

APPENDIX 1

Toronto Building Division

**Building Permit Fees
Improving Controls and Reporting**

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Auditor General's Office

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EXECUTIVE SUMMARY

Audit included in the Annual Audit Work Plan

The Auditor General's Annual Audit Work Plan included a review of the administration of building permit fees. The objective of this review was to assess compliance with legislative requirements and City policies and procedures for charging, collecting and reporting on building permit fees.

Building Code Act enables City to set fees to recover costs

The *Building Code Act* authorizes Council to set and collect building permit fees. Building permit fees recover costs for the administration of the building permit process. Legislation prohibits fees from exceeding anticipated reasonable costs to administer and enforce the *Building Code Act*.

Toronto Building is responsible for the administration of building permits and has operations in five offices across the City.

Key Issues identified

Our report includes 11 recommendations related to the administration of building permit fees. Implementation of the recommendations will address:

- Permit fee rate determination
- Service Level Agreements with key divisions
- Controls over building permit fee revenue
- Compliance with building permit fee reporting requirements
- Information technology processes related to building permit fees.

Key Issues in Brief

The audit identified the following key issues:

Update Information Used to Calculate Building Permit Indirect Costs

While Toronto Building expenditures account for the majority of direct costs related to administering the *Building Code Act*, a number of other City divisions incur costs to support Toronto Building. These costs are considered "indirect costs" and include services provided to the Building Division by other divisions in the City such as Legal Services, Information and Technology, Fire, Facilities, Real Estate, Accounting, Revenue Services and Policy, Planning, Finance and Administration.

Certain of these indirect costs used to calculate building permit fees are not based on current information and do not reflect actual costs. Understated indirect cost information results in permit fees that do not recover actual service delivery costs. Permit fees should be based on current and accurate cost information.

Service Level Agreements Between Toronto Building and Supporting City Divisions Do Not Exist

While Toronto Building includes the costs of other City divisions into the determination of building permit fees, a written service level agreement between certain key divisions does not exist.

Service level agreements establish accurate and current information for inclusion in the annual budget, ensure service expectations are fulfilled and appropriate service costs are charged and recovered.

Inconsistent Revenue Control Practices Should Be Harmonized

While some guidelines are in place, written policies and procedures for collecting building permit fee payments do not exist. The absence of corporate guidelines has resulted in inconsistent practices.

Inconsistent practices identified among the districts include procedures for reconciling daily cash received, delays in reconciling revenue collected, lack of timely cash deposits and recording of funds in the SAP financial information system.

Outstanding Recommendations from Previous Reviews

Outstanding recommendations from previous reviews need to be addressed

Outstanding recommendations from prior cash handling reviews from the City Manager's Internal Audit Division and the Policy, Planning, Finance and Administration Division need to be addressed.

Data Processing of Permit Fees Collected Could Be More Efficient

Integrated Business Management System (IBMS) supports operations

The Integrated Business Management System (IBMS) is the primary information technology system used by Toronto Building to support operations. IBMS is used to process building permit applications, calculate and collect permit fees and track project workflow.

Building permit fees are recorded in IBMS as cash is collected. As IBMS does not interface with the City's SAP financial information system, funds collected in each district must also be separately entered into SAP, resulting in inefficient use of staff resources.

Differences in Building Permit Fee Revenue Amounts Collected Between IBMS and the SAP Financial System

Variances between IBMS and SAP not fully investigated

Problems exist in reconciling IBMS and SAP building permit fee amounts collected. As the difficulty in reconciling system balances is a recurring issue, and variances are not fully investigated, an accurate reconciliation of building permit fee amounts in IBMS and SAP has not taken place.

Regularly scheduled reconciliations will help detect system problems, identify corrective action required and ensure data integrity in each system.

Improve Reporting of Building Permit Fees Collected

Building Permit Fee Revenue amounts reported need more information

The *Building Code Act* requires the City to report annually on total permit fees collected in a 12 month period. The amount reported in 2010 was \$53 million. The actual cash collected in the 12 month period for building permit fees was approximately \$67 million. The difference between the two amounts represents revenue which has been deferred to future years. The annual report should clearly articulate the reasons for the differences between the cash collected and the amount included in the annual report.

Issues Related to Building Permit Fee Rate Calculations

IBMS includes incorrect permit fee rates and some not approved by Council

Information and Technology staff make permit fee changes in IBMS based on information provided by Toronto Building staff. This is contrary to generally accepted industry practice which recommends that the business user initiate, input or modify business related information. These standards ensure proper separation of duties between information technology staff and the business user. Inaccuracies identified include certain fees approved by Council not included in IBMS, several incorrect permit fees, and several fees included in IBMS not approved by City Council.

Conclusion

Implementing recommendations in this report will ensure City building permit fees are established in accordance with legislative cost recovery requirements, strengthen controls over revenue collected, and assist in identifying and reporting building permit revenue as mandated by the *Building Code Act*.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Audit Objectives

The Auditor General's Audit Work Plan included a review of fees collected by Toronto Building. The main objective of this review is to assess controls related to the administration of building permit fees. Specific objectives were to:

- ensure revenue control procedures for issuing building permits comply with legislative requirements and Corporate policies and procedures;

- assess compliance with annual reporting requirements for fees collected from building permits and service delivery costs; and
- review contributions and withdrawals from the reserve fund to verify that funds are used in compliance with legislative requirements.

The audit included a review of building permit fees collected for the period January 1, 2009 to December 31, 2010.

Methodology

Our audit methodology included the following:

- Review of Ontario Building Code and relevant chapters in the Toronto Municipal Code
- Review of relevant Corporate policies and procedures
- Review of Committee and Council minutes and reports
- Site visits and interviews with City staff
- Data analysis
- Review of documents and records
- Evaluation of management controls and practices
- Review of building fee audit reports from other municipalities including Ottawa and Hamilton
- Review of reports from the Ontario Building Officials Association
- Other procedures deemed appropriate.

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

A building permit is required in order to demolish or construct

The *Building Code Act* governs building construction in Ontario. According to the Act, any person intending to build or demolish a structure is required to obtain a building permit. Toronto Building staff issue a permit after all project plans have been reviewed and approved. This review ensures compliance with the Ontario Building Code, local zoning by-laws and other applicable laws defined in the legislation.

Staff approve plans, inspect and enforce the law

Toronto Building staff review project plans to ensure construction is appropriate for the respective site or community, and meets minimum building standards for public safety. Toronto Building staff inspect the site throughout construction to ensure work was performed according to approved plans.

Permit fees recover costs to administer and enforce legislation

The *Building Code Act* authorizes Council to set and collect building permit fees. Building permit types and related fees are set forth in the Toronto Municipal Code Chapter on Building Construction and Demolition. Authorized fees are intended to recover costs and are not permitted to exceed anticipated reasonable costs to administer and enforce the *Building Code Act*.

IBMS supports Toronto Building operations

The Integrated Business Management System (IBMS) is the primary information technology system used by Toronto Building to support operations. IBMS is used to process building permit applications, calculate and collect permit fees and track project workflow. Currently, IBMS does not interface with the City SAP Financial Information System.

Although Toronto Building is the primary division responsible for the *Building Code Act*, other City divisions contribute to this function and incur costs not included in the Toronto Building operating budget.

2010 Building Division budget included \$46 million in direct costs and \$10.7 million in indirect costs

The approved gross operating budget for Toronto Building in 2010 was approximately \$46 million with an anticipated indirect cost recovery of approximately \$10.7 million. These indirect costs are incorporated into the operating budgets of other divisions supporting Toronto Building.

The *Building Code Act* requires the Chief Building Official to report to City Council annually on building permit fees collected and total costs incurred to administer and enforce the *Building Code Act*.

2010 Building Code Act Reserve Fund approximately \$11.2 million

According to the *Building Code Act*, if a reserve fund has been established the reserve fund amount is included in the annual report. In 2005, Toronto Building established a Service Improvement Reserve Fund. The reserve fund balance at the end of 2010 was approximately \$11.2 million.

AUDIT RESULTS

A. INFORMATION USED TO CALCULATE PERMIT FEES SHOULD BE UPDATED

Building permit fees should recover costs of administration and enforcement

Building permit fees are calculated to recover the full cost of administering and enforcing the *Building Code Act*. The fees are to cover both direct and indirect costs. While Toronto Building accounts for the majority of the direct costs related to administering the *Building Code Act*, a number of other City divisions incur costs to support Toronto Building. These divisions include Legal Services, Information and Technology, Fire Services, Facilities and Real Estate, Accounting Services, Revenue Services and Policy, Planning, Finance and Administration.

Certain of these indirect costs used to calculate building permit fees are not based on current information and do not reflect actual costs. Understated indirect cost information results in permit fees that do not recover actual service delivery costs. Permit fees should be based on current and accurate cost information.

In addition, certain other factors used in the calculation of building fees were based on inaccurate information.

Toronto Building Occupancy Costs

***Building Division
occupancy costs
not applied
accurately***

Toronto Building provides services in four City districts and occupies space for employees in five City-owned buildings. In 2009 Toronto Building reported \$1.8 million in occupancy costs related to the use of approximately 94,000 square feet of space in City-owned buildings.

We have been advised that the space occupied by Toronto Building was approximately 81,000 square feet or 13,000 less than the 94,000 square feet used to determine the indirect costs for the building permit fee costing model.

Municipal Licensing and Standards

The Municipal Licensing and Standards Division (MLS) supports Toronto Building by ensuring that Toronto Building charges have necessary supporting documentation when court proceedings are required.

***MLS indirect costs
applied higher
than actual costs***

In 2009, Toronto Building staff estimated and applied a cost of \$100,000 for work performed by MLS staff. This estimate by Toronto Building staff was not verified with MLS staff. Our review of information provided by MLS staff estimated the costs to be lower.

***Accurate and
complete
information
should be used***

Accurate and complete information should be used to ensure building permit fees recover the full cost required to administer and enforce the *Building Code Act*.

In order to ensure the City recovers full costs, building permit fees should be reviewed, adjusted and monitored on a regular basis.

Recommendation:

- 1. City Council request the Chief Building Official in consultation with related City divisions review, revise and monitor the accuracy and completeness of information used to calculate building permit fees on an annual basis.**

B. SERVICE LEVEL AGREEMENTS NEEDED WITH KEY DIVISIONS

Service Level Agreements define expectations and costs

When divisions rely on other City divisions to provide service, written service level agreements clearly defining service level expectations and costs are useful. Service level agreement provisions are valuable in establishing accurate and current information for inclusion in the annual budget, ensure service expectations are fulfilled, and appropriate service costs are charged and recovered.

Other City Divisions support Toronto Building

Toronto Building is the primary division responsible for the administration and enforcement of the *Building Code Act*. Other City divisions including Information and Technology and Fire Services support Toronto Building.

Information and Technology Division

Information and Technology Division responsible for IBMS

The management information system supporting the building permit process is the Integrated Business Management System (IBMS). IBMS maintains data related to project status and automates certain business processes. IBMS is a corporate resource that supports many City divisions.

IBMS contains a fee schedule for each building permit type and automatically applies rates based on system information. The system also generates a customer bill, issues payment receipts and summarizes daily cash collected.

No written agreement to set anticipated service levels and resource requirements

While Information and Technology Division costs are incorporated into Toronto Building indirect costs and significant support is provided to the Building Division, a written service level agreement between the two divisions does not exist.

A service level agreement provides written service expectations and related costs which define agreed upon divisional responsibility, accountability and provides a basis for accurate budgeting and cost recovery.

Fire Services

Current Memorandum of Understanding with Fire Services doesn't include service level expectations or costs

The Ontario *Building Code Act* contains numerous sections relating to fire protection in new buildings and allows for certain activities to be provided by Fire Services. In 2007 Toronto Building and Toronto Fire Services developed a Memorandum of Understanding providing the framework for divisional responsibilities.

While the Memorandum of Understanding addresses divisional responsibilities, the agreement does not provide service level expectations or service costs. Toronto Building staff estimate these costs without Fire Services review or verification.

Recommendation:

- 2. City Council request the City Manager formalize service level agreements with key divisions supporting the Toronto Building Division permit process. Service level agreements should set forth anticipated service levels and applicable charges.**

C. CONTROLS OVER BUILDING PERMIT FEE REVENUE NEED IMPROVEMENT

Toronto Building maintains operations in each of four City districts. Each district has a Customer Service Unit which receives building permit applications, collects payments and issues permits.

Building permit fees are recorded in IBMS as revenue is collected. As IBMS does not interface with the City SAP financial information system, funds collected in each district must also be separately entered into SAP.

The issues identified in this section relate to improving controls over the collection and accounting of building permit fees.

C.1. Reconciling Funds Collected for Deposit

Outstanding cash handling recommendations from 2005 and 2008

Toronto Building has been the subject of previous cash handling reviews. In 2005, the Internal Audit Division of the City Manager's Office conducted a review of cash and payment handling procedures and in 2008, the Policy, Planning, Finance and Administration Division conducted a further Cash and Payment Handling review. Both the 2005 Internal Audit review and the 2008 Policy, Planning, Finance and Administration Division review resulted in a number of recommendations, some of which have not been addressed.

Inconsistent procedures for cash handling, delays in processing funds

Written policies and procedures for collecting building permit fee payments do not exist. The absence of written guidance has resulted in inconsistent practices among the four districts.

Deposit delays from 4 to 26 days

We identified certain delays in reconciling daily cash received, bank deposits and recording of funds in SAP.

City policy requires a daily bank deposit where cheques received exceed \$10,000 unless prior approval is obtained from the Director of Accounting Services. The daily cash collected in 2010 by Toronto Building in each district ranged from an average of \$20,000 to \$120,000 on any given day. These amounts do not include debit or credit payments.

We identified one particular district where delays in the deposit of cash were anywhere from 4 to 26 days. In 2010 this district collected approximately \$16 million.

Funds collected should be deposited on a timely basis

Funds collected should be deposited, recorded and reconciled on a timely basis.

Recommendations:

- 3. City Council request the City Manager to ensure that the 2005 and 2008 internal review recommendations made as a result of work conducted by the Internal Audit Division and Policy, Planning Finance and Administration are implemented on a timely basis. Follow up audits should be conducted annually in order to verify that recommendations have been implemented. The results of these follow up audits be reported to the City Manager.**
- 4. City Council request the City Manager to ensure proper financial controls exist at each customer service center. Procedures should ensure timely reconciliation, deposit and the recording of funds collected.**

C.2. Issuing Refunds and Voiding Transactions

Voids and refunds may be required

When errors occur in the building permit fee collection process, corrective action is required. In some cases, a correction requires voiding a transaction and in others a refund may be required.

Corporate policies and procedures needed

Written policies and procedures do not exist providing staff guidance for voiding transactions or issuing refunds. In 2010, individual refund amounts ranged from \$1,000 to \$300,000. Voids processed in 2010 ranged from \$230,000 to \$774,000. According to management a large number of voids are due to changes requested by an applicant in regard to the method of payment. Where voids or refunds were necessary, documentation was not maintained explaining the reason for the void or refund.

While supervisory review is required, it was cursory at best and the review process was inconsistent. Written policies and procedures are needed in order to provide consistent guidance in dealing with voids and refunds.

Recommendation:

- 5. City Council request the Chief Building Official develop policies and procedures for issuing refunds and voiding transactions.**

C.3. Improvements Needed to Ensure Data Integrity in IBMS and SAP

No interface between IBMS and SAP

As building permit fees calculated and recorded in IBMS are not automatically transmitted to the City SAP financial system, the two systems frequently reflect different amounts collected.

Data in IBMS different from SAP, in part because of processing delays

Problems exist in reconciling IBMS and SAP building permit fee amounts collected. Delays in processing daily permit fees collected account for some differences in system records. Data processing errors also cause differences in system records. Since variances between IBMS and SAP information have not been fully investigated in the past, the difficulty of reconciling system balances has been and continues to be an ongoing issue.

Reconciliation needed to ensure reliability of data and to detect problems

In order to ensure data contained in IBMS and SAP is accurate and complete, reconciliation of building permit fees collected for a defined period of time should be regularly conducted. Regularly scheduled reconciliations help detect system problems, identify corrective action required and ensure data integrity.

Several previous Auditor General reports have raised the issue of IBMS data integrity

Previous Auditor General recommendations requiring the interface of IBMS and SAP were made in a report entitled “Review of Management and Oversight of the Integrated Business Management System” and in a report entitled “Administration of Development Funds, Parkland Levies and Education Development Charges.” Implementation of recommendations included in these reports will achieve efficiencies by eliminating duplicate data entry and improve data integrity.

Recommendations:

- 6. City Council request the Chief Building Official ensure data contained in IBMS and SAP is accurate and complete and routine reconciliations of building permit fees collected are conducted.**
- 7. City Council request the Chief Building Official in consultation with the Chief Information Officer take steps to automate the interface between IBMS and SAP.**

D. REPORTING REQUIREMENTS FOR BUILDING PERMIT FEES

D.1. Improve Reporting of Building Permit Fees Collected

Annual report to include total fees collected in 12 month period

The *Building Code Act* requires the City to report annually on total permit fees collected in a 12 month period. The revenue reported in the 2010 Building Permit Fee Annual Report from building permit fees was approximately \$53 million. However, the actual cash collected in the 12 month period for building permit fees was approximately \$67 million.

\$53 million reported as building permit fee revenue but over \$67 million collected

The difference between the two amounts represents the deferral of revenue to future years. In this context, it would be useful to provide an analysis of the difference between the cash collected and the amounts included in the annual report.

Recommendation:

- 8. City Council request the Chief Building Official to ensure that the annual report on building permit fees includes additional information explaining the differences between building permit fees collected and the amounts included in the annual report.**

D.2. Required Triennial Review of the *Building Code Act* Service Improvement Reserve Fund is Not Performed

City Council established reserve fund in 2005

In 2005 City Council established a reserve fund to set aside funds designated solely for the purpose of creating and maintaining systems and processes to ensure Toronto Building services are provided in accordance with the *Building Code Act*. Reserve funds are used to ensure services provided by Toronto Building achieve service delivery timelines and reporting requirements specified in the *Building Code Act*.

The 2010 Building Permit Fees Annual Report reported a reserve fund balance of approximately \$11.2 million at December 31, 2010.

The need for a reserve fund should be reviewed every three years

When the reserve fund was initially established in 2005, Council approved a recommendation to review the reserve fund every three years. The purpose of the triennial review is to determine the continued need for the fund. To date, no such review has taken place.

Recommendation:

- 9. City Council request the Chief Financial Officer ensure the requirement for a triennial review of the Building Code Act Service Improvement Reserve Fund is met.**

E. INFORMATION TECHNOLOGY IMPROVEMENTS REQUIRED TO STRENGTHEN BUILDING PERMIT FEE PROCESSING

Building permit fees harmonized during amalgamation

Upon amalgamation, the City of Toronto and the former municipalities harmonized building permit fees. The Toronto Municipal Code includes a schedule of Building and Construction permits and fees.

Certain rates approved by Council were incorrect or did not exist in IBMS

We identified the following issues in relation to building permit fee rate calculations.

Certain rates approved by Council were not included in IBMS. In addition, other rates are included in IBMS that were never approved by Council. We also noted one permit fee rate in IBMS which was incorrect.

Improvements are needed to strengthen controls in entering annual fee revisions into IBMS.

Change management process is not in accordance with industry best practice

Information and Technology staff update permit fee revisions in IBMS based on information provided by Toronto Building staff. This is contrary to generally accepted practice. Industry best practices recommend the business user update changes to information systems in order to ensure proper separation of duties.

In addition, an automated process to upload revised and new fees entered by Toronto Building staff would provide a more accurate and efficient means for ensuring the accuracy of building permit rates.

Recommendations:

- 10. City Council request the Chief Building Official ensure that building permit fees in IBMS and the Toronto Municipal Code are current, complete and accurate.**
- 11. City Council request the Chief Building Official in consultation with the Chief Information Officer to ensure that any revisions to permit fees in IBMS are in accordance with generally accepted practices. Furthermore, steps should be taken to improve the process for uploading revised and new permit fees, including the potential for automation.**

CONCLUSION

The implementation of the recommendations included in this report will ensure City building permit fees are calculated in accordance with legislative cost recovery requirements, strengthen controls over revenue collected, and assist in identifying and reporting building permit revenue as mandated by the *Building Code Act*.