



## Department Overview

- **Mission:** The City Auditor's Office is an independent office that reports to the City Council through the Audit Committee. The City Auditor's Office mission is to promote honest, efficient, effective and fully accountable city government through accurate, independent and objective audits. The City Auditor conducts in-depth financial and performance audits for Silicon Valley Power, Santa Clara Stadium Authority, and City of Santa Clara.
- The Auditor's Office was established under a "co-source" model to perform its duties.
- Accordingly, in 2022, the City Auditor's Office engaged Baker Tilly US, LLP (Baker Tilly) to conduct a citywide risk assessment and annual work plan, as well perform work on projects.
- In attendance from Baker Tilly to assist in the presentation of the report is Nick Martinez, Senior Consultant.

# Audit Project Selection

- The starting point of internal auditing is to conduct a risk assessment that is the basis for determining internal audit activities. The risk assessment process involves identifying and measuring risks associated with the audit universe (a list of specific departments, functions, processes, programs, etc. that can be subject to an audit, i.e. auditable units). Risk is defined as “the possibility of an event or condition occurring that will have an impact on the ability of an organization to achieve its objectives.”
- During the annual risk assessment for FY 2023/2024, the building permitting process was rated as high risk based on inherent risks and specific information gathered, including:
  - Customer complaints for slow processing
  - Departmental vacancies and turnover due to failed recruitment in a competitive field
  - New system implementation
  - Volatile revenue
  - Increased compliance risk associated with changing building code

# Audit Scope and Objectives

- Our audit covered interviews and document assessments related to the City's building permitting process for FY 2022 and FY 2023. We focused on Permit Services, which encompasses processes from application receipt to permit issuance, while excluding Building Services consisting of inspections and permit finalization.
- The objectives of this audit were to:
  - Determine whether the internal controls for the building permitting processes are adequately designed and operating effectively to ensure compliance with the City Code and other regulations.
  - Determine whether adequate mechanisms are in place to ensure that the building permitting process is efficient and provides timely customer service.
  - Determine whether the internal controls over billing and collections of permitting fees and fines are adequately designed and operating effectively to ensure financial accountability.

# Audit Methodology

To achieve the audit objectives, Baker Tilly performed the following procedures:

- Analyzed the relevant laws, policies, and guidelines related to building permitting issuance including the City of Santa Clara Municipal Code (Title 15, Building and Construction) and California Building Standards Commission in Part 1 of Title 24 of the California Code of Regulations.
- Gathered information to understand the environment under audit including evaluating P&P, permitting applications and fees, annual budget information, and performance monitoring documentation.
- Conducted interviews with key process owners and management including the Director of Community Development, the Building Official, the Assistant Building Official, Staff Analysts, Permit Center Supervisor, and the Accounting Division.
- Assessed risks and identified controls in place based on process walkthroughs and review of supporting documentation.

# Audit Methodology

To achieve the audit objectives, Baker Tilly performed the following procedures (Cont.):

- Performed testing of key controls for application processing, plan reviews, and permit fee billing and payments.
- Randomly selected 45 applications using a stratified sampling method to ensure all review types were represented in our sample.
- Selection was made from permit applications that were received in FY2022 and FY2023 and for which permits had been issued as of September 11, 2023.

# Audit Report Findings Summary

## Finding 1: Policies and Procedures

Although the Building Division (BD) has some written procedures, they are informal and fragmentary. Comprehensive policies and procedures (P&P) have not been formally established for the building permitting process, which is essential to guide the BD staff in decision-making and to communicate management's expectations.

### Recommendation:

Management should establish and implement comprehensive P&P for the BD's critical processes, including Application Processing, Plan Review, Permitting Fee Billing and Collection, Permit Issuance, and Performance Monitoring.

# Audit Report Findings Summary

## Finding 2: Timeliness of Permitting Process

Baker Tilly's review of 45 applications revealed that initial plan review, as well as subsequent plan review, was not consistently completed within the target time frames established by City management. Based on our permitting process timeline analysis, the processes before and after plan review can be improved.

### Recommendation:

Management should proactively monitor the permitting process efficiency by leveraging additional performance metrics throughout the year, maximizing the use of the City's permitting system reporting function.

# Audit Report Findings Summary

## Finding 3: Permit Fees

Baker Tilly tested permit fee calculations for 45 applications (for which the total job value was \$334M and fees totaled over \$3M) selected from all applications the City received in FY2022 and FY2023 and noted that building permit fees were not always calculated accurately in accordance with the applicable Municipal Fee Schedules.

### Recommendation:

Management should implement the following mechanisms to ensure the accuracy of building permit fees charged to applicants: Comprehensive Manuals and Training for Permit Technicians; Adequate Testing of Fee Calculations; Timely Secondary Review of Invoices; and Refresher Training for Permit Technicians.

# Audit Report Findings Summary

## Finding 4: Performance Monitoring and Process Improvement

The BD does not have a robust, formal mechanism that utilizes performance metrics for monitoring building permitting processes to track progress, identify areas for improvement, and make informed decisions. The BD also lacks a formal process for receiving, tracking, and responding to customer feedback in a manner that allows for analyses and subsequent improvements to the building permitting process.

### Recommendation:

The BD management should establish formal mechanisms for periodically monitoring building permitting processes. The BD management should also implement a systematic approach for collecting and analyzing customer feedback.

# Additional Questions?



## Audit Report of Building Permitting Process

**City Auditor's Office**

**June 12, 2025**