all permitting fees to reduce the risk that required fees are missed as well as the ability of employees to disregard or circumvent proper fee assessment processes.	In Progress	Staff currently working on automation	IT group must periodically review and test fee formulas and calculations in the system to ensure correct fee amounts are calculated. Pursue partnership with other City departments involved in the development review process to verify their fees and sign off prior to permit issuance.
34. Establish strong system controls so that only employees with sufficient managerial authority have the ability to make critical changes in the permitting system, including changes to fee assessments (voids, deletions, etc.) and to key aspects of permit records such as addresses, parcel numbers, etc.	In Progress	Access to all components of accelera will be limited to only those that have been authorized to make changes. Revisions, updates, corrections in accelera system will be limited to managers and supervisors only. Fees will be applied in accelera by authorized personnel specific to their job duties.	Chief Building Official & Operations Manager must run weekly reports and periodically review patterns and changes/adjustments to fees.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
35. Develop formal and detailed policies to guide fee assessment processes, including requiring project valuations to be submitted by all applicants and supported with sufficient justification and documentation, such as customer contract.	In Progress	Request contract from applicant when valuation verification is necessary.	Follow state building code and State Building Official Association recommendation. Provide on-going training for counter staff on acceptable documentation of fee valuations from customer and accuracy for determining valuation of different fee types.
36. Develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with City rules.	Done	All credits, transfers and refunds are done through Accounting unit. Procedures are finalized and incorporated in procedures manual. Supervisory approved required prior to refund issuance. Policy implemented 4/10 which requires supervisors oversight in the closing of register and clear funds at the end of daily business.	Train all new accounting staff as a result of departmental mergers, transfers or new city employees
Section 4: TO ENSURE ITS FEE STRUCTURE IS APPROPRIATELY STRUCTURED AND THE CITY MEETS ITS GOALS FOR FOR SERVICE LEVEL AND QUALITY, CITY LEADERS AND CDD MANAGEMENT SHOULD:			
37. Conduct a review of past Building Services' revenues to analyze how the monies were utilized and determine whether the usage was appropriate, complied with regulations, and was in the best interest of CDD and Building Services' operations. Make necessary adjustments in revenue utilization going forward.	Pending	Work with the City Auditor's Office to determine next steps.	Work with Accounting unit to determine best practices.
38. Conduct a full-scale staffing and workload study to determine the appropriate levels of staffing to ensure service level goals can be met and related service fees are sufficient. Also, ensure the study includes analyzing and establishing a clear reporting structure and system so that Business Services' limited resources are efficiently allocated among competing priorities.	Pending	Reformatting the Department's structure is underway. Evaluation and re-classification of positions are in process.	Annual evaluation of Department structure is necessary based on economic climate
39. Conduct a comprehensive fee study of its building services fees and analyze the relationship between the cost of providing service and fees charged, including whether fees should be assessed for services provided by CDD that do not currently have an associated fee.	Pending	Fee and charge report approved by City Council Resolution - 5/2010. This included expedited plan review, and additional 20% charged for phased permits.	Collect three years of data for projections etc. Management staff must consider this practice after the first collection of data.

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RECOMMENDATION	STATUS	RESPONSE	BEST PRACTICES TO BE CONSIDERED
Section 5: TO CONTINUE IMPROVING CDD'S CULTURE, INTERNAL CONTROL ENVIRONMENT, AND OVERSIGHT, CITY LEADERS AND CDD MANAGEMENT SHOULD:			
<p>40. Request the City Auditor follow up on the implementation of not only the recommendations the audit report provides, but also follow up and evaluate CDD's progress with implementing the various initiatives.</p>	<p>Pending</p>	<p>See suggested Best Practice</p>	<p>CDD must conduct internal audits every six months to assess progress of initiatives, fee collections, process improvements and best practices implemented and report out to CMO. A management team will be formed to perform an internal audit. This practice must occur over a period of two consecutive years and eventually be performed on an as needed basis. This partnership between CDD and the City Auditor's office would involve a regular review of best practices and a dialogue of new trends and practices CDD could implement. Internal management team members could visit other jurisdictions to review best practices and report back to CDD management team.</p>