



Property Maintenance (Codes Department) Audit
Year Ending December 31, 2021

City of Reading

Internal Audit Report

Presented by:

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To: The City of Reading

EXECUTIVE SUMMARY

The Property Maintenance/Codes Department is part of the City of Reading's Community Development Department and operates under the direction of the Community Development Director. The primary sources of revenue generated by the Department for the City include fees related to housing inspection and fees related to housing/rental permits. The primary software system that's currently used by the Department to prepare and maintain customer bills is Hansen.

Presently, the Codes Department consists of approximately 30 full-time positions:

- 1 Manager;
- 3 Supervisors;
- 16 Property Maintenance Inspectors (3 vacancies);
- 1 Chief Clerk;
- 2 Sweepers; and
- 3 Development/Inspections Clerks (1 vacancy).

Property inspections of all rental and vacant properties in the City are performed by the Codes Department every 2-5 years. Inspectors in the Department review lists of property sales/transfers within the City, which are received monthly from the County of Berks, in an attempt to capture all new rental/vacant properties that will need to be scheduled for inspections. Fee billing related to inspections occurs only after inspections have been completed. Housing fee/ registration bills, which are automatically generated by the Hansen system and reviewed for accuracy by the Codes Department, along with renewal forms, are mailed out annually to customers via a third party around February. The City's Codes Department is responsible for preparing customer fee bills and ensuring that the bills are accurate and mailed to customers timely; however, the City's Treasury Department is responsible for the collection, recording (in the Hansen system) and depositing of Codes' fees, and the City's Accounting Department is responsible for calculating and recording fee revenue in the General Ledger (G/L) for Codes.

According to the Codes Department: almost 9,500 housing fee/registration bills (housing fees were \$100 per parcel in 2021) were mailed out in 2021; more than 6,800 inspections, which do not include Quality of Life (QOL) inspections, were performed by the Department and generated more than \$1.6 million in fee income in 2021; and almost \$298,000 in revenue was reportedly generated from title search companies in 2021 for Certificates of Transfer (COT) fees from approximately 500 rental property sales that occurred that year. However, Audit did not review or verify these statistics.

As shown in the table below, approximately \$2,020,496 (or 87%) of the \$2,318,645 in Codes revenue budgeted for 2021 was collected during the year. And the sources of Codes fees that generated the most income for the City in 2021 related to Housing/Rental Permits, Housing Inspection fees, Food Permits, and Health and Safety Inspections.

CODES/PMI DEPARTMENT – 2021 FINAL BUDGET VS. ACTUAL REVENUE:

	Final Budget	Actual	Variance
Vacant for Sale Fees	1,000.00	0.00	(1,000.00)
Vacant for Rehab Fees	2,000.00	0.00	(2,000.00)
Vacant Code Compliance	500.00	0.00	(500.00)
Abandon Real Property Reg Fee	50,000.00	0.00	(50,000.00)
Housing Inspection-Prior	200,000.00	131,715.18	(68,284.82)
Food Permits	143,270.00	174,494.50	31,224.50
Quality of Life - Prior	53,000.00	35,967.95	(17,032.05)
Public Health & Safety - Prior	50,000.00	52,254.65	2,254.65
Work Orders Fees	19,000.00	25,157.30	6,157.30
CDBG Revenue	191,625.00	139,975.43	(51,649.57)
Housing Inspection	380,000.00	274,549.97	(105,450.03)
Pre-Settlement Inspection Fee	5,000.00	0.00	(5,000.00)
No Show Fee	150,000.00	142,480.79	(7,519.21)
Housing Prior Year	83,000.00	201,560.51	118,560.51
PMD Placard Removal Fees	5,000.00	725.55	(4,274.45)
Housing/Rental Permit	826,500.00	724,361.16	(102,138.84)
Appeal Fees	3,000.00	1,000.00	(2,000.00)
Misc. Revenue	500.00	0.00	(500.00)
Property Transfer Inspection	71,000.00	87,751.50	16,751.50
Quality of Life	84,250.00	28,501.16	(55,748.84)
	2,318,645.00	2,020,495.65	(298,149.35)

The City of Reading is currently in the process of converting to the Tyler family of software products. In February of 2022, the City converted to Tyler’s Munis software; Munis replaced USL as the City’s primary Accounting/ General Ledger software system. And although Hansen is the Treasury system that’s presently used by the City of Reading to maintain fee charges and receipts for customers of the Codes Department as well as for other departments within the City, the Administration is currently in the process of building/ creating the Tyler Cashiering and Energov modules, the Tyler products that will soon become the City’s primary Treasury system. Tyler Cashiering and Energov will replace the Hansen system and communicate directly with Munis. The anticipated date of conversion from Hansen to Tyler Cashiering and Energov is the second quarter of 2023.

SCOPE

We have audited the City of Reading's Property Maintenance (Codes) division for the year ended December 31, 2021. Our audit included reviews and tests designed to express an opinion as to the propriety of the collection and recording of the City of Reading's Codes fees which relate to housing, inspection, public health & safety and food permits and to the adequacy and effectiveness of the related internal control systems.

For our review, we selected our samples from fee transactions that had been recorded during 2021 in the following 7 Codes-related G/L accounts in USL:

- Housing Inspection;
- Housing Inspection – Prior;
- Housing/Rental Permit;
- Housing Prior Year;
- Property Transfer Inspection;
- No Show Fee; and
- Food Permits.

By October 2022, exhaustive efforts to complete our review had been made. In addition, we also wanted to be mindful of the Codes Department's extensive involvement, both now and in the foreseeable future, in building the new Tyler Cashiering and Energov platform, which is a priority for the Administration, and with other departmental priorities. As a result, Audit decided that it would not pursue responses to the fee variances identified in our review for fee accuracy and that it would suspend its evaluation of the *accuracy* of Codes fees charged to customer accounts.

OPINION

Based upon the results of our reviews, tests and limited scope, we cannot express an opinion on the accuracy or completeness related to the collection and recording of Codes-related fees. The internal control systems provide limited assurance that significant errors or irregularities will be prevented or detected in a timely manner. We identified the following concerns which we believe management must address to better control the risk of loss.

AUDIT FINDINGS

Finding #1

Condition:

Overpayments and fee adjustments related to Codes fees are not consistently applied.

Cause:

There is no written policy or documented procedure in the Codes Department that addresses the application or return of customer overpayments or fee adjustments.

Effect:

Without a documented policy or procedure, a consistent process describing how to apply overpayments or fee adjustments is not available, and erroneous or unauthorized transactions are more likely to occur.

Recommendation:

We recommend that management establish and document departmental policies and procedures which address the monitoring and application of both fee overpayments and fee adjustments so that appropriate practices can be consistently applied. This may involve coordination with one or more departments.

Management Response:

Treasurer Dept receives, posts and process payments through a different system than Hansen (USL). Switching to Energov will provide staff to view the same records as treasurer. Moving forward, management and Supervisors will draft a Standard Operating Procedure for tracking and applying/refunding overpayments. We are currently in the process of verifying all existing overpayments to determine if they will need to be refunded or applied to other accounts. Future efforts will include weekly tracking of any overpayments existing on accounts related to Property Maintenance and better communication between Property Maintenance and Treasury.

Finding #2

Condition:

Changes to Codes-related fee schedules are not consistently updated in a timely manner in the Hansen system.

During our review, we noted that Ordinance No. 2-2021, which was approved and adopted on 1/11/21, included revisions to fee schedules that impacted the Codes Department. However, per verbal discussions with the Codes Department, Codes mentioned that there was a delay in its communication to IT regarding the fee schedule changes adopted in this specific Ordinance, and IT confirmed the notification delay. IT received notification of the related fee updates that they needed to make in Hansen on approximately 8/31/21, i.e., more than 7 months after the fee changes were formally adopted.

Cause:

When revisions are made to fee schedules that impact the Codes Department, it is the Department's responsibility to notify IT of any fee changes they must make in Hansen; however, a documented departmental process to ensure that fee schedule revisions are made accurately and timely in the Hansen system does not currently exist.

Effect:

Without notifications that fee schedules have changed, IT will not be aware to make required fee revisions in Hansen, and customers could be charged stale/ incorrect fee amounts that could potentially result in significant revenue loss for the City.

Recommendation:

We recommend that management establish a process to ensure that all changes to fee schedules which impact the Codes Department are updated timely in the Hansen system. This may involve coordination with one or more departments.

Management Response:

In the future, when fees are revised, management will take the lead notifying IT of proposed changes to the ordinance/fee schedule shortly thereafter approval by City Council. Future changes to any fee schedules that pertain to Property Maintenance will be handled immediately.

AUDIT OBSERVATIONS

Observation #1

Condition:

Fee receipts/transactions obtained from the Hansen system are not consistently and/or accurately displayed on fee reports used to determine and record fees in the General Ledger (G/L).

Cause:

Occasionally, fee receipt/transaction detail is missing, or fee receipts are reported incorrectly/inconsistently on the Daily Cash Statement, the report that summarizes the fee data found in Hansen and that Accounting currently uses to manually determine/calculate the numerous fee revenue types and amounts that are recorded in USL/ the G/L.

Effect:

When fee information listed on the Daily Cash Statement is missing, incorrect and/or reported inconsistently, fee revenue recorded in the G/L, which is currently calculated manually by Accounting, is more likely to be inaccurate or incomplete.

Recommendation:

We recommend that Codes work with Treasury, Accounting and IT to establish a fee reporting process which reflects complete, consistent and accurate fee details for Codes and for all City departments. In addition, we recommend that an automated process be incorporated into the Cashiering and Energov modules that are being built and will eventually be synched with Munis.

Management Response:

This will require extensive discussions with Accounting, Treasury and IT to ensure that moving forward into the new Tyler/Energov platform that all fee reporting is standardized and accurate.

Observation #2

Condition:

Hansen accounts/numbers do not consistently match/mirror General Ledger (G/L) revenue accounts/numbers found in USL.

Cause:

Account numbers found in USL, especially those accounts that include prior year revenue, do not always exist in Hansen. Even when matching account numbers do exist in both systems, revenue is not always recorded consistently in both systems; the same fee type might be posted to different Hansen accounts. In addition, a single Hansen account number can represent multiple fee types that can be recorded in different revenue accounts in USL/ the G/L, depending upon the fee *description* listed in Hansen. Also, some fees with a specific Hansen account number might be recorded in one USL/ G/L account, while other fees with the same Hansen account number are recorded in a different G/L account in USL.

Effect:

Without accounts/numbers that consistently mirror each other in both Hansen and USL, fee revenue amounts posted in Hansen cannot be automatically processed or easily calculated and recorded in USL/ the G/L. Instead, Accounting must manually calculate fee revenue that has been entered into the Hansen system, and this results in an increased likelihood that revenue is recorded inaccurately or incompletely in the G/L.

Recommendation:

We recommend that Codes work with Accounting and any other appropriate departments to ensure that revenue account numbers in the Cashiering and Energov modules consistently match/mirror the corresponding revenue account numbers found in Munis (the G/L).

Management Response:

This will require extensive discussions with Accounting, Treasury and IT to ensure that moving forward into the new Tyler/Energov platform that all account numbers and names are standard and accurate.

Observation #3

Condition:

Names/descriptions of General Ledger (G/L) accounts in USL do not consistently match G/L account names/descriptions used in reports prepared manually by the Accounting Department.

Cause:

G/L account names/ descriptions used in reports or spreadsheets which Accounting manually prepares are often different than the respective account names/ descriptions found in USL for accounts that have the same G/L account number.

Effect:

When a G/L account name/ description used in an Accounting report differs from the name/ description that is used for the same account number in USL, there is an increased likelihood that revenue will be recorded inaccurately or incompletely in the G/L. This could especially cause confusion for external parties or others outside of Accounting who might be unclear as to what data is or should be included in the various revenue accounts.

Recommendation:

We recommend that Codes work with Accounting and any other appropriate departments to ensure that revenue account names/ descriptions in the Cashiering and Energov modules consistently match/ mirror the corresponding revenue names/ descriptions found in Munis (the G/L).

Management Response:

This will require extensive discussions with Accounting, Treasury and IT to ensure that moving forward into the new Tyler/Energov platform that all account names and descriptions are standard and accurate.

Observation #4

Condition:

The revenue collected in 2021 for the inspection of properties sold within the City of Reading appears low in relationship to the number of properties transferred that year according to the Berks County Recorder of Deeds report.

Cause:

Although the Codes Department sends welcome packages to new property owners in the City, Codes does not follow up and monitor those properties to ensure that they are registered and will be inspected.

Effect:

If new properties being transferred within the City are not registered, these properties might not be inspected, and that could potentially result in revenue loss for the City.

Recommendation:

We recommend that the Codes Department establish a plan to monitor properties sold within the City of Reading to ensure that properties transferred are registered and inspected as applicable.

Management Response:

Management will implement a tracking system for all properties sold within the City of Reading to ensure that all properties sold are inspected and registered properly. This will include, but may not be limited to: spreadsheets to accurately track which properties were sold, when they were sold, when they were registered and when they were inspected.