Performance Audit:
Building Permits

June 2015

City Auditor's Office

City of Atlanta

File #14.04

Performance Audit:

Building Permits

Why We Did This Audit

We received allegations about building permits staff offering expedited services for kickbacks and using resources for personal gain. We designed this audit to review controls over permitting to assess compliance with city code and ethics requirements. Our ability to complete planned work was impaired because neither the Office of Buildings nor its IT system vendor were able to provide data we requested to assess red flags for staff conflicts of interest and to assess permit intake and plan review turnaround times.

What We Recommended

In order to increase efficiency and reduce the risk of fraud, the Deputy Commissioner of the Department of Planning and Community Development should:

- Analyze the cost of permitting services, including planned improvements, to estimate fees necessary to cover the costs

- Propose a policy to city council to set an operating reserve for the building permit fund

- Propose adjustments to the fee schedule to reflect the actual costs of services, allowing for a reasonable operating reserve

- Continue to provide overtime and incentive pay to staff to reduce the number of permit applications in queue

- Create a User's Guide to Local Permitting to better convey the permitting process

- Work with the CIO and system vendor to strengthen reporting capabilities

- Rotate inspectors at least annually, or develop an alternative solution to mitigate the risk of staff conflicts of interest

- Disallow practice of bypassing system controls, and ensure outstanding fees are paid before issuing permits

- Verify the authorized use of contractors' licenses and maintain copies of supporting documents for online permit applications

- Systematically process and close stop work cases when a permit is obtained, and periodically inspect open stop work cases

For more information regarding this report, please use the "Contact" link on our website at www.atlaudit.org

What We Found

The city increased building permits fees in fiscal year 2013 in an effort to streamline permitting and speed service. Management did not assess the costs of proposed improvements such that fees would be no higher than necessary. As a result, the Office of Buildings accumulated a $28 million surplus through fiscal year 2014, amounting to almost three years of operating expenses.

Despite increased resources, the office had yet to shorten the time to issue general building permits, which include permits for new commercial buildings, additions, and alterations; new single-family residences/duplexes, additions, and alterations; and new multifamily buildings, additions, and alterations. The office's goal is to issue most types of general building permits within 10 to 15 days of application acceptance; the office excludes time for applicants to revise and resubmit plans from its calculation of time to issue. The overall median time to issue general building permits was 41 workdays in FY 2013 and 51 workdays in FY 2014. We were unable to assess how much time applicants needed to revise and resubmit plans because neither the office nor its vendor was able to provide requested data. While general building permits accounted for about 20% of permit applications in the fiscal years we reviewed, they accounted for 80% of the applications in queue.

The office issued most electrical, plumbing, and mechanical permits within one to two days of permit acceptance. These permits comprised 76% of permit applications in fiscal years 2013 and 2014. The office also accepted most permit applications within one day of submission and conducted most inspections within one day of request.

The department lacks monitoring controls to mitigate risks of staff conflicts of interest. Conflicts of interest are a key inherent risk of regulatory functions such as building code enforcement. In addition, the office has not enforced its policy of annual rotation of inspectors among geographic zones. Management also allowed staff to override a system control intended to segregate incompatible duties. The office issued nearly 900 permits with outstanding fees of about $350,000 in fiscal years 2013 and 2014. The system does not allow permit issuance when an account has an outstanding fee, but staff bypassed the system control when fees were in dispute.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	The deputy commissioner of the DPCD should propose for City Council consideration a policy to set an appropriate operating reserve for the building permit fund.	
Response & Proposed Action:	DPCD will conduct a process review including a best practices assessment and cost of service analysis, and propose a new policy if necessary.	**Agree**
Timeframe:	July 2015 – March 2016	
Recommendation #2:	The deputy commissioner of the DPCD should analyze the costs of permitting services, including remaining planned upgrades, to estimate the fees necessary to cover the costs.	
Response & Proposed Action:	DPCD will conduct a process review & enhancement analysis to understand the requirements for a comprehensive consolidation of the permitting process and its estimated cost of service.	**Agree**
Timeframe:	July 2015 – March 2016	
Recommendation #3:	The deputy commissioner of the DPCD should propose adjustments to the fee schedule to reflect the actual costs of services, allowing for a reasonable operating reserve.	
Response & Proposed Action:	DPCD will conduct a process review & enhancement analysis to understand the requirements for a comprehensive consolidation of the permitting process and its estimated cost of service, and propose a new policy if necessary.	**Partially Agree**
Timeframe:	July 2015 – March 2016	
Recommendation #4:	The deputy commissioner of the DPCD should seek City Council reauthorization of Ordinance 14-O-1363 to continue to provide overtime and incentive pay to plan review and inspections staff to reduce the number of permit applications in queue.	
Response & Proposed Action:	DPCD will work with the departments of Law and Human Resources to seek reauthorization of the ordinance.	**Agree**
Timeframe:	June 2015 – August 2015	
Recommendation #5:	The deputy commissioner of the DPCD should develop a User's Guide to Local Permitting to communicate the permitting process more efficiently with stakeholders.	
Response & Proposed Action:	DPCD will develop a user guide for the permitting process.	**Agree**
Timeframe:	April 2016 – June 2016	
Recommendation #6:	The deputy commissioner of the DPCD should work with the chief information officer and permitting system vendor to strengthen reporting capabilities.	
Response & Proposed Action:	DPCD will work with DIT to ensure that the required actions are implemented.	**Agree**
Timeframe:	July 2015 – September 2015	
Recommendation #7:	The deputy commissioner of the DPCD should rotate inspectors at least annually, or develop an alternative solution to mitigate the risk of staff conflicts of interest.	
Response & Proposed Action:	DPCD will ensure that the practice of rotating inspectors is implemented.	**Agree**
Timeframe:	July 2015 – December 2015	

Recommendation #8:	The deputy commissioner of the DPCD should disallow the practice of bypassing system controls and ensure applicants pay outstanding fees before receiving permits.	
Response & Proposed Action:	DPCD has implemented controls and practices to ensure that the proper authority and approval is in place to prohibit bypassing system controls.	**Agree**
Timeframe:	May 2015 – July 2015	

Recommendation #9:	The deputy commissioner of the DPCD should verify the authorized use of contractor's licenses and maintain copies of supporting documents for online permit applications.	
Response & Proposed Action:	To submit an online application through Accela, the customer must have a user account with a valid contractor license. The system will not allow users with invalid license information to submit applications. However, system controls will be put in place to ensure proper verification.	**Partially Agree**
Timeframe:	July 2015 – October 2015	

Recommendation #10:	The deputy commissioner of the DPCD should develop a systematic process to close stop work cases that associates them with a permit, once obtained.	
Response & Proposed Action:	DPCD will institute a procedural process to ensure that stop work order cases are inspected and closed out within the Accela system.	**Agree**
Timeframe:	July 2015 – October 2015	

Recommendation #11:	The deputy commissioner of the DPCD should assign open stop work cases for periodic inspection.	
Response & Proposed Action:	DPCD will institute a procedural process to ensure that stop work order cases are inspected and closed out within the Accela system.	**Agree**
Timeframe:	July 2015 – October 2015	

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AUDIT COMMITTEE
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June 30, 2015

Honorable Mayor and Members of the City Council:

This audit of the city's Office of Buildings met with limitations on our access to data, preventing us from fully addressing two major aspects of our intended scope. We planned the audit to focus on indicators of possible noncompliance and illegal acts and to analyze in depth the office's permitting process and plan review performance. Four months after our data request, however, neither the Office of Buildings, its IT system vendor, nor city IT staff could provide the necessary data for our analysis. As a result, our conclusions and recommendations in these two areas are not as comprehensive as they otherwise might have been.

To respond to concerns raised by stakeholders, we reviewed current building permit fees, circumstances of the 2013 fee increase, and the financial condition of the enterprise fund for building permit revenues and expenditures. We found that the city increased the fees without an assessment of the cost of services provided, and that the higher fees had generated a surplus of $28 million by the end of fiscal year 2014 – an amount that could fund current operations for nearly three years. We have no explanation for why the fee increase was proposed and adopted without a cost-of-service analysis, actions that could be inconsistent with state law.

The Department of Planning and Community Development agreed or partially agreed with our 11 recommendations and estimated implementation dates ranging from July 2015 through June 2016. We appreciate the courtesy and cooperation of city staff throughout the audit. The audit team was Jamie Amos, Brad Garvey and Stephanie Jackson. The Audit Committee has reviewed this report and releases it in accordance with Article 2, Chapter 6 of the City Charter.

Leslie Ward
City Auditor

Don Penovi
Audit Committee Chair

Building Permits

Table of Contents

List of Exhibits

Introduction

We received allegations about building staff offering expedited services for kickbacks and using resources for personal gain, and former staff forging permits and certificates of occupancy as well as using contractors' licenses without authorization. While the Law Department's compliance unit investigates specific allegations, we designed this audit to review controls over permitting to assess whether permitting complies with city code and ethics requirements.

Background

The Office of Buildings, within the Department of Planning and Community Development, enforces the city's building code. The building code establishes minimum standards to safeguard life, health, property, and the public welfare. Section 101.2 of the city code requires permits for all new construction and for alterations to existing structures, including structural, plumbing, mechanical, and electrical. The code requires no permit for repairs totaling less than $2,500.

The office reviews and approves applications and plans, issues required building permits, inspects work to ensure it complies with the approved permit, and issues certificates of occupancy to certify that the completed project complied with the code. The office enforces zoning regulations to ensure the health, property, and public welfare by controlling the design, location, use, or occupancy of all buildings and structures through the development of land and land uses. The Office of Buildings also enforces the city's tree ordinance by reviewing permits for the removal of trees on property within the city. Applicants can request a review of tree removal plans by either submitting a building permit to remove trees or a specific application to remove a dead, dying, diseased, or hazardous tree.

Permitting Overview

Staff determines what kind of permit an applicant needs, gives them an application, and directs them to the intake area to obtain additional information or submit a permit application. The applicant can be a homeowner, contractor, or agent of either. An

intake employee checks the completeness of the permit application, including submission of building plans if required, and calculates the fee. The applicant pays half of the fee as a deposit, with the remainder due upon permit issuance. Intake staff forwards plans to routing staff, who sends the plans to the appropriate reviewer(s). Reviewers assess the plans for compliance with building codes and document any required revisions. If plans are not approved, they are returned to applicants with a list of revisions needed. After reviewers approve the plans, they are given to plan coordination staff, who provides them to issuance staff so that the customer can pick up the plans with the permit. The applicant then pays outstanding fees, obtains the permit, picks up the plans, and schedules inspections as work progresses. Inspectors visit the work site to verify that the work complies with the approved plan and city code (see Exhibit 1).

Exhibit 1 Office of Buildings Permitting Process
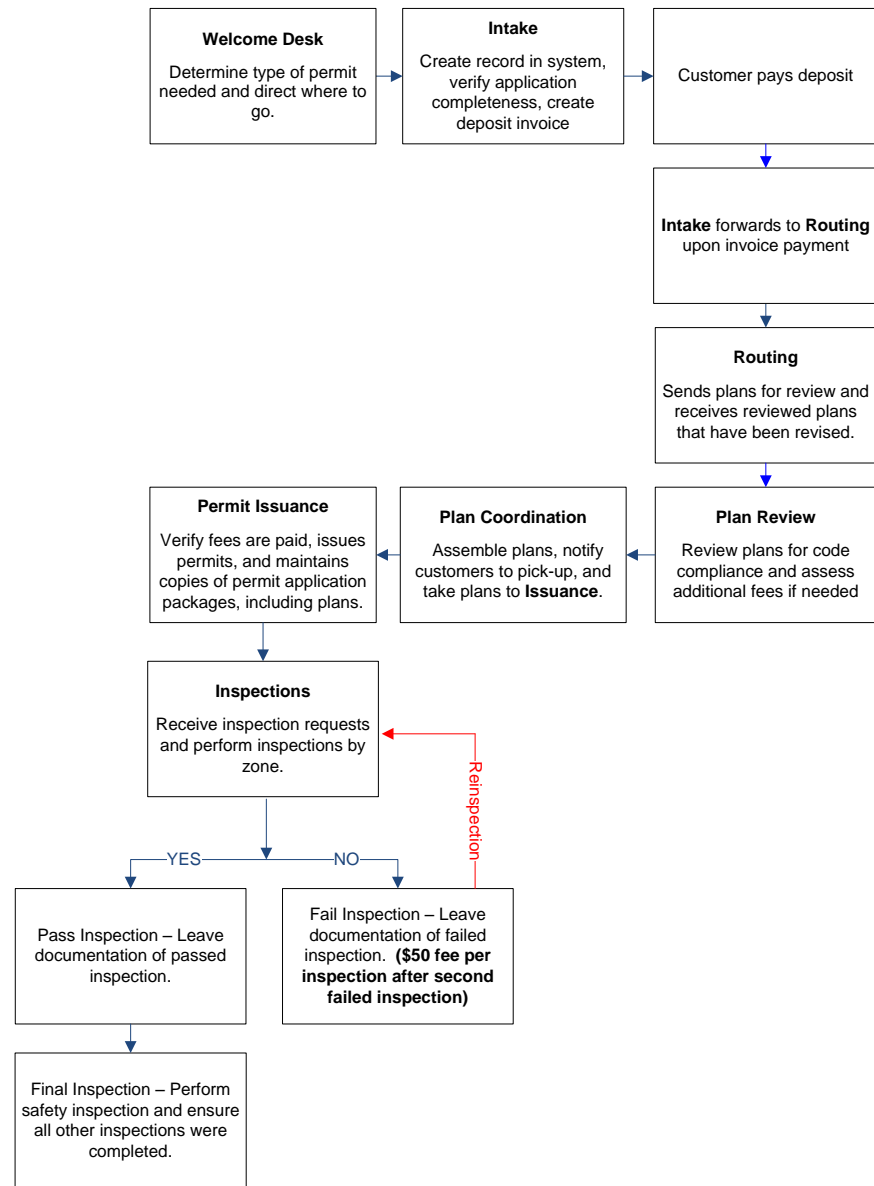
Source: Developed by audit staff from interviews and process walkthroughs September 30 and October 1, 2014

Buildings employees track the status of permits in Accela, a web-based workflow management system that automates tasks associated with permitting, plan review, and inspections. Permit applicants are also able to access Accela to view the status of their permits and pay any outstanding fees.

Permit fees finance Office of Buildings' operations. The City Council adopted Ordinance 11-O-1293, establishing the Office of Buildings as an enterprise funded through permit fees separately from the city's general fund. The change was effective beginning

fiscal year 2012. The ordinance created the building permit fund to account for fee revenue. City Council adopted Ordinance 12-O-1991 in June 2013, which created a renewal and extension fund for excess revenue once the office pays operating expenses. The renewal and extension fund can be used to pay for both capital and non-capital projects. Enterprise funds are mechanisms to account for activities that provide goods and services on a user charge basis.

City code establishes permit fees. City code establishes a permit application fee, a plan review fee (which is a portion of a valuation fee charged based on the value of the proposed work), and a schedule of fees for issuance of a certificate of occupancy based on type of property and type of work done. To calculate the valuation fee, the code incorporates the average construction cost per square foot table published by the International Code Council. Fees for alteration projects are based on a percentage of estimated construction costs for new work applied to the square footage being altered.

The code also establishes extra fees for plans that require three or more rounds of revision, for re-inspection of a work site if an initial inspection fails, for changing a contractor on a permit application, and for work conducted without a required permit. Finally, the code provides for hourly charges for expedited services performed by appointment outside of normal business hours at the discretion of the director, subject to availability of personnel and a written fee agreement.

Technical Advisory Committee. Ordinance 12-O-0840 established a Technical Advisory Committee in June 2012. The committee consists of nine members appointed by the mayor, seven of whom are nominated by stakeholders in the building and real estate fields. The group meets monthly with buildings staff and is responsible for providing recommendations to buildings staff regarding service levels, procedures, fees, and staffing. Additionally the committee is tasked with monitoring revenue and expenses in the permitting enterprise fund.

Audit Objectives

This report addresses the following objectives:

- What is the impact of 2012 permit fee increases on Office of Buildings finances and performance?

- Is Accela data reliable for managing workload, supporting decision-making, and tracking permit status?

- What internal controls in the office are in place to detect and mitigate fraud risks?

- Are processes and controls in place to ensure timely permit and plan review?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our analysis covered the Department of Planning and Community Development's permit data for fiscal years 2013 and 2014. Expenditure data focused on fiscal years 2012 through 2014. We reviewed buildings permits opened during fiscal years 2013 and 2014.

Our audit methods included:

- Visiting the Office of Buildings to observe and understand processes involved at the welcome desk, intake, routing, review, coordination, issuance, and inspections

- Reviewing the department's policies and procedures related to the permitting process

- Interviewing office staff to understand permitting procedures and practices

- Reviewing a sample of hard copy and online permit applications. We assessed the completeness of the applications and the presence of supporting documentation for hard copy applications.

- Analyzing Accela reports for permits that were opened in fiscal years 2013 and 2014 to assess the number of permits applied for and issued, application acceptance and permit issuance turnaround times, and outstanding fees

- Interviewing executive staff to understand the purposes and uses of the enterprise fund

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards also require that we report any scope limitations that affect our ability to perform any audit procedures and describe the effect that the limitation has on our ability to provide assurance in those areas. Because neither the Office of Buildings nor its vendor were able to provide specific data we requested, despite assistance from the Department of Information Technology, we were unable to assess permit intake and plan review turnaround times or assess red flags for staff conflicts of interest.

Findings and Analysis

Performance Slow to Improve While Surplus Accumulates

In fiscal year 2013, in an effort to streamline permitting and speed service delivery, the city increased building permits fees charged to property owners. Management did not assess the costs of proposed permitting improvements such that fees would be no higher than necessary to cover costs. As a result, the Office of Buildings accumulated a $28 million surplus through fiscal year 2014, amounting to almost three years of operating expenses. Best practices call for maintaining a surplus of three to six months of operating expenses. It appears that fees will be higher than necessary to cover costs once the office completes planned improvements.

Despite increased resources, the office had yet to shorten the time to issue general building permits, which include permits for new commercial buildings, additions, and alterations; new single family residences/duplexes, additions, and alterations; and new multifamily buildings, additions, and alterations. The office's goal is to issue most types of general building permits within 10 to 15 days of application acceptance; the office excludes time for applicants to revise and resubmit plans from this calculation. While we were unable to assess applicant revision time due to lack of data, the overall median time to issue general building permits was 41 workdays in fiscal year 2013 and 51 workdays in fiscal year 2014. The office met its turnaround time goals for issuing electrical, plumbing, and mechanical permits, which comprised 76% of the permit applications in fiscal years 2013 and 2014. The office also met its turnaround time goals for accepting permit applications and for conducting inspections.

The number of permit applications in queue grew throughout most of the two fiscal years we reviewed. While general building permits accounted for about 20% of permit applications, they accounted for 80% of the applications in queue. Our analysis suggests that the delays occurred during plan review, but we were unable to assess reasons for the longer turnaround times because neither the office nor its vendor was able to provide data we requested, despite assistance from the Department of Information Technology. Although city code allows permit applicants to pay an additional hourly fee for expedited review outside of normal business hours at

the discretion of the director, managers told us that the office does not provide these services because staff wished to receive overtime pay instead of compensatory time, and departmental policy was not to pay overtime until recently. In addition, some employees are ineligible to receive paid overtime under the Fair Labor Standards Act. City Council adopted Ordinance 14-O-1363 in July 2014, which allows the office to provide overtime and incentive pay to employees for plan review and inspection services; however, this legislation expires in July 2015.

We recommend that the Office of Buildings continue to devote resources to reduce its queue of permit applications and seek City Council reauthorization of Ordinance 14-O-1363 to continue to provide overtime and incentive pay to plan review and inspections staff.

We also recommend that the director propose a policy, for City Council consideration, to set an appropriate operating reserve and assess the costs of services and remaining improvements to determine the program's revenue requirements. The director should also propose adjustments to the fee schedule to reflect the actual cost of services, including a reasonable operating reserve.

City Increased Permit Fees without Analyzing Service Costs

The city increased building permit fees at the beginning of fiscal year 2013. The Office of Buildings proposed the fee increase in order to streamline permitting through additional staff, investments in maintenance and technical support, and increased document storage capabilities. The office did not determine the fees necessary to cover costs. In the two years following the change, fee revenue far exceeded operating costs and the office has yet to complete all of the planned improvements.

The city increased building permit fees, doubling some fees. The city increased building permit fees effective fiscal year 2013. Exhibit 2 lists the fees that increased. Many fees in the new schedule doubled from the previous amounts. The initial permit fee increased from $75 to $150. The contractor change fee and most of the certificate of occupancy fees doubled. The valuation fee increased 40%, from $5 to $7 per $1,000 construction value.

Exhibit 2 Building Permit Fee Increases

Fee Type	Previous Fee Amount	Effective July 2012
Permit Fee		
Initial Fee	$75	$200 (includes $25 technology and a $25 process improvement surcharge)
Technology surcharge	$25	Included in initial fee
Valuation per $1,000	$5	$7
Contractor Change Fee	$50	$100
Certificates of Occupancy		
New one/two family (per unit)	$50	$100
Tenant building out for residential (per unit)	$50	$100
New commercial building (per floor)	$100	$200
Tenant building out for interior commercial (per suite)	$50	$100

Source: City Council Ordinance 11-O-1290

Management did not analyze the costs of proposed improvements to set fees. According to the fee legislation, the city intended for increases in permit fees to provide applicants additional and more efficient services through additional staffing, investments in maintenance and technical support, and increased document storage capacity. Buildings staff said the increased fees were also intended to offer more competitive salaries to attract and retain qualified staff. The Office of Buildings did not conduct a fee study prior to proposing increased fees. Fees for enterprise funds are typically set to recover costs, including capital costs. According to state law, building permit fees should approximate the reasonable costs of providing the permitting services.[1]

The Office of Buildings increased staffing by 30% in fiscal year 2014 (see Exhibit 3). Other positions funded from the building permit fund refer to support positions in the Department of Information Technology and the new ATL311. The office also reported that it implemented a combination inspector program allowing a single inspector to perform multiple inspections in one site visit.

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[1] O.C.G.A. § 48-13-5(6)

Exhibit 3 Office of Buildings Full-Time Employees

	FY 2012	FY 2013	FY 2014
Filled Positions	60	63	89
Vacancies	31	27	22
Other Funded Positions	0	0	7
Total Funded Positions	**91**	**90**	**118**

Source: Department of Human Resources, as of January 2015

Fees were increased to cover planned improvements. The Office of Buildings increased fees to fund improvements that included technical support, increased staffing, and increased document storage capabilities. City Council approved legislation for the Office of Buildings to spend $3.7 million for technology improvements, addition of vehicles, professional consulting services, and the redesign of office space. The Department of Human Resources completed a market study for the Office of Buildings in December 2014 that collected salary information for comparable positions in other cities and in the private sector. The study recommended increasing salary grades for 13 of 32 positions, moving incumbents higher in their ranges for four positions, and considering upgrading qualifications for four positions. While the study seems to support stakeholder views that some salaries are below market and that qualifications for some positions should be increased, the potential effect of the changes on turnover is unclear. Average annual turnover in the Office of Buildings was 10% between fiscal years 2012 and 2014, compared to 13% for the city as a whole.

$28 Million Surplus Represents Almost Three Years of Operating Expenses

The building permit fund accumulated a $28.4 million surplus through fiscal year 2014. Best practices recommend a surplus of three to six months of operating expenses. The $28.4 million represents about 34 months of the higher fiscal year 2014 operating expenses, which suggests that fees will be higher than required to cover costs once the office completes planned improvements.

Exhibit 4 shows the revenues, expenses, and accumulated surplus for the last three years of the building permits fund. Revenue has exceeded expenses each fiscal year since the enterprise fund was established. Expenses for the Office of Buildings were $10 million and revenues were $21.8 million in fiscal year 2014. Although expenses increased by 66% between fiscal years 2012 and 2014, surplus revenue increased nearly six-fold.

**Exhibit 4 Expenses, Revenue, and Surplus – FY 2012 through FY2014**

	FY 2012 (in thousands)	FY2013 (in thousands)	FY2014 (in thousands)
Beginning Balance	$0	$4,777	$16,585
Revenue	$10,732	$18,418	$21,757
Expenses	$5,955	$6,610	$9,914
Permit Fund Ending Balance	$4,777	$16,585	$28,428

Source: Comprehensive Annual Financial Report - 2012, 2013, and 2014

Best practices recommend organizations maintain a reserve of three to six months operating expenses in cases of financial disruption and emergencies. The balance in the building permits funds far exceeds this rule of thumb (see Exhibit 5).

We recommend that the Office of Buildings propose, for City Council consideration, a policy to set an appropriate operating reserve. The office should analyze its cost of services and remaining improvements to estimate fees necessary to cover the costs and the reserve amount. Once the analysis is completed, the office should propose adjustments to the fee schedule to reflect the actual cost of services as well as a reasonable operating reserve.

Exhibit 5 Expenses, Revenue, and Surplus – FY 2012 through FY2014
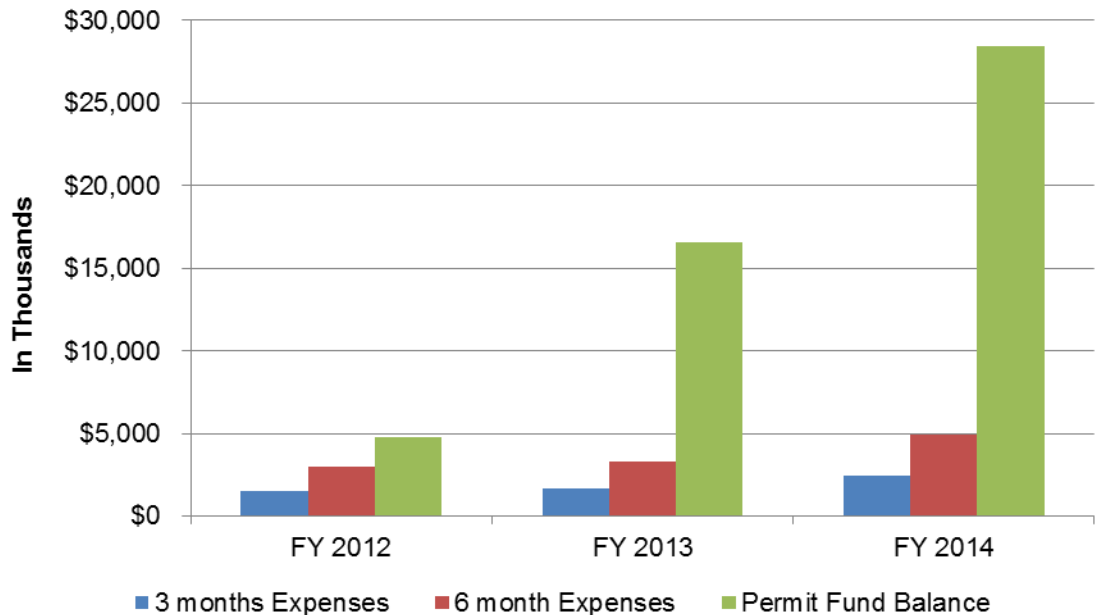
Source: Comprehensive Annual Financial Report - 2012, 2013, and 2014

General Building Permit Turnaround Time Hadn't Improved by the End of Fiscal Year 2014

The office issued most electrical, plumbing, and mechanical permits within one to two days of permit acceptance. These permits comprised 76% of the permits applied for in fiscal years 2013 and 2014. The office also accepted most permit applications within one day of submission and conducted most inspections within one day of request. The time to issue general building permits, however, was much longer. The office excludes time for applicants to revise and resubmit plans from its performance target calculation. Most of the performance targets for general building permits are 10 to 15 days; the median time to issue general building permits was 42 workdays in fiscal year 2013 and 51 workdays in fiscal year 2014, including applicant revision time. General building permits comprised about 20% of permit applications. The number of permit applications in queue increased throughout most of two fiscal years we reviewed; 80% of the queue was general building permits.

Electrical, plumbing, and mechanical permits comprised 76% of permits applied for in fiscal years 2013 and 2014. The Office of Buildings opened 47,386 permit applications in fiscal years 2013 and 2014. About 2% of the applications were terminated or withdrawn by the applicant. Electrical permits accounted for about 40% of the remaining permit applications (see Exhibit 6). General building permits, the second highest category, accounted for about 20% of permit applications. General building permits include permits for new commercial buildings, additions, and alterations; new single-family residences/duplexes, additions, and alterations; and new multifamily buildings, additions, and alterations. The number of permit applications increased about 11% between fiscal year 2013 and 2014.

Exhibit 6 Number of Permit Applications Opened in Fiscal Years 2013 and 2014

Permit Group	FY13	FY14
Electrical	9,026	10,052
General Building	5,060	4,889
Plumbing	3,989	4,417
Mechanical	3,352	4,226
Signs	428	735
Land Development	61	82
Arborist	5	7
Total	**21,921**	**24,408**

Source: Accela permit data, July 1, 2012, to June 30, 2014

The office accepted most permit applications within one day of submission. The median time for the Office of Buildings to complete permit intake was one workday in both fiscal years 2013 and 2014 (see Exhibit 7). The office accepted 75% of permit applications within two workdays in both fiscal years. Stakeholders expressed concern that incomplete permit submissions increased the total time to issue permits; the office took longer than five workdays to accept about 4% of permit applications.

Exhibit 7 Workdays to Accept Permit Applications

	FY13		FY14	
Permit Group	Median	75%	Median	75%
Electrical	1	1	1	2
General Building	1	2	2	2
Plumbing	1	2	1	2
Mechanical	1	2	1	2
Signs	1	1	1	1
Land Development	2	2	2	2
Arborist	1	1	1	1
All Types	**1**	**2**	**1**	**2**

Source: Accela permit data, July 1, 2012, to June 30, 2014

The office issued most electrical, plumbing, and mechanical permits within one workday of permit acceptance, but took much longer to issue general building permits. The median time for the Office of Buildings to issue permits after accepting applications was one work day in both fiscal years 2013 and 2014 (see Exhibit 8). The office issued 75% of permits within one day in fiscal year 2013 and within 4 days in fiscal year 2014. The time to issue general building permits, however, was much longer. The median time to issue

general building permits was 41 workdays in fiscal year 2013 and 51 workdays in fiscal year 2014. These accounted for about 20% of permit applications. The median time to issue land development permits was also much longer, but these comprised less than one-half of one percent of permit applications.

Exhibit 8 Workdays to Issue Permits after Acceptance

Permit Group	FY13		FY14	
	Median	**75%**	**Median**	**75%**
Electrical	1	1	1	1
General Building	41	118	51	109
Plumbing	1	1	1	1
Mechanical	1	1	1	1
Signs	34	74	41	86
Land Development	73	135	82	109.5
Arborist	7	20	5	18
All Types	**1**	**1**	**1**	**4**

Source: Accela permit data, July 1, 2012, to June 30, 2014

The office's goal is to issue most general building permits within 10 to 15 days of application acceptance, excluding time required for applicants to revise and resubmit plans. About 30% of general building permits were issued within turnaround targets in fiscal year 2013 and 21% of general building permits were issued within targets in fiscal year 2014 (see Exhibit 9). We were unable to assess how much time applicants needed to revise and resubmit plans because neither the office nor its vendor was able to provide data that we requested, despite assistance from the Department of Information Technology, including dates of plan review status changes. This report would have allowed us to calculate plan review turnaround times to identify bottlenecks. Either Office of Building staff missed its targets on 70% to 80% of general permits issued, applicants needed to revise and resubmit plans on 70% to 80% of general building permits issued, or a combination of both outcomes. A consultant recommended in October 2012 that the office create a "User's Guide to Local Permitting" to communicate clearly and efficiently with the permit applicants and to ensure that developers, residents, and permit granting authorities all have the same information about the permitting process. Clarifying expectations about the process could reduce the need for revisions after initial plan review. The office has recently created permitting, plan review, and inspection fact sheets, as well as checklists for permit application submittals and has posted this information on the

department's website. The office has not yet developed a more comprehensive user's guide.

Exhibit 9 Time to Issue General Building Permits Compared to Goals

Permit Type	Number	Performance Goal (Days) Excludes time for applicants to revise and resubmit plans	% Met FY13 (Measurement includes time for applicants to revise and resubmit plans)	% Met FY14
Commercial				
Alteration	2248	10	11.2%	7.7%
Miscellaneous Non-Structural	409	15	38.7%	22.9%
Miscellaneous Structural	276	15	29.9%	28.0%
Conversion	124	30	21.4%	9.3%
Demolition	104	15	26.4%	33.3%
New Building	104	30	12.5%	20.8%
Addition	78	30	18.2%	20.6%
Repair	42	10	71.9%	70.0%
Pool	10	15	0.0%	0.0%
Multifamily				
Alteration	567	10	22.7%	17.0%
New Building	361	15	2.9%	0.5%
Repair	106	10	68.0%	16.1%
Demolition	41	15	42.1%	45.5%
Addition	10	15	50.0%	0.0%
Conversion	9	15	0.0%	0.0%
Single Family/Duplex				
Repair	1107	10	80.1%	73.5%
Addition	1028	15	10.4%	5.4%
Alteration	927	10	40.0%	32.2%
New Building	810	15	0.3%	1.6%
Demolition	621	15	46.4%	30.7%
Miscellaneous Non-Structural	336	15	60.3%	53.1%
Miscellaneous Structural	264	15	20.8%	21.5%
Pool	128	15	10.0%	7.4%
Conversion	25	15	8.3%	15.4%
Other				
Airport Permit	189	10	14.3%	8.3%
Outdoor Events	25	Unknown	n/a	n/a
Total	**9,949**		**29.4%**	**21.3%**

Source: Accela permit data, July 1, 2012, to June 30, 2014; Office of Buildings Performance Targets

The number of permit applications in queue increased throughout most of the two fiscal years we reviewed. We analyzed the number of permit applications in process by day from July 1, 2012, through June 30, 2014. We don't know the number of permits that were already in process at the beginning of the period, so the queue represents the growth in the number of permits in process. The number of permits in process reached 2,159 at the end of October 2013; 1,768 (82%) of these were general building permits (see Exhibit 11). The number in process started to decrease in November 2013 through January 2014 and increased again before beginning to flatten toward the end of the fiscal year. The average number of electrical, plumbing, and mechanical permits in process each day was about 300.

Exhibit 10 Growth in Permit Applications in Process Fiscal Years 2013 and 2014
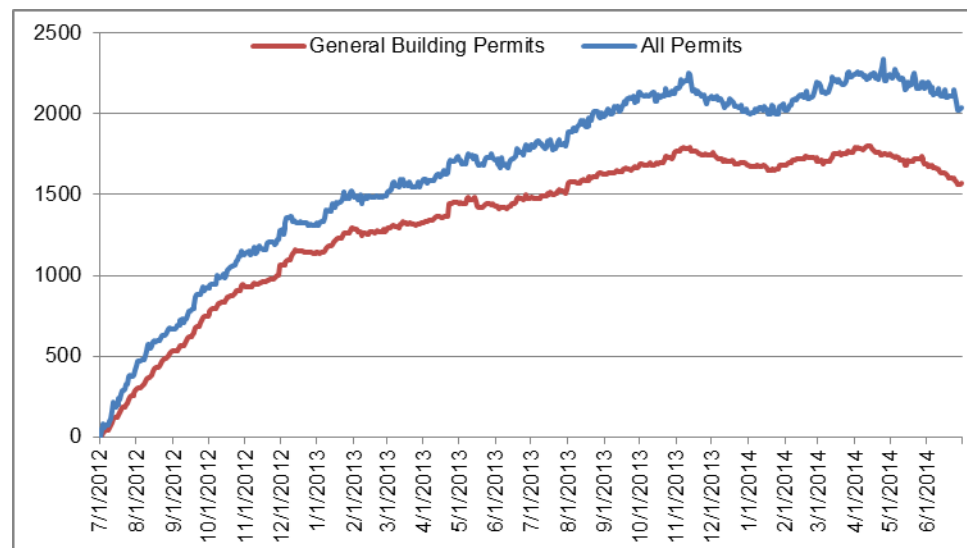
Source: Accela permit data, July 1, 2012, to June 30, 2014

Although city code allows permit applicants to pay an additional hourly fee for expedited review outside of normal business hours at the discretion of the director, staff told us that the office does not provide these services because plan reviewers wished to receive overtime pay instead of compensatory time and, until recently, the departmental policy was not to pay overtime. While we question whether allowing applicants to pay for expedited services is the best way to prioritize workload, paying overtime to reduce the backlog of permits in queue seems like a reasonable use of resources. The Office of Buildings received authorization in July 2014 to provide incentive pay for plan review and inspections staff members who are ineligible for overtime pay under the Fair Labor Standards Act.

We recommend the Office of Buildings continue to devote resources to reduce the number of permit applications in queue and seek City Council reauthorization of Ordinance 14-O-1363 to continue to provide overtime and incentive pay to plan review and inspections staff.

We also recommend the office develop a permitting user's guide as previously recommended by the city's consultant to clarify expectations.

The Office of Buildings met its goal of conducting inspections within one day. Of over 100,000 inspections that Office of Buildings staff conducted during fiscal years 2013 and 2014, the median turnaround time from the scheduled inspection date to the actual inspection date was one day (see Exhibit 11). Permit holders can cancel and reschedule inspections, which accounted for 8.4% of inspection activity.

Exhibit 11 Work Days to Perform Inspections after Scheduled Dates

Days from Scheduled Inspection Date to Inspection	FY13-14	
	Median	**75%**
Electrical	1	1
General Building	1	1
Plumbing	1	1
Mechanical	1	1
Signs	1	9.5
Land Development	1	1
Arborist	1	1.5
Total	1	1

Source: Accela inspection data, July 1, 2012, to June 30, 2014

Management Lacks Data to Monitor Controls and Mitigate Risks

The Office of Buildings lacks monitoring controls to mitigate risks of staff conflicts of interest, including acceptance of gifts or development of relationships that could influence employees' official actions. Conflicts of interest are a key inherent risk of regulatory functions such as building code enforcement. The office also lacks data to mitigate performance risks. While staff appears to use Accela effectively to manage individual cases, the office was unable to produce reports to monitor and assess overall operations.

We recommend the office work with the Department of Information Technology and its vendor to strengthen its ad hoc reporting capabilities. Managers should also review existing reports to ensure that they are functional and pulling the intended information, and should determine other information needs for ongoing reports. If hosting the application offsite proves a barrier to improving reporting capabilities, the office should work with the Department of Information Technology to estimate the cost of moving the application in-house.

Besides a lack of monitoring tools, the office has not enforced its policy of annually rotating inspectors among geographic zones. Rotation is a common industry practice to mitigate risk of staff conflicts of interest. We recommend the office rotate inspectors at least annually, or develop an alternative solution to mitigate the risk.

Management allowed staff to override a system control intended to segregate incompatible duties. The Office of Buildings issued nearly 900 permits with outstanding fees of about $350,000 in fiscal years 2013 and 2014. The system does not allow permit issuance when an account has an outstanding fee, but staff bypassed the system control when fees were in dispute. Overriding system controls introduces risk that fraud could occur without detection. We recommend the office disallow the practice of bypassing system controls and ensure applicants pay outstanding fees before receiving permits.

The random sample of permit files we reviewed indicated that process controls were functioning as intended for in-person applications. The office, however, was not enforcing controls on online permit applications to ensure licensed contractors conduct work. We recommend the office verify the authorized use of contractors' licenses and maintain copies of supporting documents for online permit applications. Finally, stop work orders that are not associated with a permit application could fall through the cracks. We recommend the director develop a systematic process to close stop work cases and associate them with a permit once obtained.

Data Needed to Monitor Operations and Support Decision-Making

The inability of the Office of Buildings to access data for the audit suggests that management lacks information to monitor operations and support decision-making. We were unable to conduct planned

audit work to identify red flags for staff conflicts of interest. Conflicts of interest are a key inherent risk of regulatory functions and our office has received allegations that Office of Building staff provided favorable treatment to some applicants.

We requested reports to assess the number of permits applied for and issued, application acceptance and permit issuance turnaround times, customer intake and plan review turnaround times, outstanding fees, and contractor license use for fiscal years 2013 and 2014. We submitted written requests for these reports in October 2014. Staff began providing us with reports in mid-December with the exception of the customer intake and plan review turnaround times report, which we never received. Some of the system reports that the Office of Buildings attempted to run were not functional and some contained information that staff could not explain. The office requested reports from the system vendor because its backup of system information was only current through July 2013.

Our analysis of permitting activity suggests that delays occurred during plan review, but without the more detailed information from the customer intake and plan review turnaround times report, we were unable to assess reasons for the longer turnaround times.

The office collects data in Accela that should be available to monitor overall operations and to mitigate risks. Gartner, Inc., a leading information technology research and advisory company, listed Accela as a top-tier permitting application.

We recommend the office work with the Department of Information Technology and its vendor to strengthen its ad hoc reporting capabilities. Managers should also review existing reports to ensure that they are functional and pulling the intended information, and should determine other information needs for ongoing reports. If hosting the application offsite proves a barrier to improving reporting capabilities, the office should work with information technology to estimate the cost of moving the application in-house.

Management does not rotate inspectors. The Office of Buildings assigns inspectors' workloads by geographic zones in the city. Management told us they change the zone assignments at least once a year; however, inspectors told us that their assignments have not been rotated. Rotation is a common industry practice to mitigate risk of staff conflicts of interest. We recommend the office rotate inspectors at least annually.

Uncollected Permit Fees Point to Override of System Controls

Nearly 900 permits issued in fiscal years 2013 and 2014 had outstanding fees as of January 2015, amounting to approximately $350,000. Office of Buildings staff attributes the failure to collect some fees to disputes over the increased fee amounts. Staff told us that the system does not allow permit issuance when an account has an outstanding fee, but the office bypassed the system control by temporarily crediting the account, then debiting the account after issuing the permit. Overriding system controls increases risk that fraud could occur without detection. The office has also issued certificates of occupancy for permits with outstanding fees. Once the office has issued the certificate of occupancy, it no longer has a way to induce payment of fees. By charging applicants different amounts for similar permits, the office could feed the perception that some applicants receive favorable treatment.

Overriding system controls increases risk of fraud. Although Accela system controls prevent permit issuance when fees are outstanding, our analyses showed permits and certificates of occupancy as issued with balances due. We found nearly 900 permit accounts with outstanding balances totaling nearly $350,000 (see Exhibit 12). One permit accounted for about a third of the total balance.

Exhibit 12 Uncollected Fee Revenue – Permits Issued FY13 and FY14

Fee Balances	FY13 Amount	FY14 Amount
Minimum	$10.00	$0.40
Maximum	$126,521.00	$16,000.00
Median	$50.00	$50.00
Total	**$285,228.20**	**$60,623.40**

Source: Accela permit data, July 1, 2012, to June 30, 2014

The permitting process segregates the incompatible duties of issuing the permit from accepting payment for the permit. By allowing staff to work around the system control, management introduces the possibility that staff could accept cash under the table for issuing a permit.

Although staff said that the applicants must pay outstanding fees prior to receiving certificates of occupancy, we found 15 permits in which the office had issued certificates of occupancy with outstanding fees due. Once the applicant has obtained a certificate

of occupancy, there are no controls in place to compel permit holders to pay the outstanding fees. Staff told us they are working with the law department and permit holders to negotiate the payment of the fees.

We recommend the Office of Buildings disallow the practice of bypassing system controls and ensure applicants pay outstanding fees before receiving permits.

In-Person Permit Applications Appear Complete; Online Submittals Pose Risk

We reviewed a random sample of 40 permit applications from fiscal years 2013 and 2014. While files for applications submitted in-person were generally complete, indicating that process controls were working as intended, the office is not requiring applicants to submit a contractor affidavit with online applications. Applicants must list the contractor's license number on the application to demonstrate that a licensed contractor will conduct the permitted work. The affidavit validates that the contractor has authorized the applicant to list his or her license.

We reviewed a random sample of 20 commercial and 20 residential permit files opened in fiscal years 2013 and 2014. Our 2013 sample included 11 hard copy files and 9 online applications. Our 2014 sample included 10 hard copy files and 10 online applications. We checked the completeness and accuracy of applications against requirements listed on the Office of Buildings website, including:

- application
- contractor agent affidavit
- homeowner's affidavit
- projected cost of construction letter

We also verified that the information on the application matched the data recorded in the system.

Hard copy permit files were mostly accurate and complete. All but one hard copy permit files contained all required information and documentation (see Exhibit 13). One file was missing a contractor affidavit. The affidavit is a method to ensure that permitted work will be conducted by a licensed contractor, as required by state law. Applicants must list the contractor's license number on the permit application. If the contractor applies for the permit on behalf of the property owner, the office makes a copy of the contractor's license to keep on file to verify the information on

the application. If the property owner or an agent applies for the permit, the notarized contractor affidavit validates that the applicant has the contractor's authorization to list his or her license number. If a property owner applies for a permit before hiring a contractor, the homeowner's affidavit certifies that the owner understands the requirement to hire a licensed contractor to conduct the work. A projected cost of construction letter is required for building and land development permit applications.

Online applications lacked affidavits to authenticate information. The Office of Buildings allows applicants to submit applications online for permits that do not require plan review. The office does not require applicants to submit notarized affidavits with online applications, introducing risk of unauthorized use of contractors' license numbers. Staff told us that the office requires users to provide driver's licenses, contractor's licenses, and state business licenses in order to establish an online system account. Staff said that the office does not retain copies of these documents, although the system has storage capacity to do so. Staff further said that contractors are responsible for protecting their license information by monitoring the system and that the Office of Buildings assumes that online users have permission to use contractor license information. The office has a planned initiative to scan all documents into a document storage system, and City Council approved Ordinance 14-O-1410, which appropriated revenue from the building permits renewal and extension fund, to support this initiative.

Exhibit 13 Permit Application File Review

	Total Yes	Total No	Total NA	Total
Hard Copy Permit Applications (21 sampled)				
Application completeness	21	0	0	21
Authentic appearance of application documents	21	0	0	21
- Contractor affidavit	20	1	0	21
- Cost of construction letter	9	0	12	21
- Homeowner affidavit	9	3*	9	21
Contractor information in system	21	0	0	21
Application information matched system	21	0	0	21
Online Permit Applications (19 sampled)				
Application completeness	19	0	0	19
Authentic appearance of application documents	0	0	19**	19
- Contractor affidavit	0	16	3	19
- Cost of construction letter	0	0	19	19
- Homeowner affidavit	0	16	3	19
Contractor information in system	19	0	0	19
Application information matched system	0	0	19	19

* Exception noted in system but not on application

**The Office of Buildings does not retain physical copies of user documentation

Source: Auditor review of hardcopy and online permit applications for sample of permits opened in fiscal year 2013 through fiscal year 2014

We recommend the Office of Buildings verify the authorized use of contractors' licenses and maintain copies of supporting documents for online permit applications.

Stop Work Orders Not Associated with a Permit Could Fall through the Cracks

The city code authorizes the director of buildings to order work stopped in cases where work is defective or violates a provision of the building code. The stop work order suspends all work until the property owner corrects the violation. In cases where work is under way without a required permit, an inspector posts a stop work order and the property owner has 10 days to obtain the permit. Inspectors record these cases into Accela as complaints. Because established workflows are for permits and these cases are not associated with a

permit, stop-work orders can fall through the cracks. Also, the complaints are not categorized using standardized names, which makes it difficult to identify, and therefore track them in Accela. The Office of Buildings acknowledged that it has no standard process for following up on stop-work orders for unpermitted work and updating records in Accela. We identified 613 stop-work order complaints opened in fiscal years 2013 and 2014; 168 (27%) recorded a status of complied as of December 2014.

We recommend the Office of Buildings develop a systematic process to close stop work cases that associates them with a permit, once obtained. Open stop work cases should be assigned for periodic inspection.

Recommendations

In order to increase operational efficiency and reduce the risk of fraud, the Deputy Commissioner of the Department of Planning and Community Development should:

1. Propose for City Council consideration a policy to set an appropriate operating reserve for the building permit fund.

2. Analyze the costs of permitting services, including remaining planned improvements, to estimate fees necessary to cover the costs.

3. Propose adjustments to the fee schedule to reflect the actual costs of services, allowing for a reasonable operating reserve.

4. Seek City Council reauthorization of Ordinance 14-O-1363 to continue to provide overtime and incentive pay to plan review and inspections staff to reduce the number of permit applications in queue.

5. Develop a User's Guide to Local Permitting to communicate with permit applicants and to ensure that developers, residents, and permit granting authorities all have the same information about the permitting process.

6. Work with the chief information officer and permitting system vendor to:

   • strengthen ad hoc reporting capabilities

   • ensure existing reports are functional and pulling the intended information

   • determine other information needs for ongoing reports

   • estimate the cost of moving the application in-house if offsite hosting proves a barrier to improving reporting capabilities

7. Rotate inspectors at least annually, or develop an alternative solution to mitigate the risk of staff conflicts of interest.

8. Disallow the practice of bypassing system controls and ensure applicants pay outstanding fees before receiving permits.

9. Verify the authorized use of contractors' licenses and maintain copies of supporting documents for online permit applications.

10. Develop a systematic process to close stop work cases that associates them with a permit, once obtained.

11. Assign open stop work cases for periodic inspection.

Appendices

Appendix A
Management Response to Audit Recommendations

Report # 14.04	Report Title: Building Permits	Date: 5/27/15

Recommendation Responses – Deputy Commissioner of the Department of Planning and Community Development		
Rec. #1	The deputy commissioner of planning and community development should propose for City Council consideration a policy to set an appropriate operating reserve for the building permit fund.	Agree
	Proposed Action: The Department will undertake a permitting operational process review that will include a best practices assessment and a cost of services analysis. Upon completion of this process the Department will determine the need, depending on the results, of proposing a policy to the City Council.	
	Implementation Timeframe: July 2015 – March 2016	
	Responsible Person: Deputy Commissioner Terri Lee and Chief Financial Officer Jim Beard	
Rec. #2	The deputy commissioner of planning and community development should analyze the costs of permitting services, including remaining planned improvements, to estimate fees necessary to cover the costs.	Agree
	Proposed Action: The Department will undertake a permitting operational process and enhancement analysis that will include a system process review, best practices assessment, and a cost of services analysis in order to fully understand the elements required for a comprehensive consolidation of the permitting process and its estimated cost of service. The comprehensive review of OOB's permitting process will have a focus on improving service through the implementation of "best in class" permitting processes.	
	Implementation Timeframe: July 2015 – March 2016	
	Responsible Person: Deputy Commissioner Terri Lee	

Rec. #3	The deputy commissioner of planning and community development should propose adjustments to the fee schedule to reflect the actual costs of services, allowing for a reasonable operating reserve.	Partially Agree
	Proposed Action: The Department will undertake a permitting operational process and enhancement analysis that will include a system process review, best practices assessment, and a cost of services analysis in order to fully understand the elements required for a comprehensive consolidation of the permitting process and its estimated cost of service. The comprehensive review of OOB's permitting process will have a focus on improving service through the implementation of "best in class" permitting processes. Upon completion of this process the Department will determine the need, depending on the results, of proposing a policy to the City Council.	
	Implementation Timeframe: July 2015 – March 2016	
	Responsible Person: Deputy Commissioner Terri Lee	
Rec. #4	The deputy commissioner of planning and community development should seek City Council reauthorization of Ordinance 14-O-1363 to continue to provide overtime and incentive pay to plan review and inspections staff to reduce the number of permit applications in queue.	Agree
	Proposed Action: The Department will work with the Department of Law and the Department of Human Resources to seek reauthorization of Ordinance 14-O-1363.	
	Implementation Timeframe: June 2015 – August 2015	
	Responsible Person: Deputy Commissioner Terri Lee	
Rec. #5	The deputy commissioner of planning and community development should develop a User's Guide to Local Permitting to communicate with permit applicants and to ensure that developers, residents, and permit granting authorities all have the same information about the permitting process.	Agree
	Proposed Action: Upon completion of the operational analysis, the Department will develop a user guide for the permitting process. The user guide will encompass information on the permitting process that is applicable to developers and residents.	
	Implementation Timeframe: April 2016 – June 2016	
	Responsible Person: Deputy Commissioner Terri Lee	

Rec. #6	The deputy commissioner of planning and community development should work with the chief information officer and permitting system vendor to: • strengthen ad hoc reporting capabilities • ensure existing reports are functional and pulling the intended information • determine other information needs for ongoing reports • estimate the cost of moving the application in-house if offsite hosting proves a barrier to improving reporting capabilities.	Agree

	Proposed Action:	The Chief Information Officer for the Department of Information and Technology has purview over the permitting technology system. The Department will work with DIT to ensure that the required actions are implemented. • **strengthen ad hoc reporting capabilities** The reporting database will be refreshed monthly, versus the current "as needed" updates, which historically is approximately twice a year. This will ensure that reports can be validated against more current data making the validation and approval process faster and more accurate. Currently, the system administrator is the only person trained in ad hoc reporting, but members of the business unit will also receive training. Training will be provided at the Accela User Conference in August, with additional training to be available as needed going forward. • **ensure existing reports are functional and pulling the intended information** DIT will review all existing reports with OOB to validate intended purpose and accuracy. System controls were instituted to ensure that staff cannot manually override status date fields. • **determine other information needs for ongoing reports** OOB, in conjunction with the CIO, is in the process of securing a vendor to conduct an Optimization Assessment on the entire system. One aspect is ensuring that the system is configured with streamlined processes. Reports will be modified and/or developed as needed to support the reengineered processes. • **estimate the cost of moving the application in-house if offsite hosting proves a barrier to improving reporting capabilities** Offsite hosting currently does not prohibit reporting capabilities. Increasing the frequency of the reporting database updates to monthly should improve the report approval timeframe. The vendor's service level agreement to place the validated report into production is 48 hours.
	Implementation Timeframe:	July 2015 – September 2015
	Responsible Person:	Deputy Commissioner Terri Lee and CIO Samir Saini

Rec. #7	The deputy commissioner of planning and community development should rotate inspectors at least annually, or develop an alternative solution to mitigate the risk of staff conflicts of interest.	Agree
	Proposed Action: The Department will ensure that the practice of rotating inspectors among inspection zones is implemented.	
	Implementation Timeframe: July 2015 – December 2015	
	Responsible Person: Deputy Commissioner Terri Lee	

Rec. #8	The deputy commissioner of planning and community development should disallow the practice of bypassing system controls and ensure applicants pay outstanding fees before receiving permits.	Agree
	Proposed Action: The Department has implemented controls and business practices to ensure that the proper authority and approval is in place to prohibit bypassing system controls.	
	Implementation Timeframe: May 2015 – July 2015	
	Responsible Person: Deputy Commissioner Terri Lee	

Rec. #9	The deputy commissioner of planning and community development should verify the authorized use of contractors' licenses and maintain copies of supporting documents for online permit applications.	Partially Agree
	Proposed Action: In order to submit a permit application online through Accela Citizen Access (ACA), the customer must have an ACA account with a valid contractor license. Customers may update the license information in two ways: in person at the Office of Buildings or via fax and/or email to the Office of Buildings. The applicable staff will update the ACA accounts with the submitted license information. If a customer attempts to submit an ACA application with an invalid license, the system will not allow the permit application to be completed. ACA has a feature where applications cannot be completed/submitted when invalid contractor information is entered. The Department will continue its ongoing practice. However, system controls will be put in place to ensure that the proper verification occurs to mitigate against fraudulent activity.	
	Implementation Timeframe: July 2015 – October 2015	
	Responsible Person: Deputy Commissioner Terri Lee	

Rec. #10	The deputy commissioner of planning and community development should develop a systematic process to close stop work cases that associates them with a permit, once obtained.	Agree
Proposed Action:	The Department will institute a procedural process to ensure that stop work order cases are inspected and closed out within the Accela system.	
Implementation Timeframe:	July 2015 – October 2015	
Responsible Person:	Deputy Commissioner Terri Lee	

Rec. #11	The deputy commissioner of planning and community development should assign open stop work cases for periodic inspection.	Agree
Proposed Action:	The Department will institute a procedural process to ensure that stop work order cases are inspected and closed out within the Accela system.	
Implementation Timeframe:	July 2015 – October 2015	
Responsible Person:	Deputy Commissioner Terri Lee	