

BOARD OF  
BUILDING AND SAFETY  
COMMISSIONERS

MARSHA L. BROWN  
PRESIDENT

VAN AMBATIELOS  
VICE-PRESIDENT

VICTOR H. CUEVAS  
HELENA JUBANY  
ELENORE A. WILLIAMS

CITY OF LOS ANGELES  
CALIFORNIA



ANTONIO R. VILLARAIGOSA  
MAYOR

DEPARTMENT OF  
BUILDING AND SAFETY  
201 NORTH FIGUEROA STREET  
LOS ANGELES, CA 90012

ANDREW A. ADELMAN, P.E.  
GENERAL MANAGER

RAYMOND CHAN  
EXECUTIVE OFFICER

RECEIVED JUN 10 2009

June 5, 2009

Mr. Rushmore D. Cervantes  
Acting City Controller  
City of Los Angeles  
200 North Main Street, Room 300  
Los Angeles, California 90012

**RESPONSE TO THE CONTROLLER'S AUDIT OF THE DEPARTMENT OF BUILDING AND SAFETY BUILDING PERMIT ENTERPRISE FUND**

Dear Acting City Controller Cervantes,

On May 8, 2008, your office released a report, "Audit of the Department of Building and Safety Building Permit Enterprise Fund" (Enterprise Fund) (Attachment 1). The report made seven recommendations related to management, transactions, controls, accounts, and accumulated balance of the Enterprise Fund.

The Department of Building and Safety (LADBS) appreciates the effort you and your staff made in this audit. The findings and recommendations of the audit report will be used to make further improvements and enhancements to the Department's budgetary and financial procedures.

The following is the LADBS' response, which addresses the seven recommendations stated in the Controller's audit.

***Recommendation 1:***

***The Department of Building and Safety should place a high priority on completing the fee study.***

Response to Recommendation 1:

The fee study is a recommendation from a 2006 audit performed by the Controller's office. The purpose of the fee study is to evaluate the feasibility of charging building plan check and permit fees based on costs of providing the services instead of the Department's current practice of using the national standards of charging these fees based on project valuation.

It was suggested that the fee study would be done by an outside contractor through the Request for Proposal (RFP) process. The RFP process included creating project specifications; obtaining clearances from various city agencies (Personnel Department, Mayor's Office, Office of the City Administrative Officer (CAO), and Office of the City Attorney); advertising the RFP to private contractors; reviewing contractors' proposals; negotiating price and terms; checking contractor qualifications; holding panel interviews to score and rank qualified contractors; selecting a contractor; and submitting the contract award to be approved by Mayor's Office, CAO, and City Attorney.

Currently, the RFP process has been completed. However, to ensure that the project will be completed on time and within budget, the Department is conducting preliminary research and preparing documentation to facilitate the contractor's efforts.

The Department anticipates that the preliminary work will be completed by end of August 2009, at which time the contractor will begin the fee study.

Estimated Completion Date: June 2010

**Recommendation 2:**

***In Conjunction with the CAO, formalize a methodology for periodically evaluating the amount needed as a Reserve for Unanticipated Costs fund balance.***

Response to Recommendation 2:

As indicated on Page 8 in the audit report, the amount shown in the Enterprise Fund budget for Reserve for Unanticipated Costs line item "...approximately equal[s] the estimated cost of future services...."

LADBS collects all plan check and inspection fees at the onset of the permit application process. Services are provided weeks, months, or even years into the future depending on project size and scope. In November 2008, LADBS developed a methodology using a plan check and inspection aging report to evaluate the amount of revenue needed to pay for services not yet rendered and to track revenue for use in years following the year it was collected. The Department will work with CAO to further refine and formalize this methodology.

Estimated Completion Date: December 2009

***Recommendation 3:***

***Develop a staffing plan, which considers the use of as-needed staff where applicable.***

Response to Recommendation 3:

The use of as-needed staff to provide plan check and inspection services would be problematic due to the following two reasons among others: First, unlike other building departments in the country, LADBS is responsible for enforcing the zoning and land use regulations in addition to the building codes, structural regulations and seismic safety issues. It takes at least 12 months of training for LADBS plan check engineering staff to adequately review plans for compliance with the City's unique and complex Comprehensive Planning and Zoning Code, and hundreds of city ordinances impacting zoning and land use regulations in the City. It would not be economically feasible to invest this much training on as-needed staff. Second, the use of as-needed staff would likely raise strong opposition from employee unions and conflict with contracts and Memorandums of Understanding of City Employees Bargaining Units.

The Department is in the process of finalizing an as-needed contract to supply clerical and accounting staff to be used after a catastrophic event (e.g., major earthquake, fire, storm, etc.). It is with the CAO for Executive Directive 3 (ED3) Review. LADBS has successfully used these types of contracts in the past and looks forward to having another contract in place.

Estimated Completion Date: No further action required.

**Recommendations 4 and 5 and the Responses to them have been combined below for ease of explanation.**

***Recommendation 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.***

***Recommendation 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.***

Response to Recommendations 4 and 5:

Since the inception of the Enterprise Fund, the Fund has operated on a budget that has been approved by the City Council and Mayor. The Department works with the CAO each fiscal year to determine the expenditures that need to be reimbursed by the Enterprise Fund to the General Fund. Additionally, as directed by the City Council, the Department submits quarterly Enterprise Fund status reports on revenue, staffing and expenditures.

As noted in Finding No. 3, the Enterprise Fund was established as a Special Revenue Fund. It is our understanding that as a Special Revenue Fund, revenue is recognized when received and expenses when paid. The City's Comprehensive Annual Financial Report (CAFR) prepared by the Controller, dated June 30, 2008, listed the Enterprise Fund as a governmental fund (see "Building and Safety Permit Fund" on Page 61 of the CAFR). Since the Enterprise Fund is a governmental fund, according to the Summary of Significant Accounting Policies section of the CAFR (see Note 1-D on Page 60), debt service expenditures are recorded only when the payment is due. Specifically, this section states the following:

*"Expenditures for governmental funds generally are recorded when liability is incurred. However, debt service expenditures are recorded only when payment is due."*

#### Maintenance and Debt Service Costs

Audit Finding No. 2 (bottom 2 paragraphs of Page 11) indicated that, since debt service accrual was not recognized [by the Department], the General Fund was underpaid by \$1.19 million. However, this finding is not consistent with the CAFR as it includes all accruals for the City's debt service payments on June 30 of each fiscal year. Accruals that pertain to Figueroa Plaza were included in the June 30, 2008 CAFR. Recognizing accruals are for financial reporting purposes only – they do not equate a payment that is due.

The City Council (CF No. 07-1009) established LADBS' and all other departments' share of maintenance and debt payments. Subsequently, General Services Department (GSD) invoiced the Department for \$2,277,491 on April 4, 2008. LADBS paid this invoice in full on April 9, 2008. This payment included Building and Safety's share of the \$5,326,198 debt service due on February 1, 2008 relative to the MICLA 2007-B bonds issued for the purchase of Figueroa Plaza. LADBS had already paid its share of maintenance and debt service costs as directed by GSD and the CAO.

#### Renovation Costs

Relevant to Controller recommendations 4 through 5 (and CF 07-1009), the Department continues to work with the GSD and CAO to properly account for the maintenance and debt service costs and any other expenditures that need to be reimbursed to the General Fund.

Estimated Completion Date: No further action required

#### ***Recommendation 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.***

Response to Recommendation 6:

As noted in the Introductory Section of the CAFR (Page ii), "The annual budget serves as the foundation for the City's financial planning and control. The City maintains budgetary controls to ensure that legal provisions embodied in the budget are complied with and that expenditures do not exceed appropriated amounts."

Since the inception of the Enterprise Fund, the CAO has reviewed and established the types and amounts of expenditures that must be reimbursed to the General Fund by the Department through the formal budget process. The Department and CAO carefully work together to ensure that reimbursements are appropriately calculated. LADBS and the CAO are developing comprehensive written documentation for preparing the Enterprise Fund budget (Schedule 40) to ensure consistency in calculating costs and revising the budget based on external changes (e.g., difference in CAP rates, COLAs, payments to other departments).

Estimated Completion Date: December 2009

***Recommendation 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.***

Response to Recommendation 7:

The Department is discussing with CAO the process to rename the Enterprise Fund. However, this is a multiple-year process because it must be referenced in the budget documents for a minimum of three years. Some issues related to the name change include gaining approval from the Controller's office, amending the ordinance that established the Fund, updating automated systems, and referencing changes in financial audit documentation.

Estimated Completion Date: June 2014

The Department of Building and Safety appreciates the effort you and your staff have made in auditing and making recommendations to improve the Department. Please call Karen Penea, Chief of Resource Management Bureau, at (213) 482-6703 or me at (213) 482-6800, if the Department can be of assistance or provide any additional information.



ANDREW A. ADELMAN, P.E.  
General Manager