



Review of the Business License and Building Divisions

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CARSON CITY COMMUNITY DEVELOPMENT DEPARTMENT

Submitted By:

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Executive Summary

Eide Bailly LLP (“we”, “our”, or “us”) was engaged by Carson City (“City”) to perform an Internal Audit of the City’s Community Development Department. The review included the Building Division and Business License Division.

We worked with the Community Development Department for Business License and Building Division activities. The Business License functions are performed by in house staff who issues business licenses, provides annual invoices and processes the associated billing, collections and penalty assessments.

The Building Division functions are performed by the City and Charles Abbott Associates the City’s third-party consultant who operates the Building Division and performs the permitting, plan review, inspections and building official activities. We assessed the Building Division’s staffing, structure and service levels. Additionally, we performed a benchmarking study to compare Charles Abbott Associate’s performance in Carson City against peer cities with similar structure who outsource their Building Division. Benchmark data included sixteen comparable qualitative and quantitative data points with thirteen peer municipalities similar to the City. Lastly, we assessed the Building Division’s processes, policies and procedures, workflows, finances and monitoring reports. The results were compiled, information was analyzed, conclusions were made and are shared in the report below.

The Community Development Building Division and Business License internal audit identified eight (8) findings; two (2) in Business License and six (6) in Building Division. These finding provide opportunities for improvement to enhance the existing processes, achieve efficiency and effectiveness, provide new ideas and opportunities to help inform the decision-making process of outsourcing versus bringing activities in-house with supplemental outsourcing of building permits and inspections.

We greatly appreciate and thank the input of the City’s Community Development Department, City employees, and CAAs Building Official, Corey Coleman who contributed to enhancing our understanding of the Building Division processes.

Background

The City’s Community Development Department incorporates five functional divisions: Redevelopment, Planning Division, Building Division, Business License Division, and Code Enforcement Division. The audit was focused on two divisions, the Business License Division and Building Division.

Business License Division

Carson City requires that all businesses that conduct business in Carson City obtain an annual business license. Businesses that have non-residential locations within Carson City are subject to zoning review, fire inspections and health inspections prior to issuance of the license.

As of the audit date, the City has 1.5 full-time employees administering business license applications, business license renewals, processing payment for business license fees including late fees, sending annual renewal notices, denying business licenses, referring businesses to Code Enforcement Division, and tracking status of business license appeals. Additionally, these same 1.5 employees administer the liquor licenses, gaming licenses and special event permits, as well as being deputized by the City Clerk so that they can process fictitious firm names.

Building Division

The Building Division is responsible for managing the permit center which is a one stop shop for construction permits. Building Division operations include general public information, plan intake, plan review, permit issuance, inspections, and document retention. The City's Building Division is operated by Charles Abbott Associates ("CAA") which has operated the Division for Carson City since September 2014. The CAA contract was renewed in August 2021 for a three-year period. Under the contract, CAA provides a building official and the necessary number of employees to operate the permit center, including permit reviews and inspections, in addition to other functions associated with the Building Division.

As of the audit date, CAA has five-full-time employees located in the Community Development permit center, including a building official, two full time and one part time building inspectors, one plans reviewer / examiner¹, two permit counter technicians and the City has a part-time permit counter technician. In addition, CAA sends plans to off-site staff for review, as needed, to meet workload demand. CAA uses their own vehicles for inspections, and provides their own ancillary equipment for building permit functions.² The City provides building space and associated furniture and equipment for the permit center and CAA employees.

The contract includes performance measures that identify the expectations of CAA in performing the building permit functions. Per the contract the City pays CAA based on a percentage of the total building permit fees collected in accordance with the fee schedule in the contract. As of September 2021, fees paid to CAA are currently based on a percentage of the total monthly building permit fees collected. Specifically a flat rate of 60 percent (60%) of fees paid for permit revenues for non-Carson City sponsored projects and 25 percent (25%) of the fees for Carson City sponsored projects.

Building projects in Carson City are required to comply with all City adopted codes and ordinances. Before a permit is issued, the City requires a review for compliance with structural, electrical, plumbing, mechanical, fire, zoning, transportation, and environmental health codes³. For these reviews, the Building Division charges a Building Permit fee of 1% for Commercial and 1.5% for Residential Construction. Per Carson City Municipal Code 15.108., forty percent of the fee is due at the time of application, and the balance is due at the time of permit issuance.⁴

Key Systems:

- **EnerGov** – The City utilizes EnerGov to manage permitting, plan reviews and approvals, inspections and business license activities.
 - *Building Division* – uses EnerGov to facilitate building permitting, including the processes of intake, submittal routings, fee calculations, approvals and inspections.
 - *Business License* – uses EnerGov to facilitate business licensing, including the processes of intake, submittal routings, fee calculations, approvals and inspections.
- **Tyler Munis** – Financial Accounting and Reporting System.

¹ This person works from home.

² Ancillary equipment includes, but not limited to work clothes such as, harnesses, hard hat, work boots; tools such as, electrical testers, tape measures, and mobile devices such as cell phones.

³ Performed by both CAA and City personnel.

⁴ <https://www.carson.org/Home/ShowDocument?id=5905>

Building Division Consulting Fees Paid

Following is a summary of the Building Permit revenues and fees paid to CAA through the life of the contract to date. **Note:** CAA is paid strictly based on building permit revenues collected.

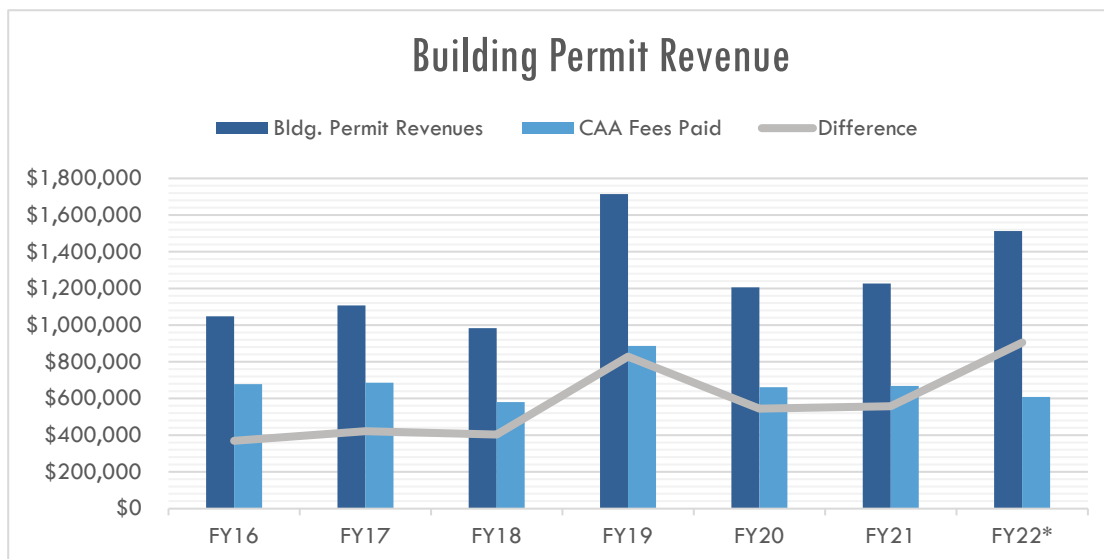
Table 1 – Building Permit Revenue & Fees Paid to CAA

	FY16	FY17	FY18	FY19	FY20	FY21	FY22*
Fiscal Year - July 1 to June 30							
Building Permit Revenue	\$1,047,759	\$1,107,098	\$983,411	\$1,714,118	\$1,205,761	\$1,226,507	\$1,513,326
CAA Fees Paid	\$677,892	\$685,595	\$580,615	\$886,412	\$661,187	\$668,511	\$608,163
Difference	\$369,867	\$421,503	\$402,796	\$827,706	\$544,574	\$557,996	\$905,163

*Permit activity for eight (8) months; July 1, 2021 through February 2022 (invoiced in March).

Source: Table created by Internal Audit from data provided by City Finance & Accounting.

Chart 1 – Building Permit Revenue & Fees Paid to CAA



*Permit activity for eight (8) months; July 1, 2021 through February 2022 (invoiced in March).

Source: Chart created from data provided by CAA and City Finance & Accounting.

The dark blue column is the total permit revenue collected by the Building Division. The light blue column is the portion of the total permit revenue collected that is paid to CAA for consulting services. The gray line is the difference between the total permit revenue and the amount paid to CAA, this amount remains with the City. In FY19 the Building Division automated the electronic plan submittal, requiring all building permit applicants to submit an electronic copy of the permit application and plans.⁵ As of November, 2019, plans are routed and reviewed electronically.

⁵ In addition to the automated electronic plan submittal, the Building Division worked with an apartment complex with a three-year build and of over 300 units to pull all of their permits in 2019.

Objective & Scope

The objective of our internal audit was to: 1) assess the Building Division's staffing, structure, and service levels to help inform the decision-making process of outsourcing (privatization) versus bringing activities in-house (insourcing) with supplemental outsourcing of building plan check and inspections; 2) compare qualitative and quantitative data points with peer cities and benchmarks to inform the decision-making process, identify new ideas and opportunities; 3) evaluate whether the City's control environment provides a reasonable degree of assurance to ensure the effective and efficient assessment and collection of business licensing fees.

The **Scope** of the engagement was for the period of January 1, 2021 through assessment completion date of May 31, 2022.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient and 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. Our work was limited to those areas specified in the "Audit Objective, Scope, and Methodology" sections of this report.

Methodology

Based on the above objectives, we performed procedures including but not limited to the following:

- Gained an understanding through research, Committee & Board meeting minutes, interviews, discussions and document review to understand the history and relationship of the outsourced functions to CAA.
- Obtained and reviewed policies and procedures (P&Ps), workflows, finances and reports for both the Building Division and Business Licensing Division's staffing, structure and operations for the City and CAA.
- Obtained, reviewed and analyzed contracts, monitoring activities of service and contract, performance measures, service levels, service delivery and cost of services associated with privatization.
- Performed walkthroughs and conducted interviews of employees to assess impacts on efficiency and effectiveness of current staffing, structure, processes, service levels, and cost.
- Gained an understanding of the risks and benefits to the city in a 100% outsourced environment.
- Defined benchmark criteria, the identified municipalities to benchmark against and performed benchmarking to determine whether bringing activities in-house would be more efficient and profitable for the City.
- Conducted process walkthroughs, interviews, EngerGov system reviews, and document review to assess completeness and accuracy of billing, collections and penalty assessments of business licenses.
- Tested business license transactions to determine whether businesses obtained licenses as required, bills for license fees are issued timely, completely and accurately, completeness and accuracy of fees paid, collection enforcement efforts are effective, credits are properly performed, and system controls are in place.
- Obtained list of current businesses from the State of Nevada who are in Carson City and compared to list of Carson City businesses year over year to determine completeness in billing.
- Discussed and reviewed the City's revenue reconciliations to determine whether revenues from business licensing are properly recorded.

Results of Comprehensive Review of the Building Division

As described in this report, our audit revealed that the Community Development Department needs to address the EnerGov system issues impacting business license, implement a contract monitoring process to evaluate CAAs performance, work with the City Attorney related to code enforcement responsibilities noted in the CAA contract, address re-inspection fees to ensure proper fees are charged, and implement a formal cost recovery policy related to permit fees.

Through enhancements to the departments processes that address the EnerGov system, periodic evaluation of permit fee structure, in addition to addressing the re-inspection fees and plans review resubmittals process, Community Development Department will be able to improve customer service and ensure fees are appropriately charged to sufficiently cover department costs. Our report lists several related recommendations.

We extend our appreciation to the Community Development Department, CAA and the personnel who assisted and cooperated with us during the audit.

BUSINESS LICENSE

FINDING #1: EnerGov System

There are several system configurations that the City require to allow for the management of daily processes to be more efficient, however, they are not able to get the necessary support from EnerGov technical support to perform the system configurations needed. As a result the City's IT department have been making the necessary modifications as time permit.

The Community Development Director with the City's IT Department is researching outside consultants to assist the department with Energov configuration to allow for the optimal use of the system and address the following issues:

- Software is not user friendly
- The software is labor intensive
- Possible lost revenue for the City

The EnerGov system has tripled the amount of data entry involved in processing a business license when compared to the legacy system. A poorly executed customer interface on the portal coupled with the inability to require payment prior to permit issuance caused the shutting down of the customer portal. Locked fields create extra work by City staff who must void permits and start again due to the inability to make corrections. Lastly, business licenses can be issued without payment and credits to potentially fictitious customers can go undetected, creating an opportunity for fraud and potential lost revenue for the City.

RECOMMENDATION for Finding #1

The City should continue to work with EnerGov to determine if the necessary updates can be made to improve efficiency, incorporate preventative controls to maintain integrity of business records and provide the features that the City needs to effectively service customers. Alternatively, if the City does not receive the necessary software resolutions then the City should look into alternative software solutions.

Management Response:

Agree – Community Development has met with the City's IT support and will pursue hiring a consultant to address configuration needs. If the deficiencies cannot be adequately addressed, the staff will investigate alternative systems. The staff has underfilled a staff position to free up funding for a consultant. The staff will seek to have the consultant working on the configuration issues by January 1, 2023. The Community Development Director will be the lead in working with the consultant.

FINDING #2: Business License Fees

The Building License Division provides a listing of business license fees on their website that shows the list of fees per CCMC 4.04.020. However, this does not include all fees being charged, such as Fictitious filing fees \$20 and Technology fees \$5 which are lawful fees, but not created through CCMC.⁶

RECOMMENDATION for Finding #2

The Director of Community Development should work to provide an updated list of business fees to the customers for transparency on the Business License Division website. Specifically, fees should be updated to include fictitious filing fees and technology fees.

Management Response:

The referenced fees are from the City Clerk's office and as assessed by the business license staff in their capacity as a sworn deputy clerk. These fees can be added to the portion of the website that addresses business license fees as well as included on other materials associated with business license fees. Target completion date will be January 1, 2023. The Planning Manager will be responsible.

⁶ <https://www.carson.org/home/showpublisheddocument/71824/637305809623130000>. To allow for a one stop shop, the BL staffers are deputized clerks. That is why they handle fictitious names and the technology fee – those are fees from the City Clerk's office.

BUILDING DIVISION

FINDING #3: BENCHMARK RESULTS

BENCHMARK STUDY

We performed a benchmarking study to compare Carson City's performance against peer cities and county with similar structure who outsource their Building Division. Sixteen (16) qualitative and quantitative data points or criteria were defined as shown below, along with thirteen (13) municipalities (cities and counties) identified. We obtained the necessary information by making phone calls, sending emails and performing web research of the municipalities. The results were compiled, information was analyzed, conclusions were made and are shared in the report below.

BENCHMARK CRITERIA:

1. Population (>30,000 residents)
2. Contact information
3. Name of Third-party consultant
4. Types of building activities outsourced (i.e., plans review, permitting, inspection, building official).
5. Number of years municipality has outsourced and why.
6. Whether outsourced activities had ever been performed in house and related timeframe.
7. Whether the municipality provided infrastructure or office space for the consultant.
8. Whether the consultant utilized the municipalities server and software for the activities performed.
9. Performance measures used to monitor contract and outsourced activities.
10. Performance monitoring and frequency.
11. Whether the municipality audits the consultant's performance.
12. Rate / cost of consultant services.
13. Revenue collected from building permits in FY2021.
14. Cost of having activities in-house.
15. Risks of outsourcing building activities.
16. Benefits of outsourcing building activities.

MUNICIPALITIES:

1. Pembroke Pines, FL
2. Centennial, CO ^a
3. Troy, Michigan
4. Deerfield Beach, FL
5. Weston, FL
6. Lyon County, NV
7. Tuscola County, MI
8. Cleveland Heights, OH
9. Aventura, FL
10. Okeechobee County, FL
11. Northglenn, CO
12. Wheat Ridge, CO
13. Windsor, CO

^a Centennial, CO is no longer outsourcing their Building Division as of 01/01/2022.

SAFEbuilt is the Primary Third-Party Consultant for Outsourcing

Based on the benchmarking data obtained from 12 municipalities who responded, 7 municipalities noted that SAFEbuilt⁷ is their consultant for outsourced building division activities, which represents 58% of all respondents. When we include CGA Solution, which is also a SAFEbuilt company this number jumps to 75%.

Building Activities Outsourced are Consistent With Carson City

Nine (9) municipalities responded to activities performed by their consultant. All stated that they outsource the entire building services, which is in alignment with Carson City. Additionally, the municipalities responded that engineering and fire inspections are performed in-house, also in alignment with the City. Lastly, the following were noted as additional activities performed by their outsourced consultant.

- Archiving city records.
- Working with city officials on departmental budgets.
- Working with the Economic Department to identify and encourage growth and business opportunities within the community.
- Code Enforcement. See **Finding #7 – Code Enforcement** below.

Years & Reason for Outsourcing Building Activities

The average number of years building services have been outsourced, based on 7 respondents, is **14 years**; with the longest being 27 years and least at 6 years. The primary reason for outsourcing was due to the municipalities inability to fill building department vacancies, either due to the low pay scale or lack of qualified candidates. This is due to the outside consultant providing the municipalities with flexibility in resources when there is expansion or contraction in city/county development. Another reason for outsourcing addressed the lack of revenue generated from permit fees to support an equivalent department that they receive through the use of a consultant. Lastly, outsourcing was due to pressure to control expenditures and reduce their budget.

Infrastructure Provided to Consultant is Consistent with Carson City

Based on responses received, the outsourced consultant is provided office space out of the municipalities facilities. They are provided with a city or county email address to provide a seamless customer experience. Software is provided by the municipalities and with one municipality the consultant uses their own software along with the city's system.⁸

Performance Measures & Monitoring in Alignment with City Contract with CAA

The performance measures used by the benchmarked municipalities to evaluate the consultants performance for services outsourced included timing and customer service. Examples include customer service monitoring and responsiveness to plan review turnaround times. Additional performance data includes an effectiveness measure to evaluate the average length of time to issue a building permit. This indicator captures the average length of time to issue a permit from the time an application was received.

⁷ SAFEbuilt is a Colorado-based company providing building department services, community planning and zoning, and code enforcement services to 303 towns and cities in eight states.

⁸ It was noted that CAA also has their own software called CityTech.

Performance of the outside consultant is performed at least annually, with the majority of the monitoring performed quarterly. Lastly, most municipalities perform a self-audit of the consultant’s performance, meaning the municipality independently validates the self-reported information provided by the consultant (see **Finding #4 – Contract Performance & Monitoring below**).

Carson City has Lowest Rate for Consultant Services Based on Permit Revenue for FY2021

Based on the responses received from 3 municipalities, all 3 municipalities are utilizing a tiered compensation based on fees collected. Carson City currently holds the lowest rate for consultant services at 60% for all non-city sponsored building permits and 25% for all city sponsored building permits (properties owned by the City). See **Table 2** below.

Table 2 – Rates for Consulting Services

	<u>CARSON CITY, NV</u>	<u>TROY, MI</u>	<u>DEERFIELD BEACH, FL</u>	<u>NORTHGLENN, CO</u>
Rate	<ul style="list-style-type: none"> • 60% - all non-city sponsored building • 25% - all city sponsored building 	<ul style="list-style-type: none"> • 80% - first \$1 million • 75% - all revenues > \$1 million 	<ul style="list-style-type: none"> • 75% - first \$3 million • 90% - all revenues >\$3 million 	<ul style="list-style-type: none"> • 70% - first \$1 million • 60% - all revenues >\$1m million

Source: Created by Internal Audit using benchmarking data.

Carson City and Benchmarked Municipalities Have Not Determined Cost of Activities In-House

The benchmarked municipalities, like Carson City, have not performed an analysis of the cost to perform the outsourced activities in-house. Municipalities responded this is primarily due to not having a sustainable growth model, which in the absence of growth it is more cost effective to outsource these services since the consultant can scale up or down based on the amount of permit demand.

Based on the lack of analysis performed, we expanded our benchmarking to include municipalities with a hybrid approach, meaning they have activities in-house and out-sourced to obtain hourly rates for permit tech, plan review, inspection services and building official (salary). The following was obtained from benchmarked municipalities and research:

- **INSPECTION SERVICES** – Sparks, NV outsources their inspection services, which is paid for on an hourly basis with an 8 hour/day schedule. If the outsourced inspector uses a **city vehicle** the city pays **\$85/hour, otherwise they pay \$90/hour**. The outsourced inspectors are treated as city staff and they have space onsite with a desk. The city has 8 full-time inspectors, 3 of which are contract employees.
- **BUILDING INSPECTOR** – based on web research of Building Inspector salaries, LinkedIn Job descriptions with hiring salary, and information contained on SAFEbuilt.com, the average Building Inspector salary is roughly **\$60,000**.⁹
- **PLAN REVIEWER** – National construction permit review hourly rates range from **\$75 in rural areas to \$150 in metropolitan areas**. These rates are fully burdened. Parker, CO outsources elevator and roofing inspections and plans reviews. The plan review is an overflow arrangement where Parker is charged **\$125/hour for the 1st and 2nd review and \$75/hour ≥ 3 reviews**. Carson City would be in the \$100 - \$125/hour range for a Plan Reviewer.

⁹ <https://www.salary.com/research/salary/benchmark/building-inspector-salary/carson-city-nv>.

- **PERMIT TECH** – Carson City has an existing contract with CAA, which shows **\$45/hour** for permit technicians. Research on outsourced consultants websites and LinkedIn job descriptions confirm this is the hourly rate for Carson City and the surrounding area.
- **BUILDING OFFICIAL** – The average Building Code Official salary is **\$90,409** as of May 27, 2022, but the salary range typically falls between \$79,419 and \$104,264. Salary ranges can vary widely depending on many important factors, including education, certifications, additional skills, and the number of years spent in the profession.

Benefits & Risks of Outsourcing the Building Department

Based on research and discussions with the benchmarked municipalities we identified the following benefits and risks of outsourcing building departments.

BENEFITS OF OUTSOURCING:

- Reduced costs – based on benchmarking data collected, it is almost always more cost efficient than hiring permanent full-time qualified staff as consultants typically use their own vehicles for inspections and provide their own ancillary equipment. This holds true for a hybrid approach.
- Increased efficiency – outsourcing to a consultant that specializes in Building Department services can help achieve a more productive and efficient service.
- Streamlining can help organize and keep track of building permits.
- The municipality will be more able to accommodate fluctuating seasonal peak demands.
- Increased resources – outsourcing can help provide access to capabilities and functionalities otherwise not accessible or affordable to the municipality. It can also give new insight to innovations and knowledge that the vendor brings.
- Improved focus on other activities – outsourcing can allow municipal resources to focus on what matters to help strengthen and improve other core processes.
- Risk sharing – the municipality can rely on the consultant’s expertise to plan and mitigate potential risks which can reduce the municipalities liability risks with proper oversight by the municipality.

Additional benefits can be found in Appendix A for “Benefits of Contracting Building & Safety Services” provided in the City’s contract with CAA.

RISKS OF OUTSOURCING:

- Loss of control - the Benchmarking study revealed that one of the main risks of outsourcing a city’s Building Division is loss of control. Any process that was previously managed in-house and outsourced to an external agency will leave the city with very little to no control over it. To mitigate this risk, frequent and effective communication with the consultant is necessary to ensure that the consultant fully understands the level of service required and expectations. The City is currently exposed to potential negative effects from this risk, especially as it relates to the substantive code compliance for the City. This is due to the City currently not having anyone overseeing the work performed by CAA to ensure the work is being performed properly.
- Potential for increased costs – the main reason the municipalities have decided to outsource their Building Division is cost. However, if it leads to any unforeseen and hidden costs, then it becomes

a risk. Although costs are defined and agreed upon in the contract, closely monitoring for subpar performance will help mitigate against increased costs.

- Privacy and security risks – outsourcing exposes the city’s financial and other private information to an outsider.

RECOMMENDATION for Finding #3

We recommend that the Director Community Development utilize the benchmark results and the information contained within this report to help inform the business decision of whether to fully outsource the building division activities or utilize a hybrid approach such as focus on bringing permit technicians and Building Official in house while outsourcing inspections.

It is further recommended that to make this informed decision the Director Community Development evaluate the level of time each activity takes, such as permit intake, plans review, permit issuance, inspections, re-inspections, etc. to establish processing time estimates to determine which activities to outsource and which to bring in-house.¹⁰ This recommendation could be accomplished with **Finding #6 – Permit Fee Structure**.

Management Response:

Agree. The current contract will expire in August 2024. By July 2023, the Community Development Director should provide an analysis to the City Manager relative to insourcing, outsourcing, or utilizing a hybrid approach. This will provide the City will a year to determine the preferred structure.

¹⁰ CAA estimates that 1st & 2nd reviews take 30 mins – 1 hour/review. Additionally, they estimate that permit routing is approximately 15 – 30 mins each.

FINDING #4: Contract Performance & Monitoring

The City has established performance standards that are to be applied to the processing of plan checks, building permits and general service to the public that interacts with the Community Development Department. The City uses these performance standards to gauge effectiveness of CAAs service to the City and as a guide to determine staff levels.

The following performance measures have been established:

Activity	Performance Measure
Building Plan Check and Permit Streamlining	<ol style="list-style-type: none"> 1. Initiate issuance of "over the counter" (i.e. same day) permits. 2. First Plan Check for new construction: 15 working days for nonresidential construction and 10 working days for residential construction. 3. Plan Check for additions, tenant improvements, and re-checks: 7 working days or less from resubmittal, with most rechecks completed within 24 hours of resubmittal. 4. Routine, simple projects, (i.e. re-roofs, patio covers, pools/spas, etc.: Over the Counter. 5. Monitor the collection of building plan check, inspection, and permit fees and other building activity level indicators, submit monthly activity reports to City based on this information.¹¹ <p><i>Target for average number of review cycles per plan submitted is 2.5 cycles.</i></p>
Customer Service	<ol style="list-style-type: none"> 1. Telephone and email inquiries are responded to within one workday. 2. Written information describing permitting/application procedures is up-to-date at <i>all</i> times. 3. Initiate flyer encouraging customer feedback. 4. Conduct Quality Control Monitoring per CAA Quality Control Manual. 5. Building web page is updated (frequency, e.g. weekly, bimonthly, monthly).
Building Inspections	<ol style="list-style-type: none"> 1. 100% of inspection requests made by 4:00 PM previous working day (with AM/PM commitment and 2-hour window) shall be conducted on the next working day. 2. Telephone access for changes. 3. Courteous and professional conduct at all times.

Source: Contract between CAA and the City.

During our review, we noted a lack of monitoring of performance metrics as required per the City’s contract with CAA. This is the result of the Building Division not having a formal process in place to track and monitor CAAs performance on a routine basis. Additionally, independent reviews are not performed of CAAs activities. For example, permit transaction reports are attached to monthly invoices, however, the City does not monitor for timeliness of permit related activities or the accuracy of permit fee calculations. Lastly, there is no formal customer feedback process or a means of sharing unsolicited feedback with the Community Development Director.

¹¹ Exhibit A, 1. a. 9 & Exhibit A, 1. b. 31.

Based on the lack of performance or contract monitoring, we performed analysis on the “Permit / Plans Review” data from 1/1/2021 through 5/5/22 (review date). See [Table 3](#) below for results.

Table 3 – Residential & Non-Residential Permit / Plans Review

Year	Residential Permits > 10 days	Residential Permits - Average days over	Non-Residential Permits > 15 days	Non-Residential Permits - Average days over	Rechecks within ≤ 7 days, most within 24 hours
2021	3.6%	16 days	3.9%	31 days	3.0%
2022	5.0%	27 days	2.2%	7 days	1.5%

Source: Created by Internal Audit from Permit / Plans Review data obtained from CAA.

Contract performance measures for new construction plan check (first) is **10** working days for residential and **15** working days for nonresidential construction. Analysis showed **less than 5%** of permit / plans reviews **did not meet the performance measure**. Additional information obtained from the data analysis reveals the following:

- **2021 & 2022 – Residential Permit / Plans Review** (10 working days)

From the data provided we filtered for all residential permits with RES in “Permit Number” (assuming RES codes are residential). We focused on the permits performed by CAA consultants and calculated the total number of workdays (excluding weekends and City holidays) and determined total permit review days.

For 2021, the analysis showed 553 RES permits performed by CAA consultants, of which, twenty (20) or less than four-percent (4%) took longer than the 10-day performance standard. The 20 permits that took longer ranged from 1 day to 119 days over, with an average of 16 days longer than the 10-day performance standard.

For 2022, there were 259 RES permits between 1/1/2022 through 5/5/2022, of which, 13 or 5% took longer than the 10-day performance standard. The 13 permits that took longer ranged from 4 days to 39 days, with an average of 27 days longer. This is an **increase over 2021** data by 11 days (on average).

- **2021 & 2022 Non-Residential Permit / Plans Reviews** (15 working days)

From the data provided we filtered all permits with COM in “Permit Number” (assuming these are all non-residential) and removed all “Internal Routing – Abatement” from the total. Following the same process as above for residential, the analysis showed the following for 2021 & 2022.

For 2021, there were 179 COM permits performed by CAA consultants, of which, seven (7) or less than four-percent (4%) took longer than the 15-day performance standard. The 7 permits that took longer ranged from 4 days to 57 days over, with an average of 31 days longer than the 15-day performance standard per the contract.

For 2022, there were 138 COM or non-residential permits between 1/1/2022 through 5/5/2022, of which approximately 3 or 2% took longer than the 15-day performance standard. The 3 permits that took longer ranged from 2 days to 14, with an average of 7 days longer. This is as **significant decrease compared to 2021** data by 24 days (on average).

RECOMMENDATION for Finding #4

The Director of Community Development should enforce the contract requirement for CAA to provide monitoring information to the City that shows status with meeting performance standards per the agreement. Additionally, the City should independently audit the consultant's performance. Further, the City along with CAA should establish a customer survey feedback loop to ensure that customer service issues are being addressed. Lastly, a quarterly or annual trend analysis (depending on frequency of feedback) of reported issues should be conducted and shared with the Director of Community Development to identify frequently reported issues and determine whether strategies to address issues are working.

Management Response:

This finding has challenges in that it is rare that CAA has sole responsibility for a building permit review. The delay could be from a City agency. That said, the Community Development Director can run reports relative to permit review times. The Community Development Director can also work with the City Manager's office on approaches and content of customer surveys. It is important to recognize that there are both internal and external customers, and input from both should be solicited. The reporting and customer surveys can be implemented by the Community Development Director in January 2023.

FINDING #5: Re-inspection Fees Not Charged

We reviewed the “Permit and Plan review listing 2021-2022” files to identify 1) total inspections for each of the two years (excluding Code and Zoning enforcement and Engineering permits) and 2) total re-inspections. Analysis performed shows approximately 10% of total inspections result in re-inspections. Based on further review we were unable to confirm that a re-inspection fee was charged for each of the re-inspections performed. Total re-inspections that appear to have gone uncharged for 2021 & 2022 totaled close to \$33,000 and \$17,000 respectively. This is based on Title XV with the fee being \$65 for reinspection.

Further analysis revealed unusual data that showed instances where final inspection was performed but the permit was canceled. We were unable to determine the cause at the time of the audit due to late discovery, but discussed with management.

Table 4 – 1/1/21 to 4/30/22 Inspections, Re-Inspections & Fees Not Charged

Year	Total Inspections	Re-inspections	Re-inspection Fee Not Charged
2021	5,751	512 of total	\$33,280 (512 x \$65)
2022*	2,232	261 of total	\$16,965 of total (261 x \$65)

Source: Created by Internal Audit from Permit / Plans Review data obtained from CAA.

* 2022 Inspection Report date range is January through April.

RECOMMENDATION for Finding #5

The Director of Community Development should require that re-inspection fees are charged to ensure the City receives payment for work performed. Additionally, we recommend that the Director look into the reason for instances where “final inspection” had been performed, but the permit was “canceled.” This occurred 199 times in 2021 and 84 in 2022. It is unusual that a permit would be canceled after a final inspection is performed, as this process would indicate permit issuance rather than cancelation.

Management Response:

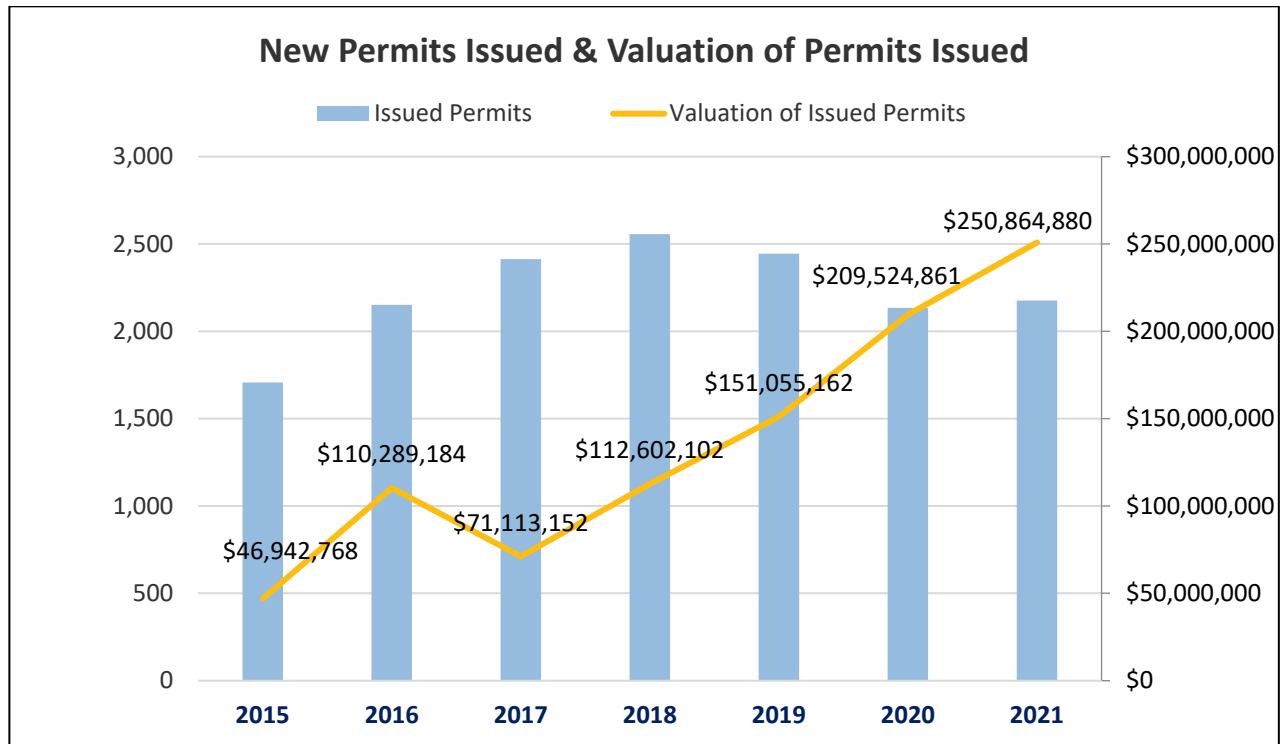
Agreed. The Community Development Director will direct CAA to start charging the required reinspection fee immediately. Additionally, the Community Development Director will look into the canceled permits where inspections occurred by September 30, 2022 and report out to the City Manager.

FINDING #6: Permit Fee Structure

The City’s Building Division is funded through the General Fund and provides permit and inspection services to the community such as homeowners, builders, developers, and others. Fees are collected for these services, which are deposited into the General Fund.

During the audit, concern about declining building fee revenues were looked into. We obtained the necessary source data from CAA utilizing the EnerGov system. Based on our analysis from 2015 through 2021, “Issued Permits” have increased from 1,700 in 2015 to 2,176 in 2021 a 28% increase (see **Chart 2** below). “Valuation of Permits Issued” also increased over time, from \$46.9 million in 2015 to \$250.9 million in 2021. These trends, especially combined, likely support an assumption that the Building Division is generating more than sufficient revenues to support its operations.

Chart 2 – 2015 to 2021 Permits Issued & Valuation



However, the Building Division has not evaluated the cost of its services in 15 years to determine if it fully or partially recovers these costs.¹² Additionally, the Division does not have information on how the number and type of plans reviews or inspections required translates into the cost and resources needed to perform those services. This is primarily due to the Division’s transition to a new permitting system and lack of time estimate of each service provided. By establishing this type of information, the Division can reconcile the permit fees charged against the cost of the services provided to their customers and benchmark against other municipalities or national standards, such as National Association of Home Builders (NAHB).

For example, the NAHB has stated that construction permit fees are typically **1.7%** of total project costs. The City construction permit fees for FY21 are **0.48%** of the \$250.9 million of construction (valuation) for the

¹² Cost study for Community Planning & Development that included division and department costs was performed in early 2007, with results delivered in July 2007.

same timeframe. This is an indicator that the City should look further into the various costs, as well as the permit fees.

While we recognize that some building services benefit the community at-large, the services the Division provides are mainly used by homeowners, builders, developers, and other parties that individually benefit from Division processes. As such, it is important for the Building Division and the City to know the cost of services in order to know if fees are set appropriately.

RECOMMENDATIONS for Finding #6

Building permit fees should be designed to cover all or a percentage of direct and indirect costs. As such, we recommend that the City use the information contained in this report to discuss and implement a formal cost recovery policy for the Community Development Department's Building Division to include the following:

- Establish a policy and process to regularly conduct a comprehensive cost of service study while taking into consideration the desirable quality and efficiency service level offered by the Building Division.
- Calculate the full cost (both direct and indirect) of providing building-related services by service and project type.
- Compare the identified service and program costs with building fee revenues currently received for those services.
- Identify achievable building fee recovery levels based on the cost of those services.

Additionally, the City should look into the expenditures that are out of the Building Department and determine if these are appropriate and that legitimate expenditures are properly reviewed and approved.

Management Response:

The Community Development staff does not have the skill set to pursue this recommendation. This function would need to be outsourced. That said, the Community Development Director is watching the building fund closely to make sure that non-building related activities are not paid out of this fund.

FINDING #7: Code Enforcement

The Building Division issues a variety of permits to facilitate compliance with local standards for construction to ensure safety. These standards are intended to ensure the safety of current and future owners and occupants. The Building Division is also responsible for administering and enforcing the codes adopted under CCMC Title 15 including the International Property Maintenance Code.

According to the contract agreement between the City and CAA, it is our understanding that the Building Official with CAA is to provide building code enforcement. However, based on interviews and discussions with the Community Development Director and Building Official, CAA is not providing building code enforcement.

Exhibit A of the contract specifically states the following services to be performed by the consultant related to Building Code Enforcement:

- (19) Provide inspection, investigation, and enforcement for violations to all the above--referenced building and safety codes and regulations, as well as other adopted City ordinances which relate to building and safety issues, such as various sections of City's Nuisance Ordinance.
- (20) Prepare building and safety code violation cases for submittal to the District Attorney's office when prosecution action is necessary to obtain compliance with the above codes and regulations.
- (21) During inspections issue stop/correct work notices, or notices of violation when violations of the above referenced codes and regulations occur.

Although there is a contractual obligation for CAA to perform code enforcement in the capacity noted above, CAA is of a different opinion and believes that they do not legally have the powers and authority to write citations nor the necessary training to do so in accordance with Nevada Revised Statutes. Additionally, it is their belief that the duties of Building Official as it relates to Code Enforcement is not accurate in the contract.

RECOMMENDATION for Finding #7

The Director of Community Development and the City Attorney should enforce the contract language related to code enforcement and work to come to a resolution with Charles Abbott Associates.

Management Response:

The Community Development Director has discussed this matter with both the building official and the District Attorney's office. The narrative accurately reflects the position voiced by the building official. The Community Development Director and the District Attorney's office both agree CAA should be performing code enforce per the contract. The Community Development Director, the DA's office and the building official are scheduled to meet in August 2022 to further discuss.

FINDING #8: Version Control Issues Result in Plan Review Delays

A plan that requires approval from multiple departments, such as planning, health, and fire, has a failure in the process that results in plan reviews taking longer than needed. For example, a plan requires an approval from planning, health, and fire. The plan is routed to all departments. Planning and health both approve and provide their stamp on the plan. However, the fire department had a comment that required a revision to the plan. As such, the plan is sent back to the applicant for update. When the plan is resubmitted, it is only routed to the fire department for review, approval, and final stamp. This becomes the final version that is published, but it is missing the planning and health departments' final stamp.

This is the result of plans not getting re-routed to all appropriate departments. When this occurs, plan reviews take longer as plans would still need to be routed to relevant agencies when it is discovered that the final stamp has not been obtained. Additionally, there is an increased risk of plans being finalized that are in violation of another department's rule if a final stamp is not obtained. This issue is typically discovered when the contractors are already at the field and the inspectors see the missing stamp.

RECOMMENDATION for Finding #8

A process workflow should be implemented for resubmittals of plans to all plan reviewers to ensure a newer version of a plan is re-routed to all relevant parties for review, approval, and final stamp. The process should address version control issues.

Management Response:

Agreed. The Community Development Director will request that CAA implement this process starting September 1, 2022.

Appendix A

Charles Abbott Associates “Benefits of Contracting Building & Safety Services” contained in City contract.

BENEFITS OF CONTRACTING BUILDING & SAFETY SERVICES

- ❑ The client does *not* have to agonize over *personnel issues* such as hiring, firing, training absenteeism, salaries, benefits, or retirement obligations
- ❑ Building & Safety is staffed to *match* resources to workload
- ❑ The total contract cost of Building & Safety is covered by a percent of fee. Therefore, the cost to the jurisdiction will *never* be more than the revenue collected.
- ❑ The *cost of training* is a cost of doing business for CAA, and is *included* in the contract pricing.
- ❑ CAA supplies paperless plan review, computerized permit issuing and tracking software and hardware as a *part of our service*.
- ❑ Contracting provides management with *more control* over the Building & Safety function. CAA routinely works under contracts that have 30 day, no fault termination clauses
- ❑ CAA personnel are selected for their technical ability as well as their *interpersonal skills*.
- ❑ We *guarantee* 10 working days turn around on all first plan checks and 5 working days turn around on second plan checks. We strive to complete minor plan checks over the counter. We *guarantee* same day inspections 100% of the time.
- ❑ We strive for efficiency in our operations. *Efficiency* is the key to our profitability and our very existence.

What you can expect by contracting for a percentage of fees collected:

1. A fully operational “Turn Key” Building Department
2. An experienced, credentialed staff of proven professionals
3. Computerized permit issuance and tracking system
4. Electronic plan review
5. Complete and accurate accounting
6. CAA will offer employment to those existing City employees
7. ISO ratings in the highest 2% in the country



Caring for our external and internal clients with a passion to go the extra mile.

Respecting our peers and their individual contributions.

Conducting ourselves with the highest level of integrity at all times.

Trusting and supporting one another.

Being accountable for the overall success of the Firm,
not just individual or office success.

Stretching ourselves to be innovative and creative, while managing the related risks.

Recognizing the importance of maintaining a balance between work and home life.

Promoting positive working relationships.

And, most of all, enjoying our jobs ... and having fun!



What inspires you, inspires us.

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