DEPARTMENT OF PLANNING
REVENUE AND ACCOUNTS RECEIVABLE AUDIT

Audit Report

October 2015

INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

Under the Public Management and Finance Law, the Internal Audit Unit (IAU) is required to review the management systems of all ministries, portfolios, statutory authorities and government companies.

In accordance with the 2014-2015 Audit Plan, we recently concluded a revenue and accounts receivable audit at the Department of Planning ("DoP" or "the Department").

Summary of Major Findings

During the audit, a number of control weaknesses were identified which impact negatively on the revenue and accounts receivable processes at the DoP. We have summarized below the major findings of control weaknesses along with our recommendations and management's responses for corrective action geared towards improvement.

Finding	Recommendation	Management Response & Action
Our review of the DoP's procedures manual revealed an absence of policies and procedures specific to the Department's revenue and accounts receivable (A/R) processes.	The Director of Planning should ensure that comprehensive policies and procedures to govern the Department's revenue and accounts receivable processes are documented and circulated to the relevant staff.	Management accepts the recommendation. Accordingly, the Department is currently in the process of creating policies and procedures to govern the revenue and accounts receivable process.
Infrastructure Fund fees, totaling $429,313.92, assessed for 16 applications submitted in 2013/14, were not recognised as revenue at the time of application (as per the Financial Regulations). Rather, the revenue for these fees was being recognised in accordance with the Planning Law's fee schedule, as the revenue was only recorded when payments were made at the prescribed intervals (i.e. cash basis accounting).	The Director of Planning should confer with the Ministry of Finance to discuss necessary amendments to the Financial Regulations in order to facilitate greater unanimity between said Regulations and the Development and Planning Law and Regulations.	Management accepts the recommendation.
We noted that various methods of calculating quarry fees were being practiced. In some instances, the fee assessment was calculated based on the amount of material being excavated on a monthly or quarterly basis, while in other situations the fee was assessed based on total material to be excavated over the life of the project.	The Director of Planning should initiate appropriate revisions to the Development and Planning Regulations to ensure that the assessment period is clearly stated. Once the necessary changes have been made and approved, the Director should enact procedures to make certain that assessments are carried out in accordance with the revised Law.	Management agrees to raise this matter with the Minister with responsibility for Planning for further instructions as to possible amendments to the respective legislation.
5 out of 5 sampled deposit transactions, which totaled $20,615.00, were improperly recorded as revenue, instead of as	The Director of Planning should ensure that all deposit transactions are recorded in accordance with Part 6 of Schedule 3 of the Financial Regulations (2013	Management accepts the recommendation. The Department, in consultation with the Ministry's CFO, will explore the creation of an unearned

Finding	Recommendation	Management Response & Action
liabilities.	Revision).	revenue account and the associated revenue classification (i.e. entity vs. executive) and will book deposits accordingly.
A review of the trial balance for the 2013-2014 financial year revealed a brought forward receivables balance of $144,225.05 that was not being monitored, nor related payments being applied against.	The Director of Planning, in consultation with the Department's CFO, should ensure that the brought forward receivables balance of $144K is investigated and resolved as appropriate.	$29K of the receivables balance was written off at the end of FY2013-14 as there was no schedule to support the balance. A review and clean-up will be undertaken to resolve the remaining portion of the A/R balance.

Conclusion

Based on our audit of the revenue and accounts receivable processes at the Department of Planning, Internal Audit concludes that the systems and internal controls in place require improvement in order to ensure that the Department can achieve its objectives.

Our conclusion is based on observations made during the audit namely, the lack of policies and procedures specific to the processes under review, inappropriate accounting treatment of customer deposits, inconsistent or inaccurate calculation of certain Planning fees and deviations from the revenue recognition points and other stipulations within the Financial Regulations.

Management has however responded favorably to our recommendations by committing to action plans for the same. These actions signify Management's commitment to system improvements, which should result in increased effectiveness and stronger internal controls.

As is customary, Internal Audit will continue to monitor and report on the progress made towards implementation of the agreed action plans stated in this report.

Deloris E. Gordon
Director, Internal Audit

October 23, 2015

II. INTRODUCTION

Background

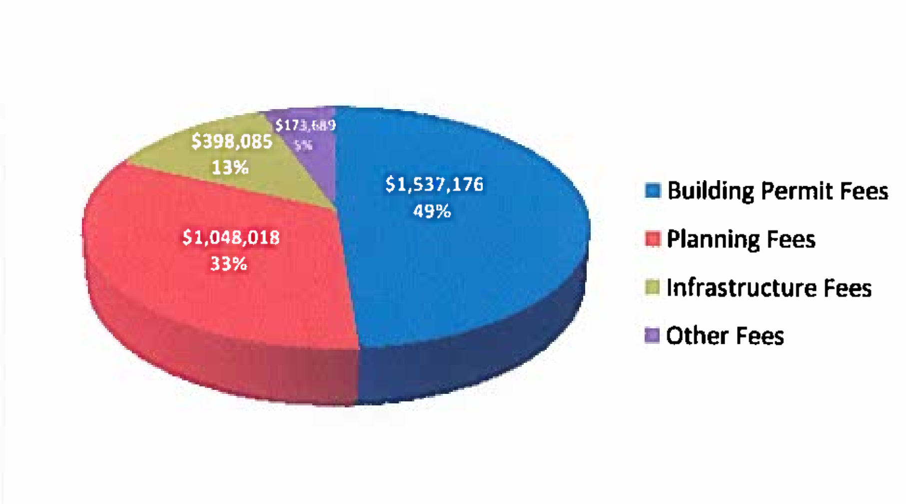
The Department of Planning falls under the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure. Their key responsibility is to superintend the development of infrastructure within the Islands by reviewing and approving development applications to ensure adherence to development plans and applicable legislation.

The Department is comprised of four divisions namely Current Planning, the Building Control Unit, Policy Development and Finance & Administration. The planning functions on the Sister Islands are handled through the Sister Islands Planning Office located in the District Administration Building; however, all applications are processed in Grand Cayman.

Revenue

The Department of Planning primarily generates its revenue through the assessment and collection of various mandated development fees. Of those fees, Building Permit Fees and Planning Application Fees make up the two largest revenue streams, accounting for 82% of the Department's revenue.

The Department's 2013-14 trial balance provides a breakdown of the $3.16 million in revenue collected for the period:



There are no provisions in the Development and Planning Law (2011 Revision) or the Development and Planning Regulations (2013 Revision) for the waiver or reduction of fees levied by the Department of Planning. However, the Department has granted full or partial fee waivers as periodically approved by Cabinet.

All planning fees are collected and receipted by the Lands and Survey (L&S) cashier, as the Department of Planning does not have a cashier. Customers must first approach the Planning Department counter, where a Planning Technician (PT) will either raise an assessment or confirm the existence of one in the system, and will sign-off on the paperwork to be presented to the cashier.

In addition, the Department has established an arrangement where applicants can make deposits to be utilized for future building permit inspection requests. Such requests are processed through the Online Planning System (OPS) and the related inspection fees are deducted from the relevant deposit.

Throughout the day, Planning personnel will collect receipts from the L&S cashier and will match them to the corresponding planning applications (hardcopies). Depending on the type of service (e.g. Building Permit applications, Infrastructure Fund fees, inspection requests etc.), the receipts are either recorded in the TRAKiT system and/or in QuickBooks as appropriate.

Computer Systems

The Department of Planning utilizes the following computerized systems in the course of their daily activities:

- **IRIS** – The Government's centralized accounting information system.

- **QuickBooks** – an accounting software package that facilitates invoicing, billing, records management and reconciliations, among other capabilities. QuickBooks is currently being utilized by the Department to manage certain aspects of its revenue and A/R processes, particularly invoicing, recording of receipts and the matching of payments to invoices *(note: official receipts are still issued to customers from IRIS; however, the receipt information is entered in QuickBooks if it pertains to an invoice raised within that system).*

- **TRAKiT** – The Department of Planning's electronic records database and document storage system, which is utilized in the processing of development and building permit applications. Application progress, payments and other relevant information are recorded/monitored in TRAKiT.

- **Online Planning System (OPS)** – A website developed to provide secure public access to Planning information and to facilitate online communication between Department employees, inspectors and contractors.

Prior Audits

The last audit of the Department of Planning was conducted in 2007-08 (Ref: 0708-15) and focused on output management.

Audit Objectives and Scope

In this audit, we examined the revenue and accounts receivable processes at the Department of Planning. The specific objectives of the audit were to determine whether:

- The revenue and receivables processes were adequate to ensure accuracy, completeness and reliability of information;
- The revenue systems in place accurately assessed, collected, deposited and recorded all revenue;
- There was adequate segregation of duties within the revenue and receivables processes;
- Monies collected were adequately safeguarded and appropriately deposited in a timely manner;
- Receivables were appropriately managed.

The audit examined transactions that were processed between July 2013 and June 2014. Our audit testing was confined to the Department's main office in Grand Cayman.

Audit Methodology

The audit methodology involved understanding and documenting the processes under review and the internal controls governing those processes, performing risk assessment to identify and evaluate potential risks and key controls, and developing an audit program to test whether those controls were operating as intended.

Only findings of internal control weaknesses that could affect the adequacy and effectiveness of management systems have been reported; however, the audit conclusion is based on our overall assessment of the control procedures against the audit objectives.

Audit Criteria

The management systems and internal controls in place were measured against the following:

- Development and Planning Law (2011 Revision);
- Development and Planning Regulations (2013 Revision);
- 1997 Development Plan;
- Public Management and Finance Law;
- Financial Regulations; and,
- Generally accepted accounting and business practices.

In addition to evaluating the internal control activities, other fundamentals of an effective internal control framework were also assessed as defined by the COSO Model which identifies other elements of good internal control as:

- The **control environment**, which is the foundation for the effectiveness of all the other internal control components and reflects management's commitment and attitude towards the control structure;
- Ongoing **risk assessment**, which should be performed by management and involves identifying and analyzing the significance and likelihood of potential risks that may adversely affect the entity's ability to meet its objectives;
- **Information and communication** systems ensure that pertinent information is identified, captured and communicated in a form and within a timeframe that enable the achievement of objectives; and,
- Ongoing **monitoring and review** of activities and processes is necessary in order to assess their performance over time and against pre-determined requirements.

III. AUDIT REPORT

1. <u>Lack of Policies and Procedures – Revenue & Accounts Receivable</u>

Documented policies and procedures provide continuity, standards of acceptable performance, and the means of coordinating individual and interdepartmental tasks within an entity. They also serve to guide performance and support the maintenance of operational consistency.

The DoP currently utilizes a procedures manual which provides staff with general guidance necessary to effectively deliver operational outputs. However, our review of the procedures manual revealed an absence of policies and procedures specific to the Department's revenue and accounts receivable (A/R) processes, including:

- Review of fee assessments prior to collection;
- Reconciliation of the daily collection documentation to the daily deposit slips;
- Monitoring of outstanding receivables;
- Securing of funds/accessing the safe, including appropriate intervals and circumstances that necessitate changing the combination;
- Monitoring of manual receipt books; and,
- Review procedures to ensure that revenue collected is booked to the correct revenue account.

While we noted that standard practices were established in some areas, these measures were inadequate to effectively manage all of the revenue and A/R processes.

We were advised that this deficiency was due to the limited resources available and the lack of a Finance Manager for just over half of the 2013/14 financial year.

The lack of documented policies and procedures can lead to inconsistent execution of the Department's finance functions and makes it difficult to provide appropriate guidance and training to employees. This can also hinder management's ability to hold employees accountable for actions that do not meet the expected standards. In addition, an absence of policies and procedures may lead to disruption in operations if key employees should leave the entity.

Recommendation

The Director of Planning should ensure that comprehensive policies and procedures to govern the Department's revenue and accounts receivable processes are documented and circulated to the relevant staff.

Management's Response

Recommendation accepted. Accordingly, the Department is currently in the process of creating policies and procedures to govern the revenue and accounts receivable process.

Implementation Date: *June 30, 2016*

2. Inadequate Monitoring and Review

Section 29 of the Financial Regulations states, "a Chief Officer of a prescribed entity shall ensure that an appropriate system of internal controls operates within the entity and that that system is adequate to safeguard the entity or executive resources for which the prescribed entity is responsible."

Integral to a well-established system of internal control is the appropriate supervision and review of work done. The review process facilitates the timely detection and correction of errors/omissions, making it an important component of the internal control system.

During our audit, we noted the following internal control deficiencies relating to monitoring and review:

- Receipts were not reviewed to ensure that funds were posted to the correct revenue account. In two instances, payments of CI$16,845.75 and CI$2,683.50, made by two separate customers, which were intended for the Infrastructure Fund account, were misapplied to the Building Permit account.
- Daily collection/receipt documentation was not reviewed to ensure that all amounts collected/receipted were appropriately and completely included in the daily deposit records (i.e. the deposit slips). We did not however identify any collections that were not deposited.
- Two manual receipt books held by the Lands & Survey Cashier were not reviewed to ensure that all manually issued receipts were subsequently recorded in IRIS upon that system being restored. In addition, there was no verification in place to make certain that all receipts were accounted for and that the corresponding funds were submitted to the Department upon collection.
- There is no review procedure in place to determine if receipts were reversed. This is of particular importance considering that some of Lands and Survey's administrative staff, who act as relief cashiers as necessary, have IRIS A/R Manager access, which allows them to reverse completed receipts. While we did test receipt reversals and noted no issues, an adequate review process in this area would serve to detect any anomalies in a timely manner, so as to facilitate effective remediation.

In our discussions with the Planning Department, we were informed that these deficiencies were due to limited human resources, as well as computer system limitations. In addition, the Department was unaware that some of the Lands and Survey cashiers had A/R Manager responsibility within the IRIS system.

The Department's lack of adequate monitoring and review procedures limit their ability to timely detect and correct errors/omissions, and exposes the entity to the risk of financial losses, misstatements, and misappropriation of assets/fraud.

Recommendation

The Director of Planning should ensure that the following monitoring and review controls are instituted:

1. Periodic review of receipts to ensure that fee collections are coded to the correct account. Where miscoding is identified, the appropriate entry should be made to correct the error. Evidence of review and, if applicable, notes pertaining to corrections should be recorded on the supporting documentation.

2. Daily reconciliation of total collections/receipts with the details of the deposit slips to ensure completeness of deposits. Evidence of this reconciliation should be noted on the applicable/supporting documentation.

3. Retain manual receipt books in the custody of the Planning Department at all times and only issue when there are known system failures. Where manual receipts are issued, a copy of the manual receipt should be attached to the IRIS receipt (once it is generated) and included as part of the daily collections documentation that is delivered to Planning. All issued manual receipt books should be returned along with the daily collections documentation and the receipt numbers reconciled and accounted for to ensure that there are no gaps in the receipt numbers.

4. Daily review of receipt reversals to determine the necessity of the reversals. Where discrepancies are noted, they should be timely investigated and resolved. Evidence of this review should be recorded on the appropriate report/listing.

Management's Response

1. *Recommendation accepted. QuickBooks will facilitate the identification and correction of miscoded transactions in a timely manner. When necessary, entries will be made to correct any instances of miscoding.*

   Implementation Date: *December 31, 2015*

2. *Agreed. This issue was brought to the attention of the Financial Administrator during the audit and reconciliations are now being performed.*

   Implementation Date: *December 2014 (not verified by IAU)*

3. *Agreed. The receipt books are now in the possession of the Planning Department and change in custody and reconciliation procedures have been established. These procedures include recording the receipt sequence, logging used receipt numbers and requiring signatures on each occasion that the books change custody.*

   Implementation Date: *May 2015 (not verified by IAU)*

4. *Recommendation accepted. Supervisory review, conducted by the Financial Administrator, is now in place to ensure the legitimacy of reversals.*

Implementation Date: *May 2015 (not verified by IAU)*

3. Inadequate Controls Over Safe

Best business practices dictate that access to safes/vaults containing valuables be restricted and safe combinations changed periodically to ensure the security of assets.

During the audit, we noted the following deficiencies/concerns with the safe that is currently utilized by the DoP:

- [redacted] by authorized employees who possess the shared combination.
- [redacted] we were informed that the safe's combination was not changed after the former Financial Administrator left the Department.

Based on our assessment, this control weakness was caused by a lack of understanding by the finance team of risk management and general controls to safeguard assets. However, upon our recommendation, the current Financial Administrator timely arranged for the combination to be changed; which was completed and verified prior to the conclusion of our audit fieldwork.

Nevertheless, having a shared combination [redacted] Further, the lack of established policies dictating reasonable intervals and circumstances in which the combination should be changed render the Department susceptible to the risk of loss of funds.

Recommendation

The Director should establish and document, as part of the Department's policies and procedures manual, criteria for changing the combination to the Department's safe. Additionally, the Department should institute measures that require two employees to be present and sign-off, evidencing attendance, on all occasions that the safe has to be accessed.

Management's Response

Agreed. The combination to the safe has been changed and will be changed if there are any future changes in staff. In addition, two staff members are now required to be present when the current safe is to be opened. Additionally a log book detailing the time of access and staff present will be kept as an *interim measure. As a more permanent solution, the Department is looking into the possibility of acquiring a suitable [redacted] safe.*

Implementation Date: *May 2015 (combination changed and requirement introduced for two staff to access safe – **Combination change verified by IAU**); January 2016 (possible acquisition of new safe)*

4. <u>Lack of Accrual Accounting Due to Conflicting Laws</u>

Part 2 of Schedule 3 of the Financial Regulations (2013 Revision) state that "The accrual basis of accounting is to be used", while Part 5 of Schedule 3 states that "Accounts receivable are to be recognised at the time goods or services, including outputs, are provided, that is, when revenue is earned. The raising of an invoice, assessment or any other obligation to pay usually evidences the recognition of an accounts receivable."

Further, Part 3 of Schedule 3 of the Financial Regulations (2013 Revision) specifies the revenue recognition points for two of the Department's sources of revenue as follows:

- Infrastructure Fund Fees (non-refundable fee) – For non-refundable fees, upon application for planning approval.

- Building Permit Fees – Upon planning approval.

Payments for both fees, as prescribed by the Planning Law and Regulations, are to be made in two installments (50 per cent each) at specified intervals throughout the project. However, none of the payment intervals coincide with the revenue recognition points in the Financial Regulations and, depending on project size and duration, payments can occur months or years after the specified recognition points.

During our audit, we noted that Infrastructure Fund fees, totaling $429,313.92, assessed for 16 applications submitted in 2013/14, were not recognised as revenue at the time of application (as per the Financial Regulations). Rather, we noted that the revenue for these fees was being recognised in accordance with the Planning Law's fee schedule, as the revenue was only recorded when payments were made at the prescribed intervals (i.e. cash basis accounting).

We did note that payments for the relevant projects, totaling $214,656.96 (50 per cent), were made during 2013/14, coincidentally resulting in the revenue being recognised in the correct financial year. However, the remaining 50 per cent, which should also have been recognised in 2013/14 (in accordance with the Financial Regulations), will, based on the Department's Law and corresponding recognition points, only be recorded when collected in some future financial year (depending on when the projects advance to the second payment interval).

In our discussions with management, we were made to understand that conflicts between the Financial Regulations and the Planning Law and Regulations made accrual accounting very difficult. In particular, the revenue recognition points in the Financial Regulations do not consider the intricacies of the

Department's fee structure or the possibility of voluntary project cessation (i.e. the customer elects to abandon the project for whatever reason).

Further, the existing revenue recognition points in the Financial Regulations call for 100 per cent of the assessed Building Permit fees to be recognised before any of the corresponding services have actually been provided; some of which may never be provided should the project owner fail to proceed with the project. Management added that, as is, the revenue recognition points in the Financial Regulations can easily lead to revenue being overstated and, commitments made on the basis of that inaccurate revenue, going unfulfilled.

Based on this finding, we concluded that the Department of Planning was in contravention of the Financial Regulations, as they did not account for revenue on an accrual basis. However, we have noted the conflicts between the Financial Regulations and the Development and Planning Law and Regulations, which may have contributed to this issue.

Recommendation

The Director of Planning should confer with the Ministry of Finance and Economic Development to discuss specific arrangements for the Planning Department in order to ensure compliance with the Financial Regulations.

Management's Response

Recommendation accepted.

Implementation Date: *June 2016*

5. Ambiguity in the Law – Assessment of Quarry Fees

Schedule 1 Section 14 (c) of the Development and Planning Regulations (2013 Revision) states "if planning permission is granted, a fee calculated at the rate of 25 cents in respect of each cubic yard to be excavated" is to be assessed.

During our audit, we noted that various methods of calculating quarry fees were being practiced. In some instances, the fee assessment was calculated based on the amount of material being excavated on a monthly or quarterly basis, while in other situations the fee was assessed based on total material to be excavated over the life of the project.

In our discussions with the Director, we were informed that the process of assessing quarry fees can be quite difficult due to the nature of quarry operations. In addition, although the spirit of the Law seems to indicate that quarry fees should be assessed in full upon receiving planning permission, it is not very precise on the matter.

Based on this finding, we concluded that the ambiguity in the Law, coupled with the complexity of quarry operations, has contributed to the inconsistent assessment of quarry fees, which in turn can lead to inaccurate recording of revenues.

Recommendation

The Director of Planning should initiate appropriate revisions to the Development and Planning Regulations to ensure that the basis and method of assessment is clearly stated. Additionally, procedures should be enacted to make certain that assessments are carried out in accordance with the revised Regulations.

Management's Response

Management agrees to raise this matter with the Minister with responsibility for Planning for further instructions as to possible amendments to the respective legislation.

Implementation Date: *September 30, 2015*

6. Deposits Recorded as Revenue

Part 6 of Schedule 3 of the Financial Regulations (2013 Revision) states that "Unearned revenue is to be recognized as a liability in the reporting period that it is received and as revenue in the period when the relevant goods or services are supplied".

The Planning Department permits companies or individuals to deposit funds on account. These deposits can then be utilized in the future to pay fees relating to building permit inspections. During our audit, we noted that 5 out of 5 (100%) sampled deposit transactions, which totaled $20,615.00, were improperly recorded as revenue, instead of as liabilities.

When we queried this practice, we came to understand that the Department was unaware that this was incorrect accounting treatment for deposits.

Based on this finding, we concluded that the Department was not in compliance with the Financial Regulations. Moreover, this incorrect practice greatly increases the probability of financial statement inaccuracies, as liabilities are understated and revenue is overstated. In addition, as customers have the right to request that any or all unused portions of their deposit be refunded, appropriate classification on the balance sheet is essential.

Recommendation

The Director of Planning should ensure that all deposit transactions are recorded in accordance with Part 6 of Schedule 3 of the Financial Regulations (2013 Revision).

Management's Response

Recommendation accepted. The Department, in consultation with the Ministry's CFO, will explore the creation of an unearned revenue account and the associated revenue classification (i.e. entity vs. executive) and will book deposits accordingly.

Implementation Date: *June 30, 2016*

7. Lack of Appropriate Follow-Up of Receivables

Section 15 of the Financial Regulations (2013 Revision) states that "Each prescribed entity is responsible for entering all data into the IRIS, for making all entries and adjustments to all ledgers relating to its entity or any executive reporting entity for which it is responsible, and for ensuring that the information within those ledgers is accurate, complete and up to date." In addition, and in keeping with generally accepted accounting principles, payment(s) for services rendered on account are to be applied to the relevant invoice(s).

During our audit, we noted that the lack of follow-up with an established debtor resulted in a recording error going undetected. Essentially, a payment of $1,550.00 made on April 30, 2014 by the debtor was not applied to the 13 invoices outstanding for their company; rather, the payment was recorded as revenue via a miscellaneous receipt. This error was only detected and corrected after the outstanding invoices were queried by Internal Audit, which prompted the Planning Department to investigate the matter. On October 6, 2014, subsequent to the investigation, a credit memo was issued to reflect the payment and appropriately reduce the related invoices.

Subsequent to this finding, we were informed that the Department ceased the invoicing/receivables arrangement with the debtor to eliminate future occurrences of the issue noted above. The cessation of this agreement occurred in October 2014 and has not been independently verified by the IAU.

In addition, a review of the trial balance for the 2013-2014 financial year revealed a brought forward receivables balance of $144,225.05. When queried, we were told that the receivables were not being monitored, nor were relevant payments being applied against them, as the Department no longer had access to the invoices. Further inquiries as to the nature of the receivables indicated that they related to the Executive Org.

In subsequent discussions with the Department, the Financial Administrator stated that the transactions occurred under the Department's previous Ministry – the Ministry of Tourism and Development. She added that, since changing Ministries, the invoices could not be accessed by Planning staff to facilitate proper matching of incoming payments. Finally, she stated that her efforts to obtain the relevant invoice information from the Ministry of Tourism and Development (now the Ministry of District Administration, Tourism and Transport) had been unsuccessful.

Based on this finding, we determined that the Planning Department was not in compliance with the Financial Regulations. In addition, this issue will result in inaccuracies in the financial statements – particularly the revenue and accounts receivable line items. Moreover, the collectability of the receivables will diminish over time due to the absence of follow-up procedures, resulting in lost revenue for the Government.

Recommendation

The Director of Planning, in consultation with the Department's CFO, should ensure that the brought forward receivables balance of $144,225.05 is investigated and resolved as appropriate.

Management's Response *(as provided by the Ministry's CFO)*

$29K of the receivables balance was written off at the end of FY2013-14 as there was no schedule to support the balance. A review and clean-up will be undertaken to resolve the remaining portion of the A/R balance.

Implementation Date: *June 30, 2016*

8. <u>Infrastructure Fee Payment Overlooked</u>

Section 38 (5) (a) of the Development and Planning Law (2011 Revision) states that the first installment of the Infrastructure Fee is payable as follows "fifty per cent of the contribution is payable on the issue of a building permit".

During the audit, we noted that the first Infrastructure Fee assessment for a proposed residence was not collected upon issuance of the building permit. The fee amounted to $2,683.50 and the lack of collection/payment went undetected by the Department until Internal Audit queried the absence of payment evidence.

In discussions with the Building Permit Clerk, we came to understand that this was an oversight by the Department. To rectify the oversight, on October 22, 2014 the customer was notified of the outstanding fees and subsequently submitted the payment on November 11th.

Further discussions with the Director revealed that two modules within TRAKiT, namely Permit Trak (tracks Infrastructure Fund fees/information) and Project Trak (tracks Building Permit fees/information), do not interface making it possible for oversights such as this to occur.

Based on this finding, we determined that the Department was in contravention of the Development and Planning Law. Further, failing to monitor payment due dates and the timely collection of payments exposes the entity to loss of revenue and financial statement inaccuracies.

Recommendation

The Director of Planning should establish adequate internal controls to ensure that all revenues are collected in the intervals as prescribed by the Development and Planning Law. Further, building permits should only be issued to the customer upon verification of a valid receipt.

Management's Response

Agreed. With the use of QuickBooks this process will be much easier as it will facilitate more accurate and complete payment verification; thus, ensuring that building permits are only issued to customers who have made payments/have valid receipts.

Implementation Date: *Already in place (not verified by IAU)*

9. Inaccurate Assessment of Fees

Schedule 1 of the Development and Planning Regulations (2013 Revision) sets forth the approved fees/rates to be levied for the provision of various Planning services. In performing fee assessments, Planning staff should take care in the selection and application of fees/rates, ensuring in all cases that the correct fee/rate is appropriately applied to the correct application type.

During our audit, we noted 8 instances where Planning fees were incorrectly calculated by Planning personnel. In all 8 situations the customers were overcharged, resulting in the Department having to issue refunds totaling $11,671.75.

We determined that the overpayments primarily resulted from:

- Incorrect rates being applied to applications;
- The use of incorrect square footage to calculate the total fee amount; and,
- Erroneous charges for services

The Director of Planning provided a number of reasons for these errors including the complexity of the fee schedule and customer error when requesting services. As it pertains to the latter, we were advised that it is not uncommon for customers to apply for incorrect services as many are not knowledgeable about the Planning Department's services and, in most cases, the Planning Department staff will not know exactly what service is required until they attend the site.

Inaccurate assessment of planning fees, as noted in this finding, will result in unnecessary administrative processes, such as the refunding of overpaid revenue. In addition, where assessments result in customers being undercharged, the Government stands to suffer financial losses.

Recommendation

The Director of Planning should seek to simplify the fee schedule so as to minimize the occurrence of computational errors. In addition, a suitable customer education programme should be launched in an effort to increase customer knowledge on the Department's services. Included in this programme should be highly visible (i.e. posted in or around the Department's customer service counter) service descriptions and the associated fees.

Management's Response

Simplifying the Fee Schedule – Management agrees to raise this matter with the Minister with responsibility for Planning for further instructions as to possible amendments to the respective legislation.

Customer Education/Reducing Customer Error – As it relates to reducing customer error, we are in the process of developing changes to our workflow processes by way of implementing capabilities for the electronic submission of plans via the OPS portal. As part of that process, we are exploring the possibility of developing an online fee calculator to be used in combination with pre-populated fees and logic scripts in order to reduce the number of instances in which incorrect fees are submitted or duplicate payments are made. These tools will help to facilitate pre-submission verification of applications to ensure accuracy prior to the applications being accepted into the review work flow. Moreover, applicants will have the option to pay fees via the portal against a pro forma invoice developed as a part of the verification process.

Implementation Date: *December 31, 2016*

10. Receipts Not Verified/Untimely and Inconsistent Update of Receipts in TRAKiT

Best business practices require that pertinent information be accurately and timely recorded in the prescribed format (e.g. computerized systems, on hardcopies etc.) to ensure continuity of the business processes that rely on that information. Additionally, the information is to be referenced by persons with responsibility for those business processes to assist with decision making and to make certain that the process flow is appropriately followed.

During our review, we noted 3 occasions where fees for various services, individually amounting to $300, $200 and $70, were collected/receipted twice. The overpayments resulted when two parties related to the project (i.e. the property owner and the architect/electrician) both, seemingly having no knowledge of the other parties' payment, paid the same fees. In each instance, Planning staff either did not verify the payment information in TRAKiT or the information had not been updated at the time of the second payment.

Further adding to the issue, we noted instances in TRAKiT of inaccurate data, such as incorrect receipt numbers and inconsistent data input, such as shortened receipt numbers. The varying methods of data input only served to further reduce the reliability of the information in TRAKiT and impaired the ability of the front officers to conduct proper verification of customer accounts, including their payment histories.

In our discussions with the Planning Department's management, we learned that there are two major causes of this finding namely:

- The untimely update of receipt/payment information in TRAKiT; and,
- Failure of the frontline officers to verify in TRAKiT if payment was previously collected

Failure to accurately and timely update critical information systems, coupled with a lack of due diligence by frontline officers, significantly increases the likelihood of errors in the collections process. As a result, the Department may become burdened with unnecessary administrative processes, such as the processing of refunds.

Recommendation

The Director of Planning should ensure that:

1. The relevant Planning personnel enter all receipts into the TRAKiT system by close of business on the day the payment is receipted. This procedure should be included in the Department's policies and procedures manual.

2. Protocol surrounding an acceptable format for entering IRIS receipt numbers in TRAKiT should be established and communicated to staff. The accepted format should also be included in the Department's policies and procedures manual.

3. Frontline officers confirm in TRAKiT if payments have previously been made for the project/project phase for which the customer wishes to pay. The applicable form used by frontline officers should be amended to include a section (i.e. tick box) where evidence of said verification is to be recorded.

Management's Response

The introduction of QuickBooks has given the Department the much needed capability to track and manage receipt/payment information that was not previously available in TRAKiT for Permits. This is to be extended to Planning applications on or before December 31, 2015.

Protocols addressing these items have been placed in the Department's Procedure Manual – Administrative Duties (not verified by IAU).

Implementation Date: *December 31, 2015 for introduction of Planning Applications into OPS and QuickBooks.*

11. Documents Not Available for Verification

Section 44 (1) of the Financial Regulations (2013 Revision) states that "a prescribed entity, statutory authority or government company is required to retain records pertaining to output reporting, entity financial transactions and executive financial transactions (including revenue, expenses, assets and liabilities) in such a manner that such records can be readily produced for operational and audit purposes."

Development Project files, as maintained by the Planning Department, are, at a minimum, expected to contain the following: applications for services rendered, corresponding copies of IRIS receipts and Building Control Unit review sheets.

During our audit however, we noted 5 instances for which applications and/or IRIS receipts were not found within the appropriate project files.

We were informed that this issue occurred due to the large volume of transactions handled by the Department. Complicating the situation is the fact that some of the required documentation is maintained in different files, including electronic files, which results in the Development Project files being incomplete.

Based on this finding, we determined that the Planning Department was not in compliance with the Financial Regulations, as supporting documents were unavailable for audit review.

Recommendation

The Director of Planning should ensure that an effective record keeping system is established and maintained in order to achieve compliance with the Financial Regulations.

Management's Response

The Department is in the process of scoping requirements for an electronic content management system (ECM) to store and catalogue documents submitted through the OPS portal. The ECM, when coupled with the increased collection of information electronically via Smart Forms (through the OPS portal), will greatly reduce our reliance on paper based files and reduce the possibility of documents being misfiled, stored in unlinked locations and/or lost. As a part of this process the Department will explore the feasibility of incorporating a dynamic search feature that will allow users to electronically *search file folders for documents based on key words. The Department will also explore the possibility of scanning existing paper based files if and when capital funding becomes available to do so.*

Implementation Date: *December 31, 2016*