



City of Bowling Green

Internal Auditor's Office

Building and Inspection Division Audit

Project# 2017-11

Issue Date: 04/02/18

Finalized: 04/09/18

Deborah Jenkins, CFE, CGAP, CICA

Table of Contents

Transmittal Letter	3
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Introduction

Background	4-5
Objectives	5
Scope	5
Criteria and Approach	5-6
Statement of Standards	6
Audit Conclusion	6

Observations and Recommendations

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- 2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required. (pg. 8-9)**
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- 4. Management should review current overall fee structure and update as necessary. (pg. 11)**

Transmittal Letter

TO: Katie Schaller-Ward, Interim City Manager, Ex-officio Member
Tony Witty, Audit Committee Chair
Jeffrey Stein, Audit Committee Vice-Chair
Vivian Grise, Audit Committee Member
Brian Dinning, Audit Committee Member
Joe Denning, Commissioner and Audit Committee Member

CC: Brent Childers, Neighborhood and Community Services Director
Jeremy Segur, Building Division Manager

Pursuant to the approved 2017/2018 Internal Audit Plan, I hereby submit the Building and Inspection Division Audit. The objective of this audit is to ensure permitting related fees comply with the City of Bowling Green Code of Ordinances, assess the accuracy and appropriateness of building and inspection fees, and determine the existence and effectiveness of internal controls within the Building and Inspection Division of Neighborhood and Community Services Department. The body of the report consists of observations, recommendations and management's responses to the recommendations.

Results in Brief

Based on the results of this audit, fees charged and collected were in accordance with the approved fees within the City's Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees. The following observations and resulting recommendations are included to improve the processes for the Building and Inspection Division in regards to the fees and inspections:

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice of canceled permits.**
- 2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required.**
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It was a pleasure working citywide with the staff within the Building and Inspection Division, and it was fun learning about their role within City services.

Sincerely,

Deborah Jenkins, CFE, CGAP, CICA
Internal Auditor

Background

According to the City of Bowling Green Code of Ordinances:

The Building and Inspection Division issues building and electrical permits and makes all levels of inspections on all new construction and remodeling with structural or occupancy changes. This Division performs field inspections to insure work is done within the minimum guidelines set by all applicable codes. This Division is also responsible for reviewing the plans submitted by contractors, architects or owners for all structures for design compliance with the requirements of the Kentucky Building Code.

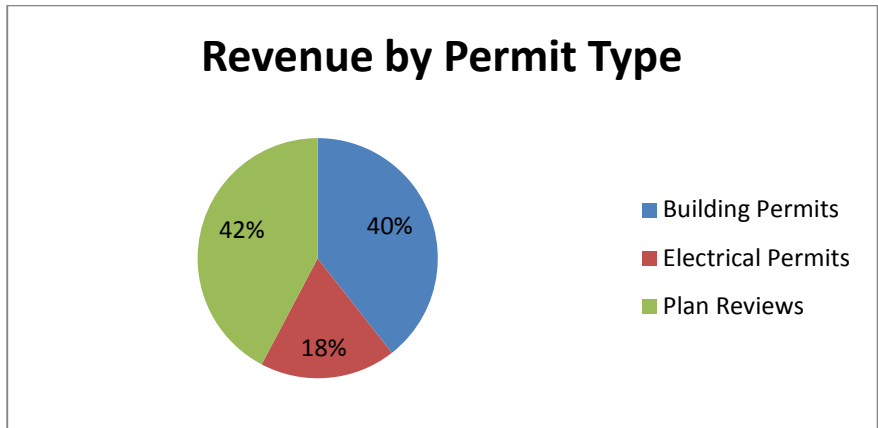
The Building and Inspection Division operates with seven (7) full-time employees with each employee reporting directly to the Building Division Manager.



The division reviews construction plans and inspects projects in progress at various intervals. The plans are reviewed to ensure compliance with codes and once construction begins, inspections are completed to ensure that the project meets the minimum requirements within the building codes. Depending on the type and size of the project, the time spent and number of inspections required throughout a project will vary greatly. The company who pulls the permit has the responsibility to contact the division to request the required inspections.

In Fiscal Year 2017, the Building and Inspection Division brought in a total of \$1,001,521.16 in total division related revenues for permits and plan reviews:

Permit Type	Revenue
Building Permits	\$394,749.00
Electrical Permits	\$183,389.28
Plan Reviews	\$423,382.88
Total Division Revenue	\$1,001,521.16



The division also collected other fees for the City in Fiscal Year 2017 including:

- \$18,105 for storm water permit reviews that were inspected by Public Works,
- \$21,000 in Fireworks Fees that were inspected by the Fire Department, and
- \$469.47 in other miscellaneous fees for the Neighborhood & Community Services Department.

The division brings in enough revenue to more than support its operations. In FY2016/2017 the actual expenditures including personnel totaled \$553,430.80. The number of permits issued has grown due to the City’s economic growth over the most recent years. According to the annual report data collected by management, the number of permits for the past three fiscal years is as follows:

No. Issued by Permit Type	FY2014/2015	FY2015/2016	FY2016/2017
Electrical Permits	796	996	1,037
Building Permits	520	603	614
Other Misc. Permits	481	588	629
Total FY Permits Issued	1,797	2,187	2,280

Objective

The objective of this audit is to ensure permitting related fees comply with the City of Bowling Green Code of Ordinances, assess the accuracy and appropriateness of building and inspection fees, and determine the existence and effectiveness of internal controls within the Building and Inspection Division of Neighborhood and Community Services Department.

Scope

The scope of this audit includes building and inspection records from July 1, 2016 through June 30, 2017.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three (3) phases:

1. Understanding the Process:

During Phase One, meetings were held with staff to discuss objectives of the audit work, collect information and documentation, review applicable regulations and inform them why this audit was selected. I shadowed two (2) inspectors and interviewed other key personnel. A review was completed of Chapters 6 & 10 of the City of Bowling Green Code of Ordinances including the prior revisions in order to confirm when prior fee changes had occurred.

2. Sample Determination and Detailed Testing:

During Phase Two, eight (8) risk areas were identified and prioritized based on perceived control techniques, control weaknesses, as well requirements within the City of Bowling Green Code of Ordinances. A combination of randomized testing, full record set testing and haphazard samples were tested based on the priority scale of risks identified. Site visits were performed at various expired permit locations to test for construction completion.

3. Reporting:

During Phase three, the results of the tests performed were analyzed and evaluated. The observations and recommendations were then summarized into a report format based on the analysis. A draft was provided to management for review and their management responses were incorporated into this report.

Statement of Standards

The audit was performed in accordance with government auditing standards (except for the completion of an external peer review), which are promulgated by the Comptroller General of the United States. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls, compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.

Audit Conclusion

Based on the audit testing, fees charged and collected were in accordance with the approved fees within the City of Bowling Green Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees.

Observations and Recommendations

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice for canceled permits.**

Observation

The process for issuing building permits works well; however the process for performing inspections to ensure work was completed according to City of Bowling Green Code of Ordinances was not adequate. The building regulation relies on the contractors to notify the Building and Inspection Division when construction is ready for an inspection. Contractors do not always notify the Building and Inspection Division, and the division has inadequate follow-up procedures to ensure the work was inspected. There is no penalty to the contractor to be assessed by the division.

Review of the expired permits determined that approximately 7% of the fiscal year permits never get inspected before they expire. A sample of expired permits was selected to test for completion. 14 of the 15 locations or 93% of the sites visited either had what appeared to be fully completed construction, or mostly completed, where follow-up should have occurred and the permit should have been active. Using this sample to estimate, there were 124 expired permits in FY 2016/2017 so potentially 93% or 115 permits could be issued and completed without required inspections taking place.

When permits are canceled, there was no written notice required. If the contractor comes in person to cancel a permit, then administrative staff asked them to write down the request. However, they can also call in and cancel a permit so the change would be made with just the verbal notice.

Risk

Allowing permits to expire should not be an easy method to avoid inspections and circumvent controls. Without required inspections performed to provide assurance that the work completed met applicable code standards, projects could be completed and create hazards to citizens.

Recommendation

If the permit holder or contractor does not intend to use the permit, they should be required to provide written notice to the Building and Inspection Division that the permit was to be voided and certify that no work was performed. The Building and Inspection Division should develop procedures to ensure that building permits get inspected or are properly canceled if not used. They should also work to enact a penalty for failing to obtain inspections and report violations to the BG/WC Contractor's Licensing Board.

Management Response

Management will work with IT to implement a scheduled report that will show Issued Permits with no Inspections and Issued Permits Expiring in the Next 30 days. Management will then review the reports and make contact with applicants to determine if the project is still going forward and make any inspections that are necessary for the permit. The Issued Permit with no Inspections Report will be run monthly and the Issued Permits Expiring in the Next 30 days will

run every other week. Additionally management will review Chapter 6 and the KY Building Code to determine the availability of implementing monetary penalties for missed inspections.

2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required.

Observation

The City of Bowling Green has multiple capital projects that are in various construction phases on City facilities. City construction projects must meet City of Bowling Green Code of Ordinances the same as any other construction project within the City of Bowling Green. As part of the audit testing, a sample of various City projects was taken from the bid listing maintained by the City's Procurement Manager. The City does not charge itself for permits, but does require that permits are obtained and that inspections are performed just as any other project. Each applicable construction project should obtain a permit prior to the work being performed and if the project was bid out to a contractor, that contractor would be responsible for obtaining the permit and obtaining the appropriate inspections.

Fifteen (15) construction bids were tested to determine:

- Was a permit required?
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From the sample tested:

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 1. Two (2) projects should have obtained permits, but were seen as minimal impact by the division due to the nature of the projects not being structural (paving at the Police Department and the Reservoir Hill retaining wall).
 2. Two (2) projects were performed with either most or all of the work being performed by City staff and were permitted after construction had begun verses prior to construction as the Code requires (expansion of Fleet for surplus storage and Covington Woods shelter construction).
 3. One (1) project was contracted out to an outside contractor and the permit was obtained as required; however, there were no inspections requested until the project was at full completion and the final inspection was called for (Lovers Lane Soccer Complex (LLSC bathroom and pavilion)).

The third issue listed above was a \$683,000 project that should have required multiple inspections, but the contractor did not call for the inspections. Due to that fact, the Building and Inspection Division did not provide a Certificate of Occupancy, but a "letter of completion" since they were unable to perform the needed inspections. According to the notes within the permit, the contractor provided special inspection reports for footing, trusses and masonry walls that had been performed by someone outside of the City's Building Inspectors. There were no penalties for not calling in for the inspections required within the permit. This project was not overseen by the Public Works Department's project managers who are on staff to oversee City

projects. Since it was contracted out through a general contractor, the Department of Parks and Recreation chose to oversee it themselves.

Risk

Without consistent use of the City's Project Managers, City projects risk falling through with the appropriate requirements for inspections and increase the City's risk in the future on structures that may not meet required codes. Also, without appropriate penalties when these issues occur there are no incentives for the contractors to ensure that appropriate inspections are performed as required.

Recommendation

Applicable Senior Managers who have construction projects for City facilities should create a system that would prevent projects from falling through the cracks such as the Lovers Lane Soccer Complex (LLSC) bathrooms and pavilion. The project management within Public Works should be utilized for City projects and should work with the Building and Inspection Division to ensure that all City projects meet requirements in the future. Penalties should be enforced when contractors violate provisions within the Code. No penalties were found within this audit.

According to Chapter 6-2.03:

Pursuant to KRS Chapter 198B, any person who violates any provision of the Kentucky Building Code and the Kentucky Residential Code, or any directive or order issued pursuant thereto shall be fined not less than ten (\$10.00) dollars nor more than one thousand (\$1,000.00) dollars. Each day the violation continues shall constitute a separate offense.

Management Response

Management scheduled a meeting with the Public Works Director and the Parks Director to discuss the importance of the Project Managers working with the awarded contractor to ensure that the appropriate permits and inspections are completed to ensure that all city construction projects are completed according to the appropriate code. The meeting will also cover liability issues and any guidance that is needed for permitting procedures.

- 3. Management should evaluate re-inspection fees. They are rarely used in practice, only applicable to electrical permits and the fee is so nominal that it is not a deterrent to the contractors.**

Observation

During observation time with inspectors, we visited construction sites for inspections that were not ready for the requested inspection. The inspector would talk with the workers on site and ask when they thought that they would be ready for the inspection so they could come back out on another day. Discussions with the inspectors and division staff indicated that this was a frequent occurrence, but they could not remember the last time that a re-inspection fee had been charged.

According to Chapter 10-3.01 of the City of Bowling Green Code of Ordinances, a \$15 re-inspection fee was to be charged for each return trip for an electrical permit. There was no re-inspection fee found with the review of Chapter 6 (Building Regulations) of the City of Bowling Green Code of Ordinances. Upon review of Chapter 10 revisions, it was determined that the last time a change had occurred to the re-inspection fee was in 1987 with Ordinance No. 87-8 when the re-inspection fee went from \$10 to \$15.

Risk

The low re-inspection fee amount along with the lack of use provides no incentives to contractors to schedule inspections when they would have their work ready for inspection. This costs the city time and money having inspectors go multiple times to perform one particular inspection.

Recommendation

Management should evaluate re-inspection fee and related process. The City shouldn't have fees within the Code of Ordinances that are not being charged as written, but the amount of the fee should also be reviewed to ensure that it covers the cost of the inspector returning for the inspection. The current re-inspection fees only relate to electrical permits, but not building permits which means there was no consequence to contractors for calling inspectors out multiple times and wasting their time that could be spent on other inspections. In order to ensure equitable treatment of all City contractors, a fee should be in place for re-inspection of both building and electrical permits.

Management Response

Management will evaluate the fees related to building permits and inspections. Our building permit and plan review fees are outlined in the KY Building Code and are updated as the KY Building Code is updated. Our ordinance is based on the current edition of the KY Building Code so there is no need to readopt the KY Building Code with each new edition. The electrical fees and other fees in the ordinance have not been updated for several years and management will review and make a recommendation for updated fees and the possibility of re-inspection fees.

4. Management should review current overall fee structure and update as necessary.

Observation

The building fee structure hasn't been significantly revised for sixteen (16) years, which can be found in Ordinance No. BG2002-5. Prior to that, revisions were made fifteen (15) years earlier in 1987 with Ordinance No. BG87-29. The electrical fee structure hasn't been significantly revised for seventeen (17) years, approved by Ordinance No. BG2001-14. Prior to the revision in 2001, significant revisions were made fourteen (14) years earlier in 1987 with Ordinance No. BG87-8.

American Legal Publishing Corporation assists the City by periodically reviewing the City's Code of Ordinances as required under KRS 83A.060(11). In the 2015 report, they make a specific note about the fee schedule in Chapter X (Electricity) commenting "we note that these fees have not been amended for the past ten years. We suggest that they be reviewed and updated as necessary."

Risk

Without adequate review and update of fee structures within the building and electrical chapters of the Code of Ordinances, personnel and cost increases will outpace the fees charged resulting in fewer revenues for the services provided.

Recommendation

Management should review Chapter 6 (Building Regulations) and Chapter 10 (Electricity) to ensure the chapters are up to date. An analysis of the related fees should also occur and any recommended fee changes taken to the Board of Commissioners for approval.

Management Response

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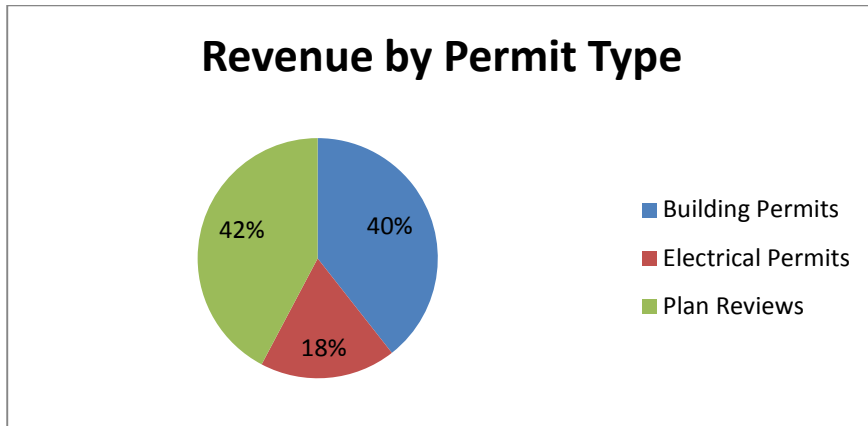
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Observation

During observation time with inspectors, we visited construction sites for inspections that were not ready for the requested inspection. The inspector would talk with the workers on site and ask when they thought that they would be ready for the inspection so they could come back out on another day. Discussions with the inspectors and division staff indicated that this was a frequent occurrence, but they could not remember the last time that a re-inspection fee had been charged.

According to Chapter 10-3.01 of the City of Bowling Green Code of Ordinances, a \$15 re-inspection fee was to be charged for each return trip for an electrical permit. There was no re-inspection fee found with the review of Chapter 6 (Building Regulations) of the City of Bowling Green Code of Ordinances. Upon review of Chapter 10 revisions, it was determined that the last time a change had occurred to the re-inspection fee was in 1987 with Ordinance No. 87-8 when the re-inspection fee went from \$10 to \$15.

Risk

The low re-inspection fee amount along with the lack of use provides no incentives to contractors to schedule inspections when they would have their work ready for inspection. This costs the city time and money having inspectors go multiple times to perform one particular inspection.

Recommendation

Management should evaluate re-inspection fee and related process. The City shouldn't have fees within the Code of Ordinances that are not being charged as written, but the amount of the fee should also be reviewed to ensure that it covers the cost of the inspector returning for the inspection. The current re-inspection fees only relate to electrical permits, but not building permits which means there was no consequence to contractors for calling inspectors out multiple times and wasting their time that could be spent on other inspections. In order to ensure equitable treatment of all City contractors, a fee should be in place for re-inspection of both building and electrical permits.

Management Response

Management will evaluate the fees related to building permits and inspections. Our building permit and plan review fees are outlined in the KY Building Code and are updated as the KY Building Code is updated. Our ordinance is based on the current edition of the KY Building Code so there is no need to readopt the KY Building Code with each new edition. The electrical fees and other fees in the ordinance have not been updated for several years and management will review and make a recommendation for updated fees and the possibility of re-inspection fees.

4. Management should review current overall fee structure and update as necessary.

Observation

The building fee structure hasn't been significantly revised for sixteen (16) years, which can be found in Ordinance No. BG2002-5. Prior to that, revisions were made fifteen (15) years earlier in 1987 with Ordinance No. BG87-29. The electrical fee structure hasn't been significantly revised for seventeen (17) years, approved by Ordinance No. BG2001-14. Prior to the revision in 2001, significant revisions were made fourteen (14) years earlier in 1987 with Ordinance No. BG87-8.

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Risk

Without adequate review and update of fee structures within the building and electrical chapters of the Code of Ordinances, personnel and cost increases will outpace the fees charged resulting in fewer revenues for the services provided.

Recommendation

Management should review Chapter 6 (Building Regulations) and Chapter 10 (Electricity) to ensure the chapters are up to date. An analysis of the related fees should also occur and any recommended fee changes taken to the Board of Commissioners for approval.

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City of Bowling Green

Internal Auditor's Office

Building and Inspection Division Audit

Project# 2017-11

Issue Date: 04/02/18

Finalized: 04/09/18

Deborah Jenkins, CFE, CGAP, CICA

Table of Contents

Transmittal Letter	3
---------------------------	---

Introduction

Background	4-5
Objectives	5
Scope	5
Criteria and Approach	5-6
Statement of Standards	6
Audit Conclusion	6

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Transmittal Letter

TO: Katie Schaller-Ward, Interim City Manager, Ex-officio Member
Tony Witty, Audit Committee Chair
Jeffrey Stein, Audit Committee Vice-Chair
Vivian Grise, Audit Committee Member
Brian Dinning, Audit Committee Member
Joe Denning, Commissioner and Audit Committee Member

CC: Brent Childers, Neighborhood and Community Services Director
Jeremy Segur, Building Division Manager

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Based on the results of this audit, fees charged and collected were in accordance with the approved fees within the City's Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees. The following observations and resulting recommendations are included to improve the processes for the Building and Inspection Division in regards to the fees and inspections:

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice of canceled permits.**
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Sincerely,

Deborah Jenkins, CFE, CGAP, CICA
Internal Auditor

Background

According to the City of Bowling Green Code of Ordinances:

The Building and Inspection Division issues building and electrical permits and makes all levels of inspections on all new construction and remodeling with structural or occupancy changes. This Division performs field inspections to insure work is done within the minimum guidelines set by all applicable codes. This Division is also responsible for reviewing the plans submitted by contractors, architects or owners for all structures for design compliance with the requirements of the Kentucky Building Code.

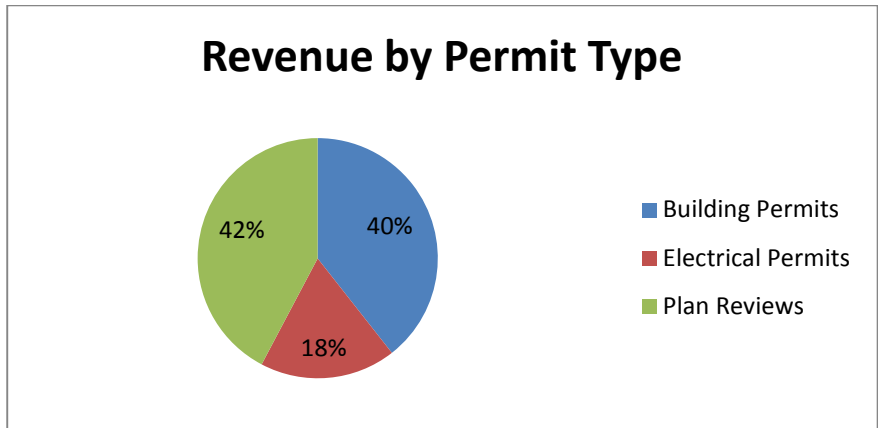
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The division reviews construction plans and inspects projects in progress at various intervals. The plans are reviewed to ensure compliance with codes and once construction begins, inspections are completed to ensure that the project meets the minimum requirements within the building codes. Depending on the type and size of the project, the time spent and number of inspections required throughout a project will vary greatly. The company who pulls the permit has the responsibility to contact the division to request the required inspections.

In Fiscal Year 2017, the Building and Inspection Division brought in a total of \$1,001,521.16 in total division related revenues for permits and plan reviews:

Permit Type	Revenue
Building Permits	\$394,749.00
Electrical Permits	\$183,389.28
Plan Reviews	\$423,382.88
Total Division Revenue	\$1,001,521.16



The division also collected other fees for the City in Fiscal Year 2017 including:

- \$18,105 for storm water permit reviews that were inspected by Public Works,
- \$21,000 in Fireworks Fees that were inspected by the Fire Department, and
- \$469.47 in other miscellaneous fees for the Neighborhood & Community Services Department.

The division brings in enough revenue to more than support its operations. In FY2016/2017 the actual expenditures including personnel totaled \$553,430.80. The number of permits issued has grown due to the City’s economic growth over the most recent years. According to the annual report data collected by management, the number of permits for the past three fiscal years is as follows:

No. Issued by Permit Type	FY2014/2015	FY2015/2016	FY2016/2017
Electrical Permits	796	996	1,037
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Total FY Permits Issued	1,797	2,187	2,280

Objective

The objective of this audit is to ensure permitting related fees comply with the City of Bowling Green Code of Ordinances, assess the accuracy and appropriateness of building and inspection fees, and determine the existence and effectiveness of internal controls within the Building and Inspection Division of Neighborhood and Community Services Department.

Scope

The scope of this audit includes building and inspection records from July 1, 2016 through June 30, 2017.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three (3) phases:

1. Understanding the Process:

During Phase One, meetings were held with staff to discuss objectives of the audit work, collect information and documentation, review applicable regulations and inform them why this audit was selected. I shadowed two (2) inspectors and interviewed other key personnel. A review was completed of Chapters 6 & 10 of the City of Bowling Green Code of Ordinances including the prior revisions in order to confirm when prior fee changes had occurred.

2. Sample Determination and Detailed Testing:

During Phase Two, eight (8) risk areas were identified and prioritized based on perceived control techniques, control weaknesses, as well requirements within the City of Bowling Green Code of Ordinances. A combination of randomized testing, full record set testing and haphazard samples were tested based on the priority scale of risks identified. Site visits were performed at various expired permit locations to test for construction completion.

3. Reporting:

During Phase three, the results of the tests performed were analyzed and evaluated. The observations and recommendations were then summarized into a report format based on the analysis. A draft was provided to management for review and their management responses were incorporated into this report.

Statement of Standards

The audit was performed in accordance with government auditing standards (except for the completion of an external peer review), which are promulgated by the Comptroller General of the United States. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls, compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.

Audit Conclusion

Based on the audit testing, fees charged and collected were in accordance with the approved fees within the City of Bowling Green Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees.

Observations and Recommendations

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice for canceled permits.**

Observation

The process for issuing building permits works well; however the process for performing inspections to ensure work was completed according to City of Bowling Green Code of Ordinances was not adequate. The building regulation relies on the contractors to notify the Building and Inspection Division when construction is ready for an inspection. Contractors do not always notify the Building and Inspection Division, and the division has inadequate follow-up procedures to ensure the work was inspected. There is no penalty to the contractor to be assessed by the division.

Review of the expired permits determined that approximately 7% of the fiscal year permits never get inspected before they expire. A sample of expired permits was selected to test for completion. 14 of the 15 locations or 93% of the sites visited either had what appeared to be fully completed construction, or mostly completed, where follow-up should have occurred and the permit should have been active. Using this sample to estimate, there were 124 expired permits in FY 2016/2017 so potentially 93% or 115 permits could be issued and completed without required inspections taking place.

When permits are canceled, there was no written notice required. If the contractor comes in person to cancel a permit, then administrative staff asked them to write down the request. However, they can also call in and cancel a permit so the change would be made with just the verbal notice.

Risk

Allowing permits to expire should not be an easy method to avoid inspections and circumvent controls. Without required inspections performed to provide assurance that the work completed met applicable code standards, projects could be completed and create hazards to citizens.

Recommendation

If the permit holder or contractor does not intend to use the permit, they should be required to provide written notice to the Building and Inspection Division that the permit was to be voided and certify that no work was performed. The Building and Inspection Division should develop procedures to ensure that building permits get inspected or are properly canceled if not used. They should also work to enact a penalty for failing to obtain inspections and report violations to the BG/WC Contractor's Licensing Board.

Management Response

Management will work with IT to implement a scheduled report that will show Issued Permits with no Inspections and Issued Permits Expiring in the Next 30 days. Management will then review the reports and make contact with applicants to determine if the project is still going forward and make any inspections that are necessary for the permit. The Issued Permit with no Inspections Report will be run monthly and the Issued Permits Expiring in the Next 30 days will

run every other week. Additionally management will review Chapter 6 and the KY Building Code to determine the availability of implementing monetary penalties for missed inspections.

2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required.

Observation

The City of Bowling Green has multiple capital projects that are in various construction phases on City facilities. City construction projects must meet City of Bowling Green Code of Ordinances the same as any other construction project within the City of Bowling Green. As part of the audit testing, a sample of various City projects was taken from the bid listing maintained by the City's Procurement Manager. The City does not charge itself for permits, but does require that permits are obtained and that inspections are performed just as any other project. Each applicable construction project should obtain a permit prior to the work being performed and if the project was bid out to a contractor, that contractor would be responsible for obtaining the permit and obtaining the appropriate inspections.

Fifteen (15) construction bids were tested to determine:

- Was a permit required?
- If so, was the permit obtained prior to the beginning of construction?
- Were inspections performed as required?

From the sample tested:

- Five (5) projects did not require permits;
- Five (5) projects were permitted as required by code, and
- Five (5) projects contained issues:
 1. Two (2) projects should have obtained permits, but were seen as minimal impact by the division due to the nature of the projects not being structural (paving at the Police Department and the Reservoir Hill retaining wall).
 2. Two (2) projects were performed with either most or all of the work being performed by City staff and were permitted after construction had begun verses prior to construction as the Code requires (expansion of Fleet for surplus storage and Covington Woods shelter construction).
 3. One (1) project was contracted out to an outside contractor and the permit was obtained as required; however, there were no inspections requested until the project was at full completion and the final inspection was called for (Lovers Lane Soccer Complex (LLSC bathroom and pavilion)).

The third issue listed above was a \$683,000 project that should have required multiple inspections, but the contractor did not call for the inspections. Due to that fact, the Building and Inspection Division did not provide a Certificate of Occupancy, but a "letter of completion" since they were unable to perform the needed inspections. According to the notes within the permit, the contractor provided special inspection reports for footing, trusses and masonry walls that had been performed by someone outside of the City's Building Inspectors. There were no penalties for not calling in for the inspections required within the permit. This project was not overseen by the Public Works Department's project managers who are on staff to oversee City

projects. Since it was contracted out through a general contractor, the Department of Parks and Recreation chose to oversee it themselves.

Risk

Without consistent use of the City's Project Managers, City projects risk falling through with the appropriate requirements for inspections and increase the City's risk in the future on structures that may not meet required codes. Also, without appropriate penalties when these issues occur there are no incentives for the contractors to ensure that appropriate inspections are performed as required.

Recommendation

Applicable Senior Managers who have construction projects for City facilities should create a system that would prevent projects from falling through the cracks such as the Lovers Lane Soccer Complex (LLSC) bathrooms and pavilion. The project management within Public Works should be utilized for City projects and should work with the Building and Inspection Division to ensure that all City projects meet requirements in the future. Penalties should be enforced when contractors violate provisions within the Code. No penalties were found within this audit.

According to Chapter 6-2.03:

Pursuant to KRS Chapter 198B, any person who violates any provision of the Kentucky Building Code and the Kentucky Residential Code, or any directive or order issued pursuant thereto shall be fined not less than ten (\$10.00) dollars nor more than one thousand (\$1,000.00) dollars. Each day the violation continues shall constitute a separate offense.

Management Response

Management scheduled a meeting with the Public Works Director and the Parks Director to discuss the importance of the Project Managers working with the awarded contractor to ensure that the appropriate permits and inspections are completed to ensure that all city construction projects are completed according to the appropriate code. The meeting will also cover liability issues and any guidance that is needed for permitting procedures.

- 3. Management should evaluate re-inspection fees. They are rarely used in practice, only applicable to electrical permits and the fee is so nominal that it is not a deterrent to the contractors.**

Observation

During observation time with inspectors, we visited construction sites for inspections that were not ready for the requested inspection. The inspector would talk with the workers on site and ask when they thought that they would be ready for the inspection so they could come back out on another day. Discussions with the inspectors and division staff indicated that this was a frequent occurrence, but they could not remember the last time that a re-inspection fee had been charged.

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4. Management should review current overall fee structure and update as necessary.

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The building fee structure hasn't been significantly revised for sixteen (16) years, which can be found in Ordinance No. BG2002-5. Prior to that, revisions were made fifteen (15) years earlier in 1987 with Ordinance No. BG87-29. The electrical fee structure hasn't been significantly revised for seventeen (17) years, approved by Ordinance No. BG2001-14. Prior to the revision in 2001, significant revisions were made fourteen (14) years earlier in 1987 with Ordinance No. BG87-8.

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Table of Contents

Transmittal Letter	3
---------------------------	---

Introduction

Background	4-5
Objectives	5
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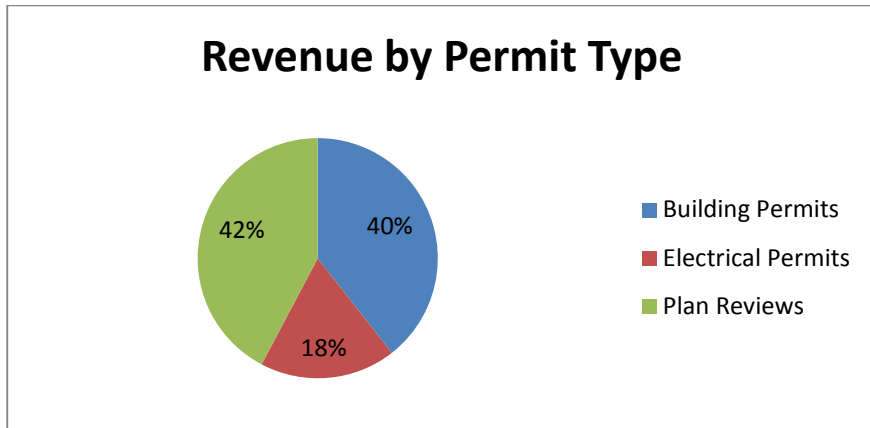
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The City of Bowling Green has multiple capital projects that are in various construction phases on City facilities. City construction projects must meet City of Bowling Green Code of Ordinances the same as any other construction project within the City of Bowling Green. As part of the audit testing, a sample of various City projects was taken from the bid listing maintained by the City's Procurement Manager. The City does not charge itself for permits, but does require that permits are obtained and that inspections are performed just as any other project. Each applicable construction project should obtain a permit prior to the work being performed and if the project was bid out to a contractor, that contractor would be responsible for obtaining the permit and obtaining the appropriate inspections.

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- If so, was the permit obtained prior to the beginning of construction?
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From the sample tested:

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 3. One (1) project was contracted out to an outside contractor and the permit was obtained as required; however, there were no inspections requested until the project was at full completion and the final inspection was called for (Lovers Lane Soccer Complex (LLSC bathroom and pavilion)).

The third issue listed above was a \$683,000 project that should have required multiple inspections, but the contractor did not call for the inspections. Due to that fact, the Building and Inspection Division did not provide a Certificate of Occupancy, but a "letter of completion" since they were unable to perform the needed inspections. According to the notes within the permit, the contractor provided special inspection reports for footing, trusses and masonry walls that had been performed by someone outside of the City's Building Inspectors. There were no penalties for not calling in for the inspections required within the permit. This project was not overseen by the Public Works Department's project managers who are on staff to oversee City

projects. Since it was contracted out through a general contractor, the Department of Parks and Recreation chose to oversee it themselves.

Risk

Without consistent use of the City's Project Managers, City projects risk falling through with the appropriate requirements for inspections and increase the City's risk in the future on structures that may not meet required codes. Also, without appropriate penalties when these issues occur there are no incentives for the contractors to ensure that appropriate inspections are performed as required.

Recommendation

Applicable Senior Managers who have construction projects for City facilities should create a system that would prevent projects from falling through the cracks such as the Lovers Lane Soccer Complex (LLSC) bathrooms and pavilion. The project management within Public Works should be utilized for City projects and should work with the Building and Inspection Division to ensure that all City projects meet requirements in the future. Penalties should be enforced when contractors violate provisions within the Code. No penalties were found within this audit.

According to Chapter 6-2.03:

Pursuant to KRS Chapter 198B, any person who violates any provision of the Kentucky Building Code and the Kentucky Residential Code, or any directive or order issued pursuant thereto shall be fined not less than ten (\$10.00) dollars nor more than one thousand (\$1,000.00) dollars. Each day the violation continues shall constitute a separate offense.

Management Response

Management scheduled a meeting with the Public Works Director and the Parks Director to discuss the importance of the Project Managers working with the awarded contractor to ensure that the appropriate permits and inspections are completed to ensure that all city construction projects are completed according to the appropriate code. The meeting will also cover liability issues and any guidance that is needed for permitting procedures.

- 3. Management should evaluate re-inspection fees. They are rarely used in practice, only applicable to electrical permits and the fee is so nominal that it is not a deterrent to the contractors.**

Observation

During observation time with inspectors, we visited construction sites for inspections that were not ready for the requested inspection. The inspector would talk with the workers on site and ask when they thought that they would be ready for the inspection so they could come back out on another day. Discussions with the inspectors and division staff indicated that this was a frequent occurrence, but they could not remember the last time that a re-inspection fee had been charged.

According to Chapter 10-3.01 of the City of Bowling Green Code of Ordinances, a \$15 re-inspection fee was to be charged for each return trip for an electrical permit. There was no re-inspection fee found with the review of Chapter 6 (Building Regulations) of the City of Bowling Green Code of Ordinances. Upon review of Chapter 10 revisions, it was determined that the last time a change had occurred to the re-inspection fee was in 1987 with Ordinance No. 87-8 when the re-inspection fee went from \$10 to \$15.

Risk

The low re-inspection fee amount along with the lack of use provides no incentives to contractors to schedule inspections when they would have their work ready for inspection. This costs the city time and money having inspectors go multiple times to perform one particular inspection.

Recommendation

Management should evaluate re-inspection fee and related process. The City shouldn't have fees within the Code of Ordinances that are not being charged as written, but the amount of the fee should also be reviewed to ensure that it covers the cost of the inspector returning for the inspection. The current re-inspection fees only relate to electrical permits, but not building permits which means there was no consequence to contractors for calling inspectors out multiple times and wasting their time that could be spent on other inspections. In order to ensure equitable treatment of all City contractors, a fee should be in place for re-inspection of both building and electrical permits.

Management Response

Management will evaluate the fees related to building permits and inspections. Our building permit and plan review fees are outlined in the KY Building Code and are updated as the KY Building Code is updated. Our ordinance is based on the current edition of the KY Building Code so there is no need to readopt the KY Building Code with each new edition. The electrical fees and other fees in the ordinance have not been updated for several years and management will review and make a recommendation for updated fees and the possibility of re-inspection fees.

4. Management should review current overall fee structure and update as necessary.

Observation

The building fee structure hasn't been significantly revised for sixteen (16) years, which can be found in Ordinance No. BG2002-5. Prior to that, revisions were made fifteen (15) years earlier in 1987 with Ordinance No. BG87-29. The electrical fee structure hasn't been significantly revised for seventeen (17) years, approved by Ordinance No. BG2001-14. Prior to the revision in 2001, significant revisions were made fourteen (14) years earlier in 1987 with Ordinance No. BG87-8.

American Legal Publishing Corporation assists the City by periodically reviewing the City's Code of Ordinances as required under KRS 83A.060(11). In the 2015 report, they make a specific note about the fee schedule in Chapter X (Electricity) commenting "we note that these fees have not been amended for the past ten years. We suggest that they be reviewed and updated as necessary."

Risk

Without adequate review and update of fee structures within the building and electrical chapters of the Code of Ordinances, personnel and cost increases will outpace the fees charged resulting in fewer revenues for the services provided.

Recommendation

Management should review Chapter 6 (Building Regulations) and Chapter 10 (Electricity) to ensure the chapters are up to date. An analysis of the related fees should also occur and any recommended fee changes taken to the Board of Commissioners for approval.

Management Response

Management will evaluate the fees related to building permits and inspections. Our building permit and plan review fees are outlined in the KY Building Code and are updated as the KY Building Code is updated. Our ordinance is based on the current edition of the KY Building Code so there is no need to readopt the KY Building Code with each new edition. The electrical fees and other fees in the ordinance have not been updated for several years and management will review and make a recommendation for updated fees and the possibility of re-inspection fees.



City of Bowling Green

Internal Auditor's Office

Building and Inspection Division Audit

Project# 2017-11

Issue Date: 04/02/18

Finalized: 04/09/18

Deborah Jenkins, CFE, CGAP, CICA

Table of Contents

Transmittal Letter	3
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Introduction

Background	4-5
Objectives	5
Scope	5
Criteria and Approach	5-6
Statement of Standards	6
Audit Conclusion	6

Observations and Recommendations

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice of canceled permits. (pg. 7)**
- 2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required. (pg. 8-9)**
- 3. Management should evaluate re-inspection fees. They are rarely used in practice, only applicable to electrical permits and the fee is so nominal that it is not a deterrent to the contractors. (pg. 10)**
- 4. Management should review current overall fee structure and update as necessary. (pg. 11)**

Transmittal Letter

TO: Katie Schaller-Ward, Interim City Manager, Ex-officio Member
Tony Witty, Audit Committee Chair
Jeffrey Stein, Audit Committee Vice-Chair
Vivian Grise, Audit Committee Member
Brian Dinning, Audit Committee Member
Joe Denning, Commissioner and Audit Committee Member

CC: Brent Childers, Neighborhood and Community Services Director
Jeremy Segur, Building Division Manager

Pursuant to the approved 2017/2018 Internal Audit Plan, I hereby submit the Building and Inspection Division Audit. The objective of this audit is to ensure permitting related fees comply with the City of Bowling Green Code of Ordinances, assess the accuracy and appropriateness of building and inspection fees, and determine the existence and effectiveness of internal controls within the Building and Inspection Division of Neighborhood and Community Services Department. The body of the report consists of observations, recommendations and management's responses to the recommendations.

Results in Brief

Based on the results of this audit, fees charged and collected were in accordance with the approved fees within the City's Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees. The following observations and resulting recommendations are included to improve the processes for the Building and Inspection Division in regards to the fees and inspections:

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice of canceled permits.**
- 2. Management should work together to create a system that ensures that all City construction projects are permitted and inspected as required.**
- 3. Management should evaluate re-inspection fees. They are rarely used in practice, only applicable to electrical permits and the fee is so nominal that it is not a deterrent to the contractors.**
- 4. Management should review current overall fee structure and update as necessary.**

It was a pleasure working citywide with the staff within the Building and Inspection Division, and it was fun learning about their role within City services.

Sincerely,

Deborah Jenkins, CFE, CGAP, CICA
Internal Auditor

Background

According to the City of Bowling Green Code of Ordinances:

The Building and Inspection Division issues building and electrical permits and makes all levels of inspections on all new construction and remodeling with structural or occupancy changes. This Division performs field inspections to insure work is done within the minimum guidelines set by all applicable codes. This Division is also responsible for reviewing the plans submitted by contractors, architects or owners for all structures for design compliance with the requirements of the Kentucky Building Code.

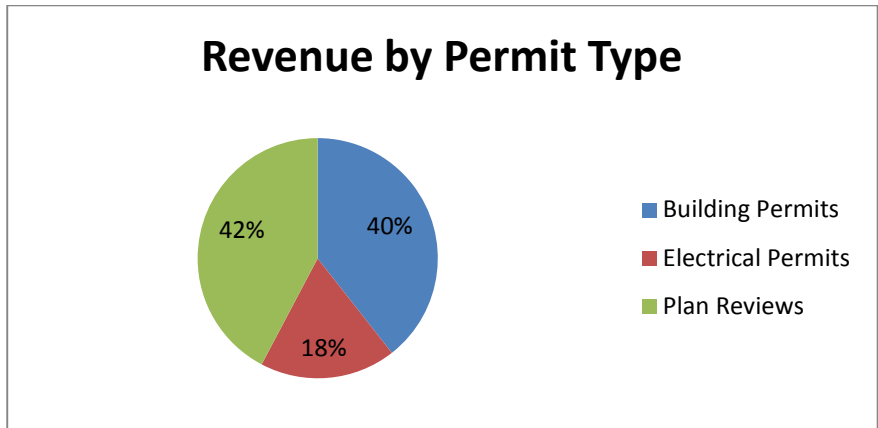
The Building and Inspection Division operates with seven (7) full-time employees with each employee reporting directly to the Building Division Manager.



The division reviews construction plans and inspects projects in progress at various intervals. The plans are reviewed to ensure compliance with codes and once construction begins, inspections are completed to ensure that the project meets the minimum requirements within the building codes. Depending on the type and size of the project, the time spent and number of inspections required throughout a project will vary greatly. The company who pulls the permit has the responsibility to contact the division to request the required inspections.

In Fiscal Year 2017, the Building and Inspection Division brought in a total of \$1,001,521.16 in total division related revenues for permits and plan reviews:

Permit Type	Revenue
Building Permits	\$394,749.00
Electrical Permits	\$183,389.28
Plan Reviews	\$423,382.88
Total Division Revenue	\$1,001,521.16



The division also collected other fees for the City in Fiscal Year 2017 including:

- \$18,105 for storm water permit reviews that were inspected by Public Works,
- \$21,000 in Fireworks Fees that were inspected by the Fire Department, and
- \$469.47 in other miscellaneous fees for the Neighborhood & Community Services Department.

The division brings in enough revenue to more than support its operations. In FY2016/2017 the actual expenditures including personnel totaled \$553,430.80. The number of permits issued has grown due to the City’s economic growth over the most recent years. According to the annual report data collected by management, the number of permits for the past three fiscal years is as follows:

No. Issued by Permit Type	FY2014/2015	FY2015/2016	FY2016/2017
Electrical Permits	796	996	1,037
Building Permits	520	603	614
Other Misc. Permits	481	588	629
Total FY Permits Issued	1,797	2,187	2,280

Objective

The objective of this audit is to ensure permitting related fees comply with the City of Bowling Green Code of Ordinances, assess the accuracy and appropriateness of building and inspection fees, and determine the existence and effectiveness of internal controls within the Building and Inspection Division of Neighborhood and Community Services Department.

Scope

The scope of this audit includes building and inspection records from July 1, 2016 through June 30, 2017.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three (3) phases:

1. Understanding the Process:

During Phase One, meetings were held with staff to discuss objectives of the audit work, collect information and documentation, review applicable regulations and inform them why this audit was selected. I shadowed two (2) inspectors and interviewed other key personnel. A review was completed of Chapters 6 & 10 of the City of Bowling Green Code of Ordinances including the prior revisions in order to confirm when prior fee changes had occurred.

2. Sample Determination and Detailed Testing:

During Phase Two, eight (8) risk areas were identified and prioritized based on perceived control techniques, control weaknesses, as well requirements within the City of Bowling Green Code of Ordinances. A combination of randomized testing, full record set testing and haphazard samples were tested based on the priority scale of risks identified. Site visits were performed at various expired permit locations to test for construction completion.

3. Reporting:

During Phase three, the results of the tests performed were analyzed and evaluated. The observations and recommendations were then summarized into a report format based on the analysis. A draft was provided to management for review and their management responses were incorporated into this report.

Statement of Standards

The audit was performed in accordance with government auditing standards (except for the completion of an external peer review), which are promulgated by the Comptroller General of the United States. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls, compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.

Audit Conclusion

Based on the audit testing, fees charged and collected were in accordance with the approved fees within the City of Bowling Green Code of Ordinances. The issuance of permits was adequate and performed in compliance with applicable rules and regulations, except when permits expired and with coordination of our own City construction projects. A thorough review of the fee structures associated with building and electrical Code of Ordinance chapters should occur and also analyze re-inspection fees.

Observations and Recommendations

- 1. Management should implement a consistent follow-up procedure for expired permits and require written notice for canceled permits.**

Observation

The process for issuing building permits works well; however the process for performing inspections to ensure work was completed according to City of Bowling Green Code of Ordinances was not adequate. The building regulation relies on the contractors to notify the Building and Inspection Division when construction is ready for an inspection. Contractors do not always notify the Building and Inspection Division, and the division has inadequate follow-up procedures to ensure the work was inspected. There is no penalty to the contractor to be assessed by the division.

Review of the expired permits determined that approximately 7% of the fiscal year permits never get inspected before they expire. A sample of expired permits was selected to test for completion. 14 of the 15 locations or 93% of the sites visited either had what appeared to be fully completed construction, or mostly completed, where follow-up should have occurred and the permit should have been active. Using this sample to estimate, there were 124 expired permits in FY 2016/2017 so potentially 93% or 115 permits could be issued and completed without required inspections taking place.

When permits are canceled, there was no written notice required. If the contractor comes in person to cancel a permit, then administrative staff asked them to write down the request. However, they can also call in and cancel a permit so the change would be made with just the verbal notice.

Risk

Allowing permits to expire should not be an easy method to avoid inspections and circumvent controls. Without required inspections performed to provide assurance that the work completed met applicable code standards, projects could be completed and create hazards to citizens.

Recommendation

If the permit holder or contractor does not intend to use the permit, they should be required to provide written notice to the Building and Inspection Division that the permit was to be voided and certify that no work was performed. The Building and Inspection Division should develop procedures to ensure that building permits get inspected or are properly canceled if not used. They should also work to enact a penalty for failing to obtain inspections and report violations to the BG/WC Contractor's Licensing Board.

Management Response

Management will work with IT to implement a scheduled report that will show Issued Permits with no Inspections and Issued Permits Expiring in the Next 30 days. Management will then review the reports and make contact with applicants to determine if the project is still going forward and make any inspections that are necessary for the permit. The Issued Permit with no Inspections Report will be run monthly and the Issued Permits Expiring in the Next 30 days will

run every other week. Additionally management will review Chapter 6 and the KY Building Code to determine the availability of implementing monetary penalties for missed inspections.

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