

Audit Report

**Department of Permits and Development Management,
Bureau of Development Management**

Cash Receipt Procedures



Office of the County Auditor
Baltimore County, Maryland
October 2006



BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

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October 19, 2006

Honorable Members of the County Council
Honorable James T. Smith, Jr., County Executive
Baltimore County, Maryland

We have audited the Department of Permits and Development Management, Bureau of Development Management's cash receipt procedures for the fiscal year ended June 30, 2005. During fiscal year 2005, cash receipts collected by the Bureau totaled \$4.6 million.

Our audit disclosed that internal control over cash receipts was inadequate. Specifically, we noted that deposits were not made timely, receipts were not adequately safeguarded against loss or theft, and pre-numbered cash receipt forms were not properly accounted for to ensure all receipts were deposited.

A response to our findings from the Department of Permits and Development Management, Bureau of Development Management is included as Appendix A to this report.

Our audit reports and responses thereto are available to the public and may be obtained on-line at "www.baltimorecountymd.gov" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the Department of Permits and Development Management, Bureau of Development Management for the cooperation and assistance extended to us during our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brian J. Rowe".

Brian J. Rowe, CPA
County Auditor



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Background

The Office of Budget and Finance is responsible for the administration of the County's finances, including the collection of all revenues and fees.¹ While the majority of the County's receipts are collected directly by the Office of Budget and Finance, certain fees are collected by the Department of Permits and Development Management, Bureau of Development Management. Specifically, the Bureau is responsible for collecting development fees, local open space waiver fees, inspection fees and security deposits, and other miscellaneous fees.

During FY 2005, the Bureau collected fees and cash security deposits totaling \$4.6 million as follows:

| | Amount Collected |
|--|---------------------|
| Concept Plan Review | \$ 34,520 |
| Development Plan Review | 272,363 |
| Public Works Agreement (Phase 2) Review | 732,953 |
| Local Open Space Waiver | 669,281 |
| Inspection for Utility and Right-of-Way Improvement Agreements | 2,045,465 |
| Security Deposit for Utility and Right-of-Way Improvement Agreements | 855,562 |
| Miscellaneous Fees (e.g., record plat, appeal to Board of Appeals) | 25,710 |
| Total | <u>\$ 4,635,854</u> |

¹ Baltimore County Charter, Section 515

Findings and Recommendations

Internal control over cash receipts was inadequate.

The Department of Permits and Development Management, Bureau of Development Management is responsible for collecting various development fees and security deposits associated with the County's development review process. During FY 2005, the Bureau collected \$4.6 million in development fees and cash security deposits. Our review of the Bureau's cash receipt procedures disclosed that internal control over cash receipts was inadequate. Specifically, our review disclosed the following:

a. Cash receipts were not deposited in a timely manner to help preclude misappropriation of funds.

Proper internal controls require that collections be deposited upon receipt, but in no case later than the next business day. However, our test of 216 receipts (i.e., fees for Development Plan, Phase 2, and Local Open Space Waiver) totaling \$1,515,000 disclosed that 140 receipts (65%) totaling \$876,482 were deposited from 2 to 142 days after receipt, with the majority held 31 to 100 days after receipt. We noted that the Bureau held receipts until all required documentation (e.g., various types of plans) was completed/submitted. Consequently, the undeposited cash receipts were vulnerable to loss or theft and resulted in lost interest income to the County.

b. Undeposited receipts were not adequately safeguarded.

Proper internal controls require that checks received be restrictively endorsed upon receipt and secured until deposited. However, our review disclosed that checks were not restrictively endorsed upon receipt and were not properly secured until forwarded to the County's Cashier's Office. Consequently, the cash receipts were susceptible to theft or misuse.

c. Pre-numbered cash receipt forms were not properly accounted for to ensure that all receipts were deposited.

Pre-numbered cash receipt forms issued to record and account for all collections were not properly accounted for nor were they reconciled to the related deposit. Proper internal control procedures require that pre-numbered cash receipt forms be independently accounted for and reconciled to the related deposit to help ensure that all collections are deposited.

To ensure proper internal control over cash receipts, we recommend that the Office of Budget and Finance collect all cash receipts associated with the development review process and issue a validated cash receipt form to evidence payment of the required fees, a copy of which must accompany the submission of the related documents (e.g., development plans). This process, which is similar to the collection of other cash receipts (e.g., recordation of deeds), helps ensure that cash receipts are deposited timely and adequately safeguarded.

Audit Scope, Objectives and Methodology

We have audited cash receipts associated with the development review process collected by the Department of Permits and Development Management, Bureau of Development Management for the fiscal year ended June 30, 2005. The audit was conducted in accordance with generally accepted government auditing standards.

In accordance with the Baltimore County Charter, Section 311, the objectives of our audit were to determine that cash receipts were properly recorded and deposited and to evaluate the adequacy of internal control practices and procedures. In planning and conducting our audit, we focused on certain cash receipts collected by the Bureau based on assessments of materiality and risk.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Bureau's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

Management is responsible for establishing and maintaining effective internal control for cash receipts. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Bureau's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations.

APPENDIX A

Department of Permits and Development Management's Response



BALTIMORE COUNTY, MARYLAND
DEPARTMENT OF PERMITS AND DEVELOPMENT MANAGEMENT
Interoffice Correspondence

September 28, 2006

To: Lauren M. Smelkinson, Audit Manager
Office of the County Auditor

From: Timothy M. Kotroco, Director *TMK*
Department of Permits and Development Management

Re: Cash Receipt Procedures Audit
Final Draft Report

I have reviewed the draft audit report attached to your memo dated September 21, 2006. I acknowledge your findings and believe that we can implement a solution that will solve many of the issues raised by the audit.

First, I would like to establish that the Bureau of Development Management is a central clearing-house operation for the submittal of plans to county reviewing agencies. The bureau is also the pick-up location of county agency reviews for the engineering consultants. Virtually every plan submittal to the Departments of Environmental Protection and Resource Management, Planning, Recreation and Parks, and multiple PDM bureaus passes through this office.

If effect, the bureau is a drop-off center. First it sorts out plan submittals. Some plans are immediately distributed to other agencies. Other work is processed in batches. For example, Development Review Committee (DRC) applications are processed every Wednesday; Concept Plan applications are processed every Monday and Development Plan applications are processed every Friday. All of these applications that are processed in batches include a check that is deposited during the processing.

Other applications that are submitted along with checks are simply processed in turn. These include Minor Subdivision Plans, Residential House Connections, Appeals, Record Plats, and Utility and Right of Way Improvement Agreements.

Lauren Smelkinson
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For fiscal year 2005, the bureau processed 1,135 of the above named applications. This does not include the processing of Phase 2 fee checks, Local Open Space Waiver checks, or Development Review Panel checks. Those checks are received and processed without plan submittals or applications.

It is not practical to process each application as it is submitted. The bureau was not designed and is not staffed to function in that manner.

At the suggestion of the auditors, we propose to implement a system where certain fees will to be paid at the Cashier's Office in the Office of Finance before an application is submitted.

The bureau advises engineering consultants of the need to include a check in a certain amount for some submittals. In these cases, the bureau reviews a draft submittal of the application and then returns the application along with a checklist type memo with the full submittal requirements. This is done for Concept Plans, Development Plans, Utility and Right of Way Improvement Agreements and many Phase 2 processing fees. These types of submittals account for most of the larger checks that we receive.

In these cases, the bureau would include with the checklist memo, a completed Office of Finance counter cash invoice. The applicant would then present the counter cash invoice along with a check to the Cashier's Office. One copy of the validated invoice would then be included along with the plan submittal.

In doing this, we would eliminate seeing many of the checks that we receive along with regular plan submittal processing.

This bureau takes great pride in its service to the public and to the development community. We will work to better improve our internal controls of cash receipts but cannot sacrifice the efficiency of our operation to do so. This bureau has been in operation since 1992 and I do not believe that we have ever experienced the worse case scenario of a lost or stolen check.