

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Audit of the Building Division

Report #07/08-11

October 15, 2008



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

No: 07/08-20

Date: October 15, 2008

To: Mayor Jim Naugle
Vice-Mayor Charlotte E. Rodstrom
Commissioner Carlton B. Moore
Commissioner Christine Teel
Commissioner Cindi Hutchinson

From: John Herbst, CPA, CGFO, MBA
City Auditor

Re: Audit Report #07/08-11: Review of the Building Division

The City Auditor's Office has completed its review of the Building Division. The objectives of our audit were:

- To determine if written policies and procedures, or informal practices exist and are followed when processing permit applications and inspections.
- To evaluate the existence and effectiveness of internal controls over the collection of cash.
- To determine if the Building Division has adequate procedures to assure that high quality inspections are being conducted and outstanding/expired permits are monitored.
- To determine if the permit fee structure is reasonable and if the Building Division is using permit revenues for allowable activities in accordance with Florida Statutes 553.80
- To determine if there is adequate and consistent communication of permit requirements.
- To determine if Building Division staff receive ongoing training.

Our review of the internal controls of the Building Division would not necessarily identify all deficiencies that might be significant deficiencies or material weaknesses. Of the findings summarized below, we believe Finding 4.1 to be a material weakness. The remaining findings are considered to be control deficiencies.

- A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected.

- A *material weakness* is defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a *material* misstatement of the financial statements will not be prevented or detected.

Summary of findings:

1.1 The Building Division does not have a comprehensive manual of written policies and procedures.

2.1 The Building Division does not have a reconciliation procedure to ensure that all revenues collected at the Building Division and recorded in Community Plus are posted to the City's general ledger.

2.2 The Building Division is not monitoring each clerk's voided transactions on a regular basis.

3.1 Supervisory review of completed inspections is not clearly documented in departmental files.

3.2 The Building Division does not have a procedure to ensure that all permits that are not picked up within 60 days are voided in accordance with Florida Statutes.

3.3 The Building Division does not have a process in place to consistently follow up on expired permits.

4.1 Surpluses generated from building permit fees have been improperly included in the General Fund Unreserved Fund Balance in contravention of Florida Statutes. In addition, a cost of service study to establish a defensible schedule of permit fees has not been conducted in 13 years.

Management's responses to the findings and recommendations are included in the report. We did not audit management's responses and accordingly, we express no opinion on them. We are pleased to note that management generally concurs with our recommendations, particularly the recommendation that deals with Finding 4.1.

We would like to thank the staff of the Building Division for their cooperation and assistance during this review.

cc: George Gretsas, City Manager
Harry Stewart, City Attorney
Jonda Joseph, City Clerk
Valerie Bohlander, Building Department Director
Curtis Craig, Building Official

**CITY OF FORT LAUDERDALE
CITY AUDITOR'S OFFICE
REVIEW OF THE
BUILDING DIVISION**

PURPOSE

To conduct a review of the Building Division of the Building Department.

EXECUTIVE SUMMARY

Our review of the Building Division reveals the following opportunities for improvement.

- The Building Division does not have a comprehensive manual of written policies and procedures.
- A reconciliation procedure should be established to ensure that all revenues collected at the Building Division and recorded in Community Plus are posted to the City's general ledger.
- The Building Division is not monitoring each clerk's voided transactions on a regular basis.
- Supervisory review of completed inspections is not clearly documented in departmental files.
- Follow-up procedures for permits that are not picked up or permits that have expired could be significantly improved.
- A special revenue fund should be established and previously generated surpluses transferred there to ensure that building permit revenues remain restricted to allowable expenditures in accordance with Florida Statutes.
- The Building Division has not had a cost of service study performed in 13 years to establish a defensible schedule of permit fees.

STATEMENT OF OBJECTIVES

- To determine if written policies and procedures, or informal practices exist and are followed when processing permit applications and inspections.
- To evaluate the existence and effectiveness of internal controls over the collection of cash.
- To determine if the Building Division has adequate procedures to assure that high quality inspections are being conducted and outstanding/expired permits are monitored.
- To determine if the permit fee structure is reasonable and if the Building Division is using permit revenues for allowable activities in accordance with Florida Statutes 553.80
- To determine if there is adequate and consistent communication of permit requirements.
- To determine if Building Division staff receive ongoing training.

BACKGROUND

The City of Fort Lauderdale (CFL) operates a Building Department to provide the following services to the public: Plans Review; Permit Processing and Inspection; Planning and Zoning; Code Enforcement and Business Taxes formerly known as Occupational Licenses.

The Building Division of the Building Department primarily performs plans reviews, issues permits and completes inspections to verify that completed work is in compliance with the Florida Building Code. Generally, a permit is required to construct, enlarge, alter, repair, move, remove or demolish any building, structure or part thereof. The review and approval process allows problems to be identified and corrected before any work occurs. During the process of submitting a permit, a contractor's licensing and insurance are also verified. Beginning in FY05/06, after Hurricane Wilma, the Building Division offered an "Expedited Plan Review Program" to allow customers the option of receiving an expedited plan review for a fee. This service was outsourced to C. A. P. Government, Inc. and is revenue neutral to the City.

During FY06/07 the Building Division had 69 authorized positions, issued 27,471 permits and generated \$10,247,075 in revenues. Chapter 553 of the Florida Statutes (FS) and Chapter 9 of the City's Code of Ordinances regulate the activities of the division. FS 553.80 restricts the revenues from permit fees to allowable activities related to the administration and enforcement of the Florida Building Code.

SCOPE & METHODOLOGY

We interviewed the Director of the Building Department, the Building Official, the Assistant Building Official and the Construction Services Administrative Coordinator. We reviewed Building Division revenues and expenditures from FY04/05 through May 2008. We tested compliance with Building Division policy directives and researched relevant sections of the Florida Statutes and an Attorney General opinion regarding allowable costs.

OBJECTIVE 1

To determine if written policies and procedures, or informal practices exist and are followed when processing permit applications and inspections.

FINDING 1.1

Condition

The Building Division does not have a written policies and procedures manual. Departmental memoranda and directives on specific items have been developed on an ad hoc basis, but are not a complete compilation. The Building Division follows the Florida Building Code (FBC), which is part of the Florida Statutes and provides technical specifications on the permitting and inspection process.

Criteria

Written policies and procedures are an integral part of any comprehensive framework of internal controls. Standard operating procedures promote consistency and can be used as a training guide for new staff.

Cause

The Building Division has relied on their departmental memos and hasn't prioritized the development of a comprehensive departmental policies and procedures manual.

Impact

In an oral culture, institutional memory loss occurs when senior employees leave. In addition, the accuracy of information suffers as it is informally communicated and it does not always reach appropriate parties.

Recommendation 1

The City Manager should require the Director of the Building Department to prepare a written policy and procedures manual to bring the various memoranda and directives together as an integrated whole.

Management Response

The Building Division will prepare a written policy and procedures manual by bringing together existing memoranda and directives. This manual will be accessible to all staff members and will be used as a training guide for new staff. We will have a rough draft of our training guide within 6 months.

OBJECTIVE 2

To evaluate the existence and effectiveness of internal controls over the collection of cash.

FINDING 2.1

Condition

The Building Division does not have a procedure in place to perform a monthly reconciliation to match the revenues recorded in Community Plus to the City's general ledger. The CAO determined that the Building Division receives a validated copy of the Land Application Receipts Report - Summary (LARRS) to indicate the amount the Treasury Division entered into the cash receipting system ties to the total deposit.

Criteria

Effective internal controls over cash collections require that revenues recorded in a stand-alone receivables program like Community Plus, which doesn't electronically interface with the City's general ledger, be periodically reconciled to the ledger. This procedure is similar to the reconciliation of a subsidiary ledger to a general ledger control account.

Cause

The Building Division relied on the validated copy of the LARRS Summary provided by the Treasury division as adequate proof that their deposit was properly recorded in the general ledger.

Impact

Without a reconciliation procedure, the City has no assurance that all revenues collected at the Building Division are accurately posted to the City's general ledger.

Recommendation 2

The City Manager should require the Director of the Building Department to develop a procedure to reconcile Community Plus to FAMIS on a monthly basis. A person independent of the cash collection process should complete the reconciliation and it should be documented and signed by the preparer with evidence of supervisory review and approval.

Management Response

We will work with Treasury personnel to implement an audit procedure for reconciliation of the daily cash collection. A person independent of the cash collection process will complete the reconciliation. We will implement a procedure within 90 days.

FINDING 2.2

Condition

The CAO noted that the service clerks in the Building Division who receive and process cash are allowed to void transactions in Community Plus (C+) without supervisory approval. Furthermore, Building Division management has the ability through C+ to generate a special report of voided transactions for each cashier that could be used as an effective monitoring tool, however they are not currently utilizing it.

Criteria

Effective internal controls over cash require regular monitoring of voided transactions to assist in safeguarding assets against the risk of theft and loss.

Cause

The Building Division does not have an established process in place to approve each clerk's voided transactions.

Impact

The management of the Building Division is forgoing an opportunity to prevent misappropriation of its assets.

Recommendation 3

The City Manager should require the Director of the Building Department to develop a procedure to require:

1. Supervisory authorization of all voided transactions at the point of sale.

2. Supervisory review and sign off of a monthly void report which shows voided transactions for each cashier.

Management Response

1. Supervisory authorization of all voided transactions at the point of sale would surely impact customer service negatively and unnecessarily. We believe our process of reconciling receipts daily is sufficient as the checks and balances are built into the computer system.
2. We do believe it would be beneficial to review monthly all voided cash receipts. We will utilize a report from Community Plus (C+) and once reviewed and approved, will be filed in accordance with records management guidelines. If we find any discrepancies upon review of the monthly voided cash receipt reports, we would consider implementing a process in the future for supervisory authorization of voided transactions at point of sale.

We will implement a procedure to review monthly voided cash receipts in 60 days.

Other Recommendation

The Building Division has an extra \$200 cash drawer that has not been used because of an unfilled service clerk vacancy. Furthermore, they also have a \$100 cash drawer that is assigned to Business Tax that remains in the safe because the majority of the payments in Business Tax are made by check or credit card. The Building Division should return these two unused cash drawers to the Finance Department.

Management Response

The Building Division will return the two unused cash drawers to the Finance Department within 30 days.

OBJECTIVE 3

To determine if the Building Division has adequate procedures to assure that high quality inspections are being conducted and outstanding /expired permits are monitored.

FINDING 3.1

Condition

The CAO could not verify that the Building Division Chiefs perform quality checks of completed inspections to assure consistency of enforcement. The Building Division indicated that supervisory reviews are performed, however the reviews are not documented. Without verifiable documentation of the review, we are unable to form an opinion about whether the reviews are taking place.

Criteria

Effective management control would require that Chief Inspectors regularly perform field reviews of completed inspections and document that the review has been completed.

Cause

The Building Division does not have a policy in place that requires Chief Inspectors to regularly review completed inspections and document the review.

Impact

Inspections performed by the Building Division may not be consistent and in accordance with the Florida Building Code. Furthermore, the establishment of a requirement that all reviews be documented in the file will significantly improve the quality of the review process.

Recommendation 4

The City Manager should require the Director of the Building Department to develop procedures that would require Chief Inspectors to conduct and document supervisory review of field inspectors.

Management Response

Procedures will be implemented to ensure the Chief Inspectors ride with each field inspector of their respective discipline, once a month. A monthly inspection audit checklist will be completed and filed for each inspector in accordance with records management guidelines. An annual audit to verify valid inspector driver's licenses will also be implemented. We will implement procedures on 11/01/08.

FINDING 3.2

Condition

The CAO determined that the Building Division does not have effective procedures in place to ensure that permits that are not picked up within 60 calendar days after the date of notification are voided according to the 2004 Florida Building Code, Broward County Amendments.

Criteria

The 2004 Florida Building Code, Broward County Amendments 105.6.1.6.2, states:" Not more than 60 calendar days after the date of such notification, where such additional information has not been submitted or the permit has not been purchased, the application and/or the permit shall become null and void."

Cause

The Building Division does not have personnel assigned the responsibility of monitoring permits on a regular schedule. A Service Clerk periodically reviews the box of unclaimed permits and returns the permit application and plan documents to the appropriate Chief. However, each respective Chief will make the determination on what to do with the unclaimed permits, which results in inconsistent enforcement.

Impact

The Building Division is not consistently enforcing the Florida Building Code and may not be maximizing permit revenues.

Recommendation 5

The City Manager should require the Director of the Building Department to develop a procedure that would require permits that have not been picked up within the 60 calendar days to be identified and voided in Community Plus on a regularly scheduled basis.

Management Response

We have implemented a procedure that includes sending two separate written notifications that a permit is either ready to be issued or is ready for corrections. While we recognize the Florida Building Code calls for permits/applications to be destroyed in 60 days, we also appreciate the costs involved in obtaining plans and securing contractors and that extenuating circumstances can sometimes delay projects for our customers.

We will work with the IT Department to create a report to help us better identify the 60 day deadline but fully believe the flexibility we have exercised in the past in no way negatively impacts our revenues, but rather is helpful to our customers, especially during these difficult times. We will have a process in place in 90 days.

FINDING 3.3

Condition

Before November 2007 the Building Division did not have a structured process in place to consistently follow-up on expired permits. At that time, a new program was implemented to begin issuing 180-day letters to give notice to a contractor or property owner that a permit has expired. Our limited testing revealed that in one of three permits examined, the 180-day notice was not sent as required. Therefore, the CAO was not able to conclusively determine whether the program is functioning as intended and is meeting the statutory requirements.

Criteria

Florida Building Code, Broward County Edition 106.10.3.1 states that permits shall expire and become null and void if work, as defined in Paragraph 106.0.3.6 authorized by such permit is not commenced within 180 days from the date of the permit or if such work when commenced is suspended or abandoned for a period of 90 days.

Cause

The Building Division hasn't developed an effective monitoring procedure to assure that the 180 day letters are sent on time.

Impact

Building activity may be performed without a valid permit and completed work may not be properly inspected to determine if it complies with the Florida Building Code and meets required safety standards.

Recommendation 6

The City Manager should require the Director of the Building Department to develop a written procedure to assure the 180-day letter to give notice about an expired permit is consistently issued in a timely manner.

Management Response

In November of 2007 the Building Division implemented an Expired Permit Program. We will continue to perfect this program so that all Florida Building Code requirements are met and a written procedure will be prepared in 90 days.

OBJECTIVE 4

To determine if the permit fee structure is reasonable and if the Building Division is using permit revenues for allowable activities in accordance with Florida Statutes 553.80

FINDING 4.1

Condition

The Building Division has generated a \$3,777,523 surplus for FY04/05 through FY06/07. This excess was inappropriately credited to the General Fund undesignated fund balance for the benefit of the general government. In addition, we noted that not all of the allowable expenditures are captured in the Building Division. Currently, there are Building Inspectors who work in the Code Enforcement Division, Fire Inspectors in the Fire Department and Plan Inspectors in the Planning Department that are involved with ensuring compliance with the Florida Building Code. The Office of Management and Budget provided a spreadsheet detailing additional direct and indirect costs that should have been charged to the Building Division for FY04/05 through FY06/07.

Criteria

According to section 553.80 (7) of the Florida Statutes, this surplus can only be used to finance allowable activities related to enforcement of the Florida Building Code or should be refunded to the permit holders.

Cause

The CAO determined that the Building Division has charged fees in excess of the cost of providing services. In addition, the Building Division has not had a cost of service study performed in 13 years to establish a reasonable fee structure. The Building Division increased permits fees in 2002 based on a comparison of City of Fort Lauderdale (CFL) permit fees relative to other local municipalities. Such a comparison is conceptually flawed and not relevant because each municipality has a unique cost structure.

Impact

The Building Division is out of compliance with the Florida Statutes for not keeping the surplus segregated and for maintaining a fee schedule that is not reflective of the actual cost of providing services. Furthermore, according to a Florida Attorney General opinion (AGO 2001-63) the surplus could be considered an unauthorized and unlawful tax in violation of the Florida Constitution.

Recommendation 7

The City Manager should require The Finance Director to:

- Establish three new Special Revenue Funds, one for each legally restricted revenue; Building Permit Fees, Certification Maintenance Fees and Construction Technology Fees.

Management Response

For FY09 three (3) new special revenue funds will be established and budgets and actual revenues and expenditures will be transferred to these funds.

Recommendation 8

The City Manager should require the Finance Director to:

- Research the full extent of these restricted revenues inclusive of the 4-year statute of limitations period to quantify the total amount of surplus previously generated and currently part of the General Fund unreserved fund balance. We have identified a minimum of a \$3.7 million for permit fees alone for the 3-year period (FY04/05 to FY06/07). Transfer the surplus to a special revenue fund prior to the issuance of the FY08 Financial Statements or refund this surplus to the permit holders.
- On an ongoing basis, the proportionate expenses of the Building Division should be adjusted to include the direct and indirect costs of all staff that administer or enforce the Florida Building Code.

Management Response

As recommended by the CAO, the Finance Department and the Office of Management and Budget have completed an analysis of the fees and costs associated with enforcement of the Florida Building Code for fiscal years 2005 through 2007. A similar analysis will be performed annually as part of our year-end closing, beginning with FY2008. Any unexpended restricted revenues identified through this process will be segregated from undesignated fund balance within the General Fund in the City's financial statements.

Recommendation 9

The City Manager should require the Director of the Building Department to obtain a new cost of service study to establish an appropriate fee schedule. This study should be periodically updated.

Management Response

The Building Department Director will work with the City Manager and Director of Finance to obtain a new cost of service study to establish an appropriate fee schedule which will be periodically updated.

OBJECTIVE 5

To determine if there is adequate and consistent communication of permit requirements.

Conclusion

The Building Division recently completed a draft version of a PowerPoint presentation of the building permit application requirements, plans review and inspection process. They plan to hold a public workshop to show the final version of the presentation to contractors and residents/any other interested parties. The Building Division also has information packets for various types of permits available in the lobby of the Building Department. They also have permit requirements, applications, frequently asked questions and forms on their website at www.fortlauderdale.gov/building_services/index.htm

The CAO determined the Building Division has been proactive in conducting community outreach to efficiently and effectively communicate permit application requirements and the permitting process to the public.

OBJECTIVE 6

To determine if Building Division staff receive ongoing training.

Conclusion

The Broward County Board of Rules & Appeals requires that all Building Division technical staff be recertified biennially. To be recertified, all Building Officials, Assistant Building Officials, Chief Inspectors, Plans Examiners, and Inspectors must have 32 contact hours annually. Building Division technical staff attended the annual South Florida Building Code Educational Conference that is endorsed by the Broward County Board of Rules and Appeals thus qualifying for the continuing education requirement needed for recertification

Furthermore, the Building Division, in conjunction with the Organizational Development & Training Division of the Human Resources Department, conducted a customer service workshop in March 2007 titled "The ART of Customer Service".

The CAO determined that the Building Division is in compliance with the continuing education requirements for technical staff and is actively participating in customer service training programs for their employees to ensure that customer's demands are being satisfied effectively and efficiently.

Engagement Staff:

Pamela Range, Staff Auditor
James Hamill, Audit Manager

Summary of Management Responses

BUILDING DEPARTMENT BUILDING DIVISION

MEMORANDUM

DATE: September 23, 2008
TO: James Hamill, Audit Manager
VIA: Valerie Bohlander, Building Department Director
FROM: Kathye Reily, Administration Coordinator

This memorandum is management's response to the recommendations of the City Auditor's Office after having conducted a review of the Building Division.

Recommendation 1

The City Manager should require the Director of the Building Department to prepare a written policy and procedures manual to bring the various memoranda and directives together as an integrated whole.

Management Response

The Building Division will prepare a written policy and procedures manual by bringing together existing memoranda and directives. This manual will be accessible to all staff members and will be used as a training guide for new staff. We will have a rough draft of our training guide within 6 months.

Recommendation 2

The City Manager should require the Director of the Building Department to develop a procedure to reconcile Community Plus to FAMIS on a monthly basis. A person independent of the cash collection process should complete the reconciliation and it should be documented and signed by the preparer with evidence of supervisory review and approval.

Management Response

We will work with Treasury personnel to implement an audit procedure for reconciliation of the daily cash collection. A person independent of the cash collection process will complete the reconciliation. We will implement a procedure within 90 days.

Recommendation 3

The City Manager should require the Director of the Building Department to develop a procedure to require:

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Management Response

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2. *We do believe it would be beneficial to review monthly all voided cash receipts. We will utilize a report from Community Plus (C+) and once reviewed and approved, will be filed in accordance with records management guidelines*
If we find any discrepancies upon review of the monthly voided cash receipt reports, we would consider implementing a process in the future for supervisory authorization of voided transactions at point of sale.

We will implement a procedure to review monthly voided cash receipts in 60 days.

Other Recommendation

The Building Division has an extra \$200 cash drawer that has not been used because of an unfilled service clerk vacancy. Furthermore, they also have a \$100 cash drawer that is assigned to Business Tax that remains in the safe because the majority of the payments in Business Tax are made by check or credit card. The Building Division should return these two unused cash drawers to the Finance Department.

Management Response

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Recommendation 4

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Management Response

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Management Response

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We will work with the IT Department to create a report to help us better identify the 60 day deadline but fully believe the flexibility we have exercised in the past in no way negatively impacts our revenues, but rather is helpful to our customers, especially during these difficult times. We will have a process in place in 90 days.

Recommendation 6

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Management Response

In November of 2007 the Building Division implemented an Expired Permit Program. We will continue to perfect this program so that all Florida Building Code requirements are met and a written procedure will be prepared in 90 days.

Recommendation 9

The City Manager should require the Director of the Building Department to obtain a new cost of service study to establish an appropriate fee schedule. This study should be periodically updated.

Management Response

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FINANCE DEPARTMENT

Recommendation 7

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Management Response

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Recommendation 8

The City Manager should require The Finance Director to:

- Research the full extent of these restricted revenues inclusive of the 4-year statute of limitations period to quantify the total amount of surplus previously generated and currently part of the General Fund unreserved fund balance. We have identified a minimum of a \$3.7 million for permit fees alone for the 3-year period (FY04/05 to FY06/07). We recommend that all these surplus amounts be transferred to their respective Special Revenue fund prior to the issuance of the FY08 Financial Statements or refunded to the permit holders.

- On an ongoing basis, the proportionate expenses of the Building Division should be adjusted to include the direct and indirect costs of all staff that administer or enforce the Florida Building Code.

Management Response

As recommended by the CAO, the Finance Department and the Office of Management and Budget have completed an analysis of the fees and costs associated with enforcement of the Florida Building Code for fiscal years 2005 through 2007. A similar analysis will be performed annually as part of our year-end closing, beginning with FY2008. Any unexpended restricted revenues identified through this process will be segregated from undesignated fund balance within the General Fund in the City's financial statements.