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May 8, 2009

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

**SUBJECT: AUDIT OF THE DEPARTMENT OF BUILDING AND SAFETY
BUILDING PERMIT ENTERPRISE FUND**

I am releasing the enclosed report entitled "Audit of the Department of Building and Safety Building Permit Enterprise Fund." A copy of this report was provided to Department of Building and Safety.

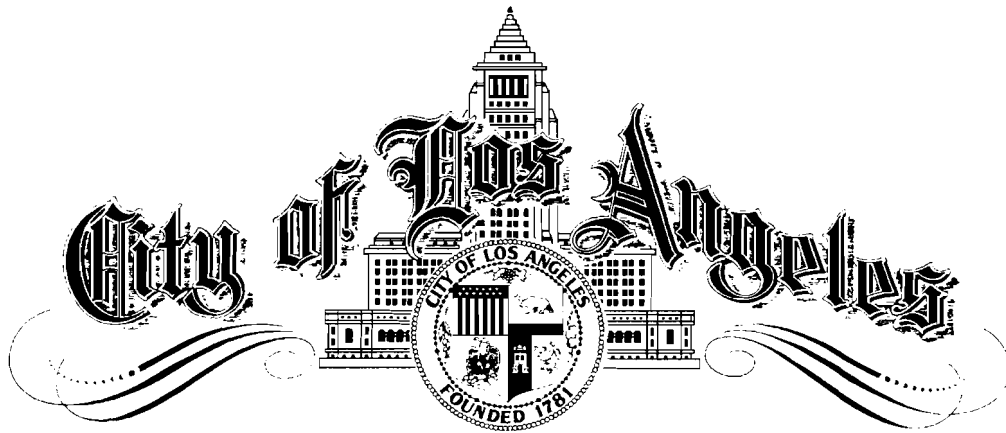
If you have any questions or comments, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rushmore D. Cervantes', written in a cursive style.

RUSHMORE D. CERVANTES
Acting City Controller

Enclosure



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May 8, 2009

Andrew A. Adelman, P.E., General Manager
Department of Building and Safety
201 N. Figueroa, Suite 1000
Los Angeles, CA 90012

Dear Mr. Adelman:

Enclosed is a report entitled "Audit of the Department of Building and Safety Building Permit Enterprise Fund." A draft of this report was provided to your office on April 9, 2009. Comments provided by your Department at the meeting held on April 14, 2009, were evaluated and considered prior to finalizing the report.

Please review the final audit report and advise the Controller's Office by June 5, 2009 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Bud Ovrom, Deputy Mayor, Office of the Mayor
Marsha L. Brown, President, Board of Building and Safety Commissioners
Raymond P. Ciranna, Interim City Administrative Officer
June A. Lagmay, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent City Auditors





City of Los Angeles Office of the Controller

Audit of the Department of Building and Safety Building Permit Enterprise Fund

May 8, 2009

Rushmore D. Cervantes
Acting City Controller

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY.....	1
II.	BACKGROUND AND METHODOLOGY.....	5
III.	AUDIT FINDINGS AND RECOMMENDATIONS.....	7
	APPENDIX A – RANKING OF RECOMMENDATIONS.....	15

AUDIT OF THE DEPARTMENT OF BUILDING AND SAFETY BUILDING PERMIT ENTERPRISE FUND

EXECUTIVE SUMMARY

The Audit Division has completed an audit of the Department of Building and Safety Building Permit Enterprise Fund (Enterprise Fund or Fund) managed by the Department of Building and Safety (DBS or Department). The primary objectives of the audit were: 1) To evaluate the adequacy of internal controls over the financial management of the Fund; 2) To determine if transactions (deposits, expenditures, and transfers) are made in accordance with the specific purposes allowed by applicable policies, laws, regulations and/or ordinances creating the fund; 3) To determine whether the conditions or circumstances reasonably warranted the creation of the line item "Reserve for Unanticipated Costs"; and 4) To determine the reasons for the large accumulated balance in the Fund and to assess whether funds are transferred periodically to the General Fund to reimburse the City for related costs.

Background

California Government Code Section 66014 states that a Building and Safety Building Permit fee may not exceed the estimated reasonable cost of providing the service for which the fee is charged. Accordingly, DBS set up the Enterprise Fund on July 1, 2005 under Ordinance no. 176604 to:

- Ensure that plan and permit fees collected are only used for activities related to plan and permit fees and not for other General Fund activities, such as code enforcement activities.
- Have the flexibility to hire staff according to the workload without being affected by the revenue cycles of the general budget.

As of February 27, 2009, the Fund had a cash balance of \$43,391,000 and a Reserve for Unanticipated Costs balance of \$40,265,000. It should be noted that although the fund is referred to as the Department of Building and Safety Building Permit Enterprise Fund, it is actually accounted for in the City's Financial Statement as a Special Revenue Fund. Before the creation of the Enterprise Fund, all plan and permit fees were deposited into the General Fund.

Scope

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and covered the period from July 1, 2005 through June 30, 2008.

Summary of Audit Results

In general, the Department of Building and Safety has adequate internal controls over the Enterprise Fund. For example, budgets for the Enterprise Fund were reasonable, and the expenditures we tested were for eligible expenditures.

However, we noted that the Department does not have a formal methodology to evaluate the amount of funds held as a reserve. We also identified \$1.2 million in occupancy costs and \$250,000 in capital improvement costs that could potentially be transferred from the Enterprise Fund to the General Fund.

Key Findings

- **The Department does not have a formal methodology for assessing an appropriate reserve fund balance to maintain. Since it was established on July 1, 2005, the Fund has accumulated a Reserve for Unanticipated Costs balance of \$40,265,000 as of February 27, 2009.**

The Department recognizes building plan check and permit revenue in the fiscal year received. However, the plan check and inspection services typically occur over the next six to eighteen months, on average, and beyond. Since the Department does not have a formal system to reasonably estimate the future completion costs, it sets aside the difference of revenues over expenditures as a Reserve for Unanticipated Costs. The reserve fund balance increased from \$51 million to \$68 million from FY 2005-06 to FY 2007-08. However, because of the slowdown in the economy and the decline in building activities, the reserve fund balance had decreased to \$40 million as of February 27, 2009.

Although the Department does not have a formal methodology to assess the appropriateness of the Reserve for Unanticipated Costs balance, Department management performed an analysis of the balance as of October 2008. The Department's analysis showed that the amount held as a Reserve for Unanticipated Costs approximately equaled the estimated cost of future services related to plan check and permit fees that had already been collected. We determined that the Department's methodology for estimating the deferred revenue amount was reasonable. However, the methodology/analysis relied on certain key percentages that we were unable to verify because they were derived by Department management using their experience and best judgment. However, assuming these percentages are materially accurate, the amount held as a Reserve for Unanticipated Costs appears reasonable.

The Department is in the process of a fee analysis study as recommended in our July 2006 audit report. This study should allow the Department to better match revenues with expenses so that the fund balance is less affected by the state of the economy.

- **We identified approximately \$1.4 million in Enterprise Fund costs that did not receive proper accounting treatment.**

All costs associated with permit activities should be charged against the Enterprise Fund. This would allow City management and other interested parties to determine actual costs. These costs could be compared against revenues to determine whether fees need to be adjusted.

We identified approximately \$1.4 million in Enterprise Fund costs that were not recognized as expenditures by the Department using the accrual basis of accounting. Recognizing the costs could result in \$1.4 million being transferred to the General Fund. This includes \$1.19 million in maintenance and debt service costs and \$250,000 in renovation costs for which the Department has not yet been billed. Potentially, an additional \$731,000 related to fiscal year 2007-08 appropriations could be reimbursed to the General Fund.

Review of Report

We met with the Department of Building and Safety management on April 14, 2009 to discuss the contents of the audit report. Department management generally agreed with the findings and recommendations. We would like to thank Department management and staff for their cooperation and assistance during the audit.

TABLE of RECOMMENDATIONS

	RECOMMENDATIONS	PAGE REFERENCE
	The Department of Building and Safety should:	
1	Place a high priority on completing the Fee Study.	10
2	In conjunction with the CAO, formalize a methodology for periodically evaluating the amount needed as a Reserve for Unanticipated Costs fund balance.	10
3	Develop a staffing plan, which considers the use of as-needed staff where applicable.	10
4	Work with the CAO to properly account for the maintenance and debt service costs in order to transfer \$1.19 million from the Enterprise Fund to the General Fund.	13
5	Work with the CAO and GSD to properly account for the capital improvement costs and transfer any pertinent capital improvement costs from the Enterprise Fund to the General Fund.	13
6	In conjunction with the CAO, develop formal written policies and procedures for determining the types of expenditures that will be reimbursed to the General Fund. The policies/procedures should also indicate how the amounts to be reimbursed will be determined.	13
7	Work with the appropriate parties to rename the Enterprise Fund to the Building Permit Special Revenue Fund to match the characteristics of the Fund.	13

BACKGROUND AND METHODOLOGY

BACKGROUND

The Department of Building and Safety (DBS or Department) enforces all ordinances and laws relating to the construction, alteration, repair, demolition, removal or relocation of buildings or structures as well as the related installation, alteration, repair, use and operation of heating, plumbing, lighting, ventilating, refrigerating, electrical and mechanical devices. The Department also enforces the zoning ordinance of the City of Los Angeles and inspects residential property on request to determine compliance with City code requirements.

California Government Code Section 66014 states that a Building and Safety Building Permit fee may not exceed the estimated reasonable cost of providing the service for which the fee is charged. Accordingly, the Department set up the Building and Safety Building Permit Enterprise Fund (Fund #48R) on July 1, 2005 under Ordinance no. 176604 to:

- Ensure that plan and permit fees collected are only used for activities related to plan and permit fees and not for other General Fund activities, such as code enforcement activities.
- Have the flexibility to hire staff according to the workload without being affected by the revenue cycles of the general budget.

The Department's building permit-related activities, which amount to approximately 86 percent of the Department's salaries and expenses, are funded by the Enterprise Fund. The remaining 14 percent of the Department's activities are mainly related to code enforcement activities, which are funded by the General Fund.

The Building and Safety Building Permit Enterprise Fund (Enterprise Fund or Fund) receives monies from fees paid for plan checks, permits, and inspections of new construction in the City of Los Angeles; testing of construction materials and methods; and examining and licensing of welders, equipment operators, and registered deputy building inspectors. The Enterprise Fund finances all the programs, services and support functions relating to those services for which fees are paid into the Fund.

The Department charges plan check and building permit fees at the time of application in accordance with the fee schedule (based on valuation of construction projects) approved by the City Council. According to the Executive Officer of the Department, follow-up workload occurs, on average, over the next six to eighteen months and beyond after payment is received.

Prior to the establishment of the Enterprise Fund, all plan check and permit revenues were deposited in the General Fund. Since July 1, 2005, the revenues have been accounted for in the Enterprise Fund. For fiscal years (FY) 2005-06 through 2007-08, revenue averaged \$121 million.

For FY 2008-09, the Enterprise Fund's budget was \$189 million. This includes the reimbursement of \$104 million (55% of the total) to the General Fund for the Department of Building and Safety's salaries and related costs, \$62 million as a Reserve for Unanticipated Costs, and \$23 million for other expenditures such as equipment purchases and reimbursements to other departments such as the Department of General Services and the Information Technology Agency.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were:

- 1) To evaluate the adequacy of internal controls over the financial management of the Fund.
- 2) To determine if transactions (deposits, expenditures, and transfers) are made in accordance with the specific purposes allowed by applicable policies, laws, regulations and/or ordinances creating the fund.
- 3) To determine whether the conditions or circumstances reasonably warranted the creation of the line item "Reserve for Unanticipated Costs".
- 4) To determine the reasons for the large accumulated balance in the Fund and to assess whether funds are transferred periodically to the General Fund to reimburse the City for related costs.

The audit was performed in accordance with Generally Accepted Government Auditing standards and covered the period from July 1, 2005 through June 30, 2008. Fieldwork was conducted between July 2008 and February 2009.

In conducting our audit, we interviewed management and staff and reviewed applicable laws, regulations, and Departmental procedures to obtain an understanding of the Department of Building and Safety Building Permit Enterprise Fund and the Department's controls over the funds. We then selected sample transactions to determine whether the Department is complying with prescribed laws and policies.

The remainder of this report details our findings, comments, and recommendations.

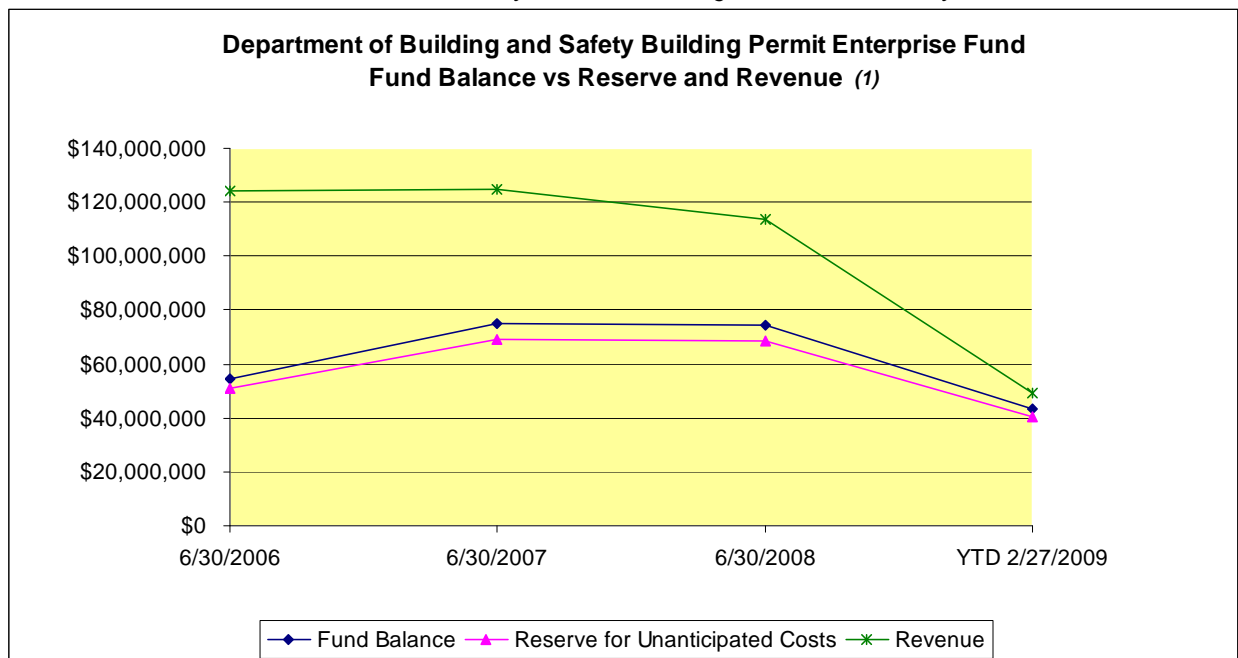
AUDIT FINDINGS AND RECOMMENDATIONS

Finding #1: The Department does not have a formal methodology for assessing an appropriate reserve fund balance to maintain. Since it was established on July 1, 2005, the Fund has accumulated a Reserve for Unanticipated Costs balance of \$40,265,000 as of February 27, 2009.

The Department charges plan check and building permit fees at the time of application in accordance with the fee schedule approved by the City Council. The fee is collected almost exclusively at the beginning of a given construction project, whereas, per the Department, the plan check and inspection services occur over the next six to eighteen months on average and beyond. Since the Department does not have a system to reasonably estimate the future completion costs, it sets aside the entire difference of revenue over expenditures and encumbrances as a Reserve for Unanticipated Costs. The Department does not have a formal methodology for periodically assessing the appropriateness of the reserve balance. As of February 27, 2009, this balance was \$40 million, but it has been as high as \$69 million as a result of the construction boom.

The following graph shows the total fund balance and the Reserve for Unanticipated Costs for the years ended June 30, 2006 through June 30, 2008, and for the period ended February 27, 2009. The graph also shows revenue for each year. The graph shows that revenue has declined since the end of FY 2006-07, resulting in a drop in the fund balance.

Source of information: City's Financial Management Information System



(1) The estimated revenue for FY 2008-09 is \$73.5 million based on revenue through February 27, 2009.

Analysis of Fund Balance

The Reserve for Unanticipated Costs fund balance should equal the amount of deferred revenue. Deferred revenue represents monies received but not yet earned because the work associated with the collected monies has not yet been performed.

Although the Department does not have a formal methodology to assess the appropriateness of the Reserve for Unanticipated Costs balance, Department management performed an analysis of the balance as of October 2008. At that time, the balance was \$49 million. The Department's analysis showed that \$49 million represented deferred revenue and was needed to cover the cost of plan check and inspection services related to plan check and permit fees that had already been collected.

We determined that the Department's methodology for estimating the deferred revenue amount was reasonable. However, the methodology/analysis relied on certain key percentages as shown below:

Source of information: DBS' Analysis of Fund balance as of October 25, 2008

% of Unfinished Applications			
	FY 2006-07	FY 2007-08	FY 2008-09 (through 10/25/08)
Plan Check Services	30%	45%	60%
Inspection Services	40%	60%	80%

For example, the 60% for plan check services for FY 2008-09 indicates that as of October 2008, 60% of work related to plan check fees collected in FY 2008-09, still needed to be completed.

Management stated that the percentages were derived using their best judgment based on their experience and are not documented. As such, we are unable to determine the reasonableness or accuracy of these percentages. However, assuming these percentages are materially accurate, the \$49 million held as a Reserve for Unanticipated Costs appears reasonable.

It should be noted that from a going-concern standpoint, the Department might not need to use most of the reserve funds because revenues would be received on a continuous basis. For example, if the Department's fees were established based on the costs of providing services, recognized revenues should approximately equal expenses for a given year, and not all the reserve would be needed to operate the Department. All of the reserve funds would only be needed if the Department "went out of business". In this case, no new revenues would be received, but costs would be incurred for services needed to complete unfinished plan check and inspection services.

Fee Study

In July 2006, our Office completed a Financial and Compliance audit at the Department of Building and Safety. The audit disclosed that over the course of several years, the Department's revenue for plan/permit check activities had exceeded its costs. This trend appears to have continued through the end of FY 2006-07, despite the fact that the Department has not updated its fees in over 12 years. However, since then, costs have exceeded revenues.

One of the problems noted in the July 2006 audit is that DBS' fees are not based on the estimated costs of providing services. Instead, they are based on the valuation of the project/construction. Thus, in times of high rising construction costs, revenues would tend to rise. However, if construction activities decline, the Department would expect to see a decline in revenue. Based on revenue through February 27, 2009, the estimated FY 2008-09 revenue is \$73.5 million or 35% less than FY 2007-08 and 41% less than FY 2006-07.

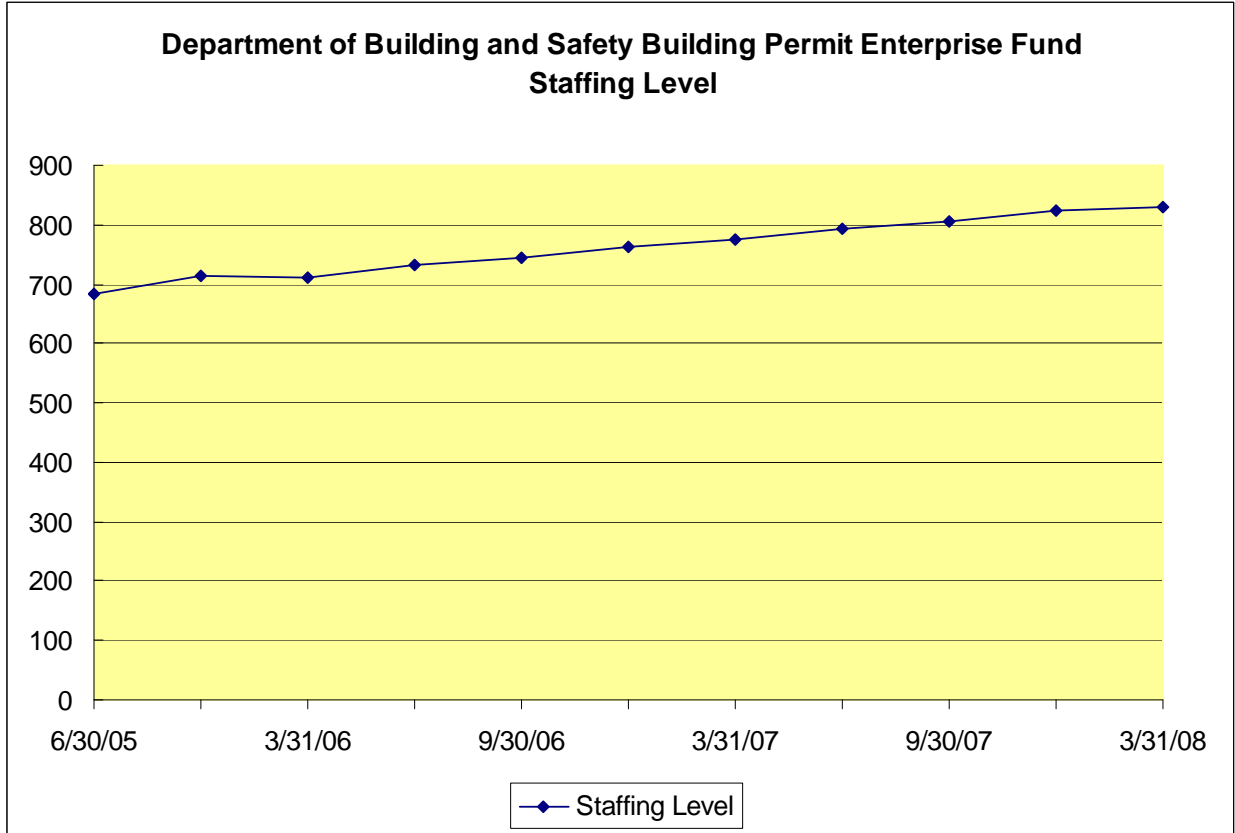
As recommended in our July 2006 audit report, the Department initiated a fee study. In December 2008, the Department selected a vendor to perform the Department of Building and Safety fee analysis and study. The CAO is in the process of reviewing the draft contract.

Self-sufficiency of the Enterprise Fund

When the Enterprise Fund was established in July 2005, there was no discussion in the Ordinance as to whether there would be times when General Fund monies would be needed to help sustain the Enterprise Fund. In fact, one of the Department's justifications for establishing the Fund was to have the flexibility to hire staff according to the workload without being affected by the revenue cycles of the general budget. Thus, it appears that the Department's vision was that the Fund would be self-sustaining. Department management confirmed that it intended for the Fund to be self-sufficient.

It is possible that if revenues continue to decline and expenditures (consisting mostly of salaries and related benefits) do not fall at a corresponding rate, the fund balance would be eliminated. If this occurs, the Fund may require assistance from the General Fund or another fund. The Department could lessen the impact of declining revenue if it had the ability to quickly reduce the size of its workforce. The Department stated that because it closely monitors the fund, it is highly unlikely that the Fund would require assistance from the General fund or another fund.

Since the establishment of the Fund, staffing for the Enterprise Fund has increased from 682 to 830 employees from June 2005 to March 2008. This is shown in the following graph.



The Department stated that because revenue have declined, it plans to reduce staffing levels through attrition and early retirements. We asked the Department why they have not hired any as-needed employees, especially since this would give them the ability to better manage staffing levels. The Department indicates that it typically takes one year to train staff to be able to work independently. However, hiring experienced as-needed staff would allow the Department to better manage and maintain efficient staffing levels.

Recommendations

The Department of Building and Safety should:

- 1. Place a high priority on completing the Fee Study.**
- 2. In conjunction with the CAO, formalize a methodology for periodically evaluating the amount needed as a Reserve for Unanticipated Costs fund balance.**
- 3. Develop a staffing plan, which considers the use of as-needed staff where applicable.**

Finding #2: We identified approximately \$1.4 million in Enterprise Fund costs that did not receive proper accounting treatment.

As previously discussed, permit fees may not exceed the estimated costs of providing the service. The establishment of the Enterprise Fund allows the Department of Building and Safety to better track revenue and expenses related to permit activity.

All costs associated with permit activities should be charged against the Enterprise Fund. This would allow City management and other interested parties to determine actual costs. These costs could be compared against revenues to determine whether fees need to be adjusted.

Despite the Fund being in existence for nearly four years, the Department has not developed any formal written policies and procedures for the types of expenditures that the Enterprise Fund will reimburse to the General Fund and how these amounts will be determined. We identified \$1.4 million in Enterprise Fund costs that did not receive proper accounting treatment, and as a result, the funds were not transferred to the General Fund. This includes \$1.19 million in maintenance and debt service costs and \$250,000 in capital improvement costs. Following is a discussion of these costs.

Maintenance and Debt Service Costs

According to a CAO report dated August 6, 2007 under Council File 07-1009, after the City of Los Angeles purchased the Figueroa Plaza on August 8, 2007, the transitional maintenance expenses for the remainder of the fiscal year were \$6.9 million. Based on the percentage of building space (18%) used by the Enterprise Fund, the Fund should have recognized \$1.24 million in maintenance costs.

Also, in 2007, the City issued \$221 million in Municipal Improvement Corporation of Los Angeles (MICLA) 2007-B bonds for the purchase of the Figueroa Plaza. Accordingly, even though the Department was not billed, the Enterprise Fund should have recognized 18% of the debt service costs for the period from August 8, 2007 to June 30, 2008, which is \$2.25 million.

In summary, the Enterprise Fund only recognized \$2.30 million for FY 2007-08, DBS's Figueroa Building lease budget for the remainder of the FY 2007-08 (from August 8, 2007 through June 30, 2008), for the maintenance and debt service costs. Based on proper accrual of the expenditures, it should have recognized total costs of \$3.49 million (\$1.24 million plus \$2.25 million). This resulted in an underpayment of \$1.19 million to the General Fund.

The Comprehensive Annual Financial Report (CAFR) as of June 30, 2008 included accruals for the City's debt service payments relating to the Figueroa Plaza purchase. However, the accrual was not recognized and not included in the Due to General Fund within the Enterprise Fund.

Renovation Costs

Also, after the purchase of the Figueroa Plaza by the City, the Department of Public Works' Bureau of Engineering developed a \$15 million multi-year plan for capital repairs and maintenance of the building as shown below.

Source of information: Council File 07-1009

Capital improvement costs for the Figueroa Plaza:	
Immediate renovations	\$5,450,000
Short-term renovations (1 to 3 yrs)	1,600,000
Intermediate renovations (5 yrs)	2,100,000
Long-term renovations (10 yrs)	6,450,000
Total	\$15,600,000

The Enterprise Fund budgets annual maintenance costs and debt service costs but not renovation costs. The CAO confirmed that the renovation costs are currently not shared by the Enterprise Fund. The initial capital improvement costs of \$5.4 million were funded by MICLA commercial paper. According to the CAO's Office, currently, the initial capital improvement costs are solely funded by the General Fund in the Capital Administration Finance Fund and the Enterprise Fund does not share any costs. The CAO indicated that it would consider charging the Enterprise Fund for these capital improvement costs.

As of March 31, 2009, expenditures incurred by the Department of General Services (GSD) for the initial capital improvement costs were \$1,390,000 for FY 2007-08 appropriations. Based on the area usage ratio, the Enterprise Fund should pay 18% of the renovation costs. Consequently, \$250,000 (18% of \$1,390,000) has not been charged to the Enterprise Fund for FY 2007-08 appropriations. Also, the Enterprise Fund should share the relevant portion of the future renovation expenditures of the Figueroa Plaza. This cost may amount to an estimated \$731,000 [(\$5,450,000 - \$1,390,000)*18%] related to FY 2007-08 appropriations.

Recommendations

The Department of Building and Safety should:

- 4. Work with the CAO to properly account for the maintenance and debt service costs in order to transfer \$1.19 million from the Enterprise Fund to the General Fund.**
- 5. Work with the CAO and GSD to properly account for the capital improvement costs and transfer any pertinent capital improvement costs from the Enterprise Fund to the General Fund.**
- 6. In conjunction with the CAO, develop formal written policies and procedures for determining the types of expenditures that will be reimbursed to the General Fund. The policies/procedures should also indicate how the amounts to be reimbursed will be determined.**

Finding #3: The designation of the Building Permit Enterprise Fund as an enterprise fund is misleading because it is operated as a special revenue fund.

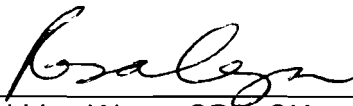
Generally Accepted Accounting Principles (GAAP) for government entities considers enterprise funds as proprietary or business-type funds, and they are distinguished from the other fund types by their restricted authorized use, purpose, and financial reporting requirements. According to the National Council on Governmental Accounting Statement No.1, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Accordingly, an enterprise fund should meet the objective of accrual-based accounting and match the revenues with their corresponding expenses; prepare basic financial accounting statements and recognize revenues, expenses, assets (such as property, plant and equipment), and liabilities (such as debt service instruments).

The Building and Safety Permit Enterprise Fund neither captures any capital/non-capital assets nor prepares separate financial statements. Consequently, the Fund is accounted for as a special revenue fund in the City's Financial Management Information System.

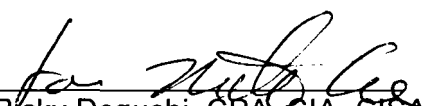
Recommendation

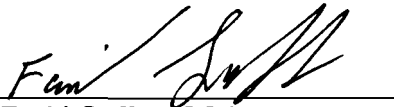
- 7. The Department of Building and Safety should work with the appropriate parties to rename the Enterprise Fund to the Building Permit Special Revenue Fund to match the characteristics of the Fund.**

Respectfully submitted,


Wai Ling Wong, CPA, CIA
Internal Auditor III


Mike Lee, CPA, CIA
Chief Auditor


Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor


Farid Saffar, CPA
Director of Auditing

February 27, 2009

Appendix A

OFFICE OF THE CONTROLLER

**AUDIT OF THE DEPARTMENT OF BUILDING AND SAFETY BUILDING PERMIT
ENTERPRISE FUND**

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
			The Department of Building and Safety should:
1.	The Department does not have a formal methodology for assessing an appropriate reserve fund balance to maintain. Since it was established on July 1, 2005, the Fund has accumulated a Reserve for Unanticipated Costs balance of \$40,265,000 as of February 27, 2009.	U	1. Place a high priority on completing the Fee Study.
		U	2. In conjunction with the CAO, formalize a methodology for periodically evaluating the amount needed as a Reserve for Unanticipated Costs fund balance.
		U	3. Develop a staffing plan, which considers the use of as-needed staff where applicable.
2.	We identified approximately \$1.4 million in Enterprise Fund costs that did not receive proper accounting treatment.	U	4. Work with the CAO to properly account for the maintenance and debt service costs in order to transfer \$1.19 million from the Enterprise Fund to the General Fund.
		U	5. Work with the CAO and GSD to properly account for the capital improvement costs and transfer any pertinent capital improvement costs from the Enterprise Fund to the General Fund.

		U	6. In conjunction with the CAO, develop formal written policies and procedures for determining the types of expenditures that will be reimbursed to the General Fund. The policies/procedures should also indicate how the amounts to be reimbursed will be determined.
3.	The designation of the Building Permit Enterprise Fund as an enterprise fund is misleading because it is operated as a special revenue fund.	D	7. Work with the appropriate parties to rename the Enterprise Fund to the Building Permit Special Revenue Fund to match the characteristics of the Fund.

Description of Recommendation Ranking Codes

U- Urgent- The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management’s discretion.

N/A- Not Applicable