

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



April 21, 2008

The Honorable Adrian M. Fenty  
Mayor  
District of Columbia  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

Dear Mayor Fenty:

Enclosed please find a copy of a Management Alert Report (MAR-08-I-003) issued February 28, 2008, to the Department of Consumer and Regulatory Affairs (DCRA) and the Office of the Chief Financial Officer (OCFO). The MAR addresses deficiencies in controls over permit and Certificate of Occupancy (C of O) issuance and makes nine recommendations for corrective actions. DCRA's responses to the MAR, dated March 25, 2008, and April 11, 2008, as well as OCFO's response, dated April 2, 2008, are also enclosed.

Although the OIG is conducting an ongoing inspection of DCRA and a full report of inspection will be completed later this year, we are providing this information to you now so that you are aware of issues addressed in the MAR and the corrective actions proposed by DCRA and OCFO.

If you have questions, please contact Alvin Wright, Jr., Assistant Inspector General for Inspections and Evaluations, at (202) 727-2540.

Sincerely,

  
Charles J. Willoughby  
Inspector General

CJW/ebs

Enclosures

cc: See Distribution List

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DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL  
CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL

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INSPECTIONS AND EVALUATIONS DIVISION  
*MANAGEMENT ALERT REPORT*

**DEPARTMENT OF CONSUMER AND  
REGULATORY AFFAIRS  
AND  
OFFICE OF THE CHIEF FINANCIAL  
OFFICER**

**DEFICIENCIES IN PERMIT AND CERTIFICATE OF  
OCCUPANCY PROCESSES MAY REDUCE REVENUE**

**MAR 08 - I - 003**  
**FEBRUARY 28, 2008**

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



February 28, 2008

Linda Argo  
Director  
D.C. Department of Consumer and Regulatory Affairs  
Government of the District of Columbia  
941 North Capitol Street, N.E.  
Washington, D.C. 20002

Natwar M. Gandhi  
Chief Financial Officer  
D.C. Office of the Chief Financial Officer  
Government of the District of Columbia  
1350 Pennsylvania Avenue, N.W., Suite 203  
Washington, D.C. 20004

Dear Ms. Argo and Dr. Gandhi:

This is a Management Alert Report (**MAR 08-I-003**) to inform you that the District of Columbia (District) Office of the Inspector General (OIG) has found deficiencies in controls over permit and Certificate of Occupancy (C of O) issuance in the Department of Consumer and Regulatory Affairs (DCRA) that may reduce revenue for the District's general fund and increase the risk of fraud and abuse. Records of revenue collected are not reconciled with DCRA records for C of O fees, permit fees, Office of the Surveyor fees, and construction and zoning violation fees. Information used as the basis for permit fees is sometimes inaccurate. Processes are inadequate for ensuring that customers pay fees before receiving permits and C of Os, and DCRA does not adequately detect construction work performed outside the scope of permits, which may reduce permit revenue. These issues came to our attention during our current inspection of permit processing, zoning, commercial inspections, and the DCRA Office of the Surveyor. The OIG provides these reports when we believe a matter requires the immediate attention of District government officials.

**Background**

Construction permit, inspection, and C of O processes generate significant revenue and are intended to ensure compliance with building codes and zoning regulations to protect public safety and quality of life. In fiscal year (FY) 2007, building and supplemental permit fees generated \$21,809,591 in revenue while C of O fees contributed an additional \$336,144 toward the District's general fund.

**Permit Process**

Customers must obtain permits prior to beginning construction. The permit process includes application intake, payment of filing fees, application and plan review, payment of permit fees, and

permit issuance. DCRA employees issue invoices for permit and C of O fees to customers, who pay Office of the Chief Financial Officer (OCFO) cashiers and return proof of payment to DCRA employees.

When customers apply for permits, DCRA intake employees verify that applications are complete and that the information provided agrees with customers' building plans. Title 12A DCMR § 105.3 states that applicants must pay permit filing fees at the time of application, which are equal to \$1.00 for every \$1,000 in construction costs.

Title 12A DCMR § 105.3 also states that all other fees must be paid prior to permit issuance. In accordance with DCRA's schedule of building permit fees, permit issuance fees for new buildings and additions are based on volume and are equal to \$0.03 per cubic foot of the new building or addition. Issuance fees for alteration and repair permits are based on construction costs; for example, projects with costs from \$1,001 to \$1,000,000 have fees of 2 percent of construction costs plus \$30.

According to 12A DCMR § 108.3, DCRA is authorized to require applicants to provide proof of construction costs for alterations and repairs. This section states that construction estimates are acceptable documentation for residential construction and construction in zoning use group R-3, which is a residential designation. For other zoning use groups and non-residential construction, construction estimates are acceptable documentation when submitted with a contract providing a deferred method of determining actual construction costs. Title 12A DCMR § 108.3.3 states that when construction cost estimates were provided for non-residential construction, issuing a C of O is contingent on adjusting the building permit fee to reflect the difference between estimated construction costs and documented actual construction costs.

Many projects that receive building permits also require supplemental permits for heating, cooling, electrical, and plumbing work. Supplemental permit fees are based on the number and type of fixtures, such as air conditioning units or sinks, to be installed.

### **Inspection and C of O Processes**

Construction must be inspected by DCRA commercial inspectors or third party inspectors.<sup>1</sup> According to 12A DCMR § 109.1.1, "The purpose of inspections shall be to ensure that all work is performed in strict accordance with permit conditions, approved plans and the Construction Codes." DCRA's third party inspection program allows customers to select and pay for the services of companies authorized by DCRA to conduct commercial inspections instead of DCRA inspectors. Customers select third party companies to perform inspections to ensure that inspections are performed expeditiously.<sup>2</sup>

Within DCRA's commercial inspections unit, illegal construction inspectors respond to complaints regarding construction without permits.<sup>3</sup> Work without permits includes projects that do not have

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<sup>1</sup> Commercial inspections are required for new construction, additions, and alterations and repairs in all buildings, including residential buildings. Work that does not require a permit, such as painting, and work on federal buildings do not require commercial inspections. DCRA also has a residential inspections unit that responds to complaints about residential buildings, such as inadequate heat.

<sup>2</sup> The third party inspection program will be addressed further in the OIG Report of Inspection on DCRA.

<sup>3</sup> Currently, DCRA's two illegal construction inspectors are detailed from other DCRA commercial inspection units.

any permits and projects that do not have permits for all aspects of construction. For example, a project may include installing 100 toilets, but have a supplemental plumbing permit for only 10 toilets.

After all inspections have been completed, DCRA issues a C of O to indicate that the use of a building, such as a restaurant or supermarket, complies with zoning regulations and building codes.<sup>4</sup>

### **Observations**

#### **OCFO does not reconcile DCRA records with records of revenue collected.**

The Chief Financial Officer for DCRA stated that OCFO records of revenue collected are not reconciled with DCRA records regarding payment of permit fees, C of O fees, Office of the Surveyor fees, and fines for construction and zoning violations. As an internal control, reconciliation would help validate the accuracy of records that show amounts paid, detect uncollected revenue, and deter fraud.

#### **DCRA's system to ensure that permit filing fees are paid is inadequate.**

Permit processes do not have adequate controls to ensure that payments are made for permit filing fees. DCRA's File Job system for permit tracking relies on a receipt number field to serve as a control to ensure that filing fees have been paid. A DCRA intake employee enters the OCFO receipt number into the File Job system after a permit filing fee is paid. DCRA employees stated that the receipt number field will accept any number regardless of the number of digits entered and, consequently, does not verify that payment was made. In addition, our review indicated that DCRA does not retain copies of customers' receipts for filing fees. This deficiency prevents DCRA from reconciling receipts with statements from the File Job system.

#### **Information used to determine permit issuance fees is not adequately verified.**

Construction costs used as the basis for alteration and repair permit fees are not adequately verified. In addition, inconsistencies between permit applications and building plans that may affect permit issuance fees are not adequately detected.

DCRA employees reported that permit applicants sometimes submit unreasonably low construction costs to reduce their permit fees. However, DCRA does not have written guidelines for determining minimum construction costs or minimum permit fees for different types of alterations and repairs. In addition, DCRA does not use the authority granted by 12A DCMR § 108A to withhold C of Os until permit fees are adjusted based on actual construction costs when applicants submit unreasonable cost estimates.

During the permit process, DCRA is supposed to compare information on permit applications with building plans to ensure consistency. However, interviewees stated that DCRA does not reliably perform this comparison. They stated that sometimes permits reflect information on the application but do not include the entire scope of construction indicated by the building plans, resulting in decreased permit fees.

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<sup>4</sup> C of Os are not required for single-family homes.

Permit employees stated that supervisors do not routinely review samples of their work to ensure that permit applications have been approved and processed correctly. This increases the probability that inconsistencies will not be detected because the permit center's quality control process is limited to ensuring that all assigned reviewers have approved an application.

DCRA managers stated that they are considering revising the bases for permit issuance fees to improve accuracy, but will not have time to undertake this before FY 2009. The managers indicated that methods other than construction costs may be used to determine permit fees for alterations and repairs. Although not yet implemented, the Comprehensive Property Management System (CPMS) has the capacity to calculate permit issuance fees based on formulas determined by DCRA. A DCRA manager stated that the system will be fully implemented in July 2008 and will improve information tracking and workflow in permit processing, inspections, and business licensing.

**DCRA does not adequately ensure that permit and C of O issuance fees are paid.**

Interviews and observations indicated that verification of payment prior to issuing permits and C of Os is inadequate. The processes for issuing permits and C of Os are similar. Once a permit or C of O application has received all necessary approvals, a DCRA employee issues two invoices to the customer. The customer pays the fee to an OCFO cashier, who provides the customer with a receipt. The OCFO cashier also prints receipt information on one of the invoices, which is kept for OCFO records. OCFO uses a rubber stamp to mark "D.C. Treasurer" on the other invoice, which the customer returns to DCRA as proof of payment. A permit or C of O is then issued. Interviewees stated that the "D.C. Treasurer" stamp could be easily duplicated and used to create fraudulent proof of payment. According to interviews and observations, DCRA employees do not examine customer receipts prior to issuing permits and C of Os, and stamped invoices are the only proof of payment required. Employees stated that DCRA computer systems for permits and C of Os do not show whether payment was received by OCFO.

In the past, DCRA required receipts from OCFO as proof of payment for permit and C of O issuance. However, this is no longer required. An OCFO cashier indicated that it is possible to use the computer to print receipt information on the invoices returned to DCRA, but that stamping the invoices with "D.C. Treasurer" is faster than printing them with the computer.

The team also observed DCRA employees printing permits before customers returned with proof of payment from OCFO. An interviewee reported that employees printed permits and invoices concurrently so they would not have to leave their desks twice to retrieve the documents from a shared printer.

In addition, the team observed an employee leaving permits on top of an unoccupied desk while at lunch. During that employee's lunch break, another employee instructed customers to leave their invoices and pick up their permits from the same unoccupied desk.

A DCRA manager indicated that CPMS has the capacity to increase coordination between OCFO and DCRA to improve controls. If payment features of CPMS are implemented, the system would not allow DCRA to issue a permit until OCFO has updated the system to reflect receipt of payment.

**DCRA commercial inspections do not adequately detect construction work performed outside of the scope of permits.**

According to documents provided by a DCRA employee, DCRA conducted a survey in April and May 2007 of 10 construction sites to assess whether construction work was performed outside the scope of permits. Third-party companies (rather than DCRA) inspected 8 of these 10 sites.

According to documents provided by the employee, the 10 sites paid a total of \$134,403 in additional permit fees as a result of the survey. DCRA employee stated that DCRA does not ensure that sites inspected by third party inspectors have all necessary permits, and that inspectors in the illegal construction unit do not routinely inspect a sample of construction sites, hindering DCRA's ability to ensure that work is within the scope of permits.

In addition to the deficiencies revealed by the survey, the following issues were also noted. A DCRA illegal construction inspector was concerned that some commercial inspectors may not be adequately reviewing permits and DCRA-approved building plans to ensure that projects are within the scope of work approved by permits. DCRA managers stated, however, that inspectors do not have time to review building plans in detail to detect work outside the scope of permits as part of routine inspections. On the other hand, a DCRA employee indicated that detecting work outside the scope of a permit often does not require in-depth review of building plans. Instead, problems can be detected by ensuring that the site has permits for all types of work performed, and by estimating the number of fixtures that should appear on supplemental permits based on the number of units in a building. An interviewee stated that increasing efforts to detect work outside the scope of permits would lead more applicants to obtain all required permits initially because of the increased risk of detection. DCRA policies and procedures provided to the inspection team did not include guidance on detecting work outside the scope of permits as part of routine inspections.

**Conclusion**

Interviewees stated that deficiencies in DCRA's processes create opportunities for customers to avoid paying permit and C of O fees or to pay less than full fees, which reduces revenue for the District.

**Recommendations**

We recommend that the Director of DCRA:

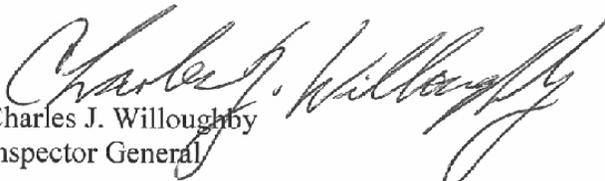
1. In conjunction with the Chief Financial Officer (CFO), ensure that DCRA records are reconciled with OCFO records of payment on a regular basis.
2. Require receipts as proof of payment, coordinate with OCFO as necessary to generate receipts, and retain copies of these receipts in permit and C of O files.
3. Ensure that employees cease printing permits prior to receiving proof of payment.
4. In conjunction with the CFO, ensure that CPMS is implemented expeditiously and that it includes controls to ensure that payments are received before permits and C of Os are issued.

5. Ensure that supervisors regularly review samples of permit employees' work to ensure that permits and C of Os are approved, issued, and assigned fees appropriately.
6. Develop and implement methods to ensure accurate determination of construction costs is used as a basis for alteration and repair permit fees or develop another method of determining these fees.
7. Develop and implement a plan to ensure that sites inspected by third party companies have all required permits.
8. Develop and implement policies and procedures, including actual inspection of sites, for detecting work outside the scope of permits as a routine part of the commercial inspection process.
9. Request that OCFO conduct an audit of permit and C of O records and processes to determine if the lax controls observed by the team have resulted in financial irregularities.

Please provide your comments to this MAR by **March 19, 2008**. Your response should include actions taken or planned, dates for completion of planned actions, and reasons for any disagreement with the concerns and recommendations presented. Please distribute this MAR only to those who will be directly involved in preparing your response.

Should you have any questions or desire a conference prior to preparing your response, please contact [REDACTED] Deputy Assistant Inspector General for Inspections and Evaluations, at 202-727-[REDACTED].

Sincerely,

  
Charles J. Willoughby  
Inspector General

CJW/kb

cc: Daniel M. Tangherlini, City Administrator and Deputy Mayor  
The Honorable Mary Cheh, Chairperson, Committee on Public Services and Consumer Affairs  
The Honorable Jack Evans, Chairperson, Committee on Finance and Revenue  
The Honorable Carol Schwartz, Chairperson, Committee on Workforce Development and Government Operations

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Department of Consumer and Regulatory Affairs



Office of the Director

April 11, 2008

Mr. Charles J. Willoughby  
Inspector General  
D.C. Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

RE: Management Alert Report **MAR-08-I-003**

Dear Mr. Willoughby:

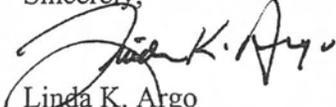
This letter is in response to your request that DCRA more fully respond to recommendations 1, 7, 8, and 9 from your Management Alert Report (MAR-08-I-003) issued to the Department of Consumer and Regulatory Affairs (DCRA) regarding deficiencies in controls over DCRA Permit and Certificate of Occupancy issuance procedures. The Office of the Chief Financial Officer (OCFO) provided your office with more detailed responses to recommendations 1, 2, 4, and 9 by letter dated April 2, 2008. (Please see attached). Accordingly, DCRA is at this time submitting OCFO's responses to these recommendations in response to your request that DCRA respond more fully to the cited recommendations. Below are DCRA's responses to your request that DCRA respond more fully to recommendations 7 and 8 made by your office:

7. At this time, DCRA is conducting a comprehensive assessment of the Third Party Inspection program. As part of this assessment, DCRA is conducting a thorough review of all procedures and policies concerning third party companies' compliance with the DC construction permit requirements as provided for in the DC Code and DCMR.
8. DCRA agrees with the intent of the recommendation, and will establish a policy that as a routine part of the commercial inspection process; action will be taken by inspectors of all disciplines to identify work of any disciplines being done at

construction sites that is outside the scope of any permits that have been issued for those sites.

Thank you for bringing this matter to my attention. If you need additional information, please contact [redacted] DCRA Service Integrity Officer at (202) 442-

Sincerely,



Linda K. Argo  
Director

cc:

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Chief Financial Officer



2008 APR -4 AM 9:54

Office of Integrity and Oversight



April 2, 2008

Charles J. Willoughby, Esq.  
Inspector General  
Office of the Inspector General  
717 Fourteenth St., NW, 5<sup>th</sup> Floor  
Washington D.C. 20005

Dear Mr. Willoughby:

Thank you for the opportunity to respond to the recommendations in your Management Alert Report (MAR 08-I-003) captioned "Deficiencies in Permit and Certificate of Occupancy Processes May Reduce Revenue." I am responding on behalf of the Office of the Chief Financial Officer (OCFO) and this response will address the recommendations addressed to the OCFO.

**Recommendation 1: Reconciliation of payment records.**

We concur with this recommendation. OCFO and DCRA program staffs have met and are in the process of developing reporting and reconciliation tools. We expect to have reconciliation procedures developed by May 30, 2008, and to complete the first monthly reconciliation in June 2008 in accordance with these procedures. OCFO is also working on providing access to newly created reports from the *Inovah* cashiering system, and DCRA's IT staff is developing a format to reconcile the two systems.

**Recommendation 2: Receipts.**

We concur with this recommendation. The access to the *Inovah* system described above will allow program staff to perform daily reconciliations to ensure that permit filing fees are paid before permits are issued. The *Inovah* reports that will be available on line will include receipt numbers, which can be reconciled to the File Job system. In addition, OCFO is pursuing changes in programming of the cashiering system to print an additional copy of the payment receipt that can be retained by DCRA. The Office of Finance and Treasury will ensure that cashiers are trained in the new procedures for providing adequate receipts when the change is implemented. We expect to implement this change within the next 30 days or develop an alternative plan to ensure that the cashiers generate adequate receipts.

**Recommendation 4: Implementation of CPMS.**

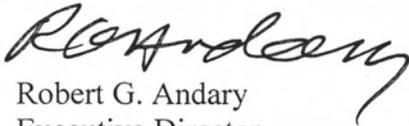
We concur with the recommendation. The OCFO Agency Fiscal Officer is working with DCRA program staff to ensure that CPMS includes adequate controls to ensure that payments are received before permits and C of Os are issued.

**Recommendation 9: Audit of permit and C of O records and processes.**

We also concur with this recommendation. The Associate CFO for Economic Development and Regulation has requested that the Office of Integrity and Oversight, OCFO, conduct the audit recommended in the Management Alert Report. I have agreed to undertake this audit as soon as circumstances and resources permit during FY 2008.

If you have any questions regarding this response, please contact me at (202) 442-6445.

Sincerely,



Robert G. Andary  
Executive Director

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Department of Consumer and Regulatory Affairs

Office of the Director



March 25, 2008

Mr. Charles J. Willoughby  
Inspector General  
D.C. Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

RE: Management Alert Report **MAR-08-I-003**

Dear Mr. Willoughby:

This letter is in response to your Management Alert Report (MAR-08-I-003) issued to the Department of Consumer and Regulatory Affairs (DCRA) regarding deficiencies that the District of Columbia Office of the Inspector General (OIG) uncovered in controls over permit and Certificate of Occupancy issuance procedures. Your agency's findings also indicated that as a result of these deficiencies that there maybe reduced revenue for the District's general fund and the potential for an increased risk of fraud and abuse. Specifically, OIG findings uncovered that:

- Records of revenue are not reconciled with DCRA records for C of O fees, permit fees, Office of the Surveyor fees, and construction and zoning violation fees;
- Information used as the basis for permit fees is sometimes inaccurate;
- Processes are inadequate for ensuring that customers pay fees before receiving permits and C of O's; and
- DCRA inspections do not adequately detect construction work performed outside the scope of permits, which may reduce permit revenue.

As a result of your findings, OIG recommended that the Director of DCRA:

1. In conjunction with the Chief Financial Officer (CFO) ensure that DCRA records are reconciled with OCFO records of payment on a regular basis;

2. Require receipts as proof of payment, coordinate with OCFO as necessary to generate receipts, and retain copies of these receipts in permit and C of O files;
3. Ensure that employees cease printing permits prior to receiving proof of payment.
4. In conjunction with the CFO, ensure that CPMS is implemented expeditiously and that it includes controls to ensure that payments are received before permits and C/O's are issued;
5. Ensure that supervisors regularly review samples of permit employees' work to ensure that permits are issued and C/O's are approved, issued, and assigned fees appropriately;
6. Develop and implement methods to ensure accurate determination of construction costs is used as a basis for alteration and repair permit fees or develop another method for determining those fees;
7. Develop, implement a plan to ensure that sites inspected by 3<sup>rd</sup> party co.'s have all required permits;
8. Develop, implement policies/procedures, including actual inspection of sites, for detecting work outside the scope of permits as a routine part of the commercial inspection process; and
9. Request that OCFO conduct an audit of permit and C/O records and processes to determine if lax controls observed by the team have resulted in financial irregularities.

Below are DCRA's responses to the specific recommendations made by your office:

1. Payment invoices will be machine date-stamped with the total dollar amount on a receipt transmitted back to DCRA from the Office of the Chief Financial Officer (OCFO) to provide daily accounting of revenues received.
2. See response provided for #1.
3. It is a consistent practice of DCRA not to turn over an issued permit without proof of valid payment; however, to provide expeditious customer service the printing of a permit is normally done while the customer is paying for the permit at OCFO. However, this practice has been discontinued.
4. At this time, DCRA is working diligently to implement the Comprehensive Property Management System (CPMS). The current estimated time for the actual implementation DCRA's CPMS is July, 2008.

5. Effective immediately, the permit center manager and subordinates have been instructed that samples of permit employees work are to be reviewed to ensure that permits and fees for permits and C of O's are issued appropriately.
6. Pursuant to DCMR 12-108.3 "Building Permit Valuations", which provides the methods by which an applicant may provide proof of the cost of construction declared in the application, DCRA will ensure close adherence to the Regulations for all alteration and new construction permits.
7. Before Third Party Companies can perform an inspection, they must first obtain permission from DCRA to conduct the inspection. This permission is not granted to the Third Party Company requesting approval before DCRA personnel research the permit records for any available permits, Stop Work Orders, and all encumbrances associated with the property.
8. Pursuant to DCMR 12-109.3, it is the consistent practice of DCRA inspectors to report "all noted violations" of the Construction Codes of the District of Columbia, identified during an inspection. This practice will be drafted into a formal policy to reflect the requirements of this section of the DCMR.
9. DCRA will request OCFO to identify any lax controls present in C of O and/or permit processes and to determine if any such issues have resulted in financial irregularities.

Thank you for bringing this matter to my attention. If you need additional information, please contact [redacted] DCRA Service Integrity Officer at (202) 442-1[redacted]

Sincerely,

  
Linda K. Argo  
Director

cc: