AUDIT OF
CONSTRUCTION LICENSING BOARD

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APRIL 30 2009
REPORT NO. 2009-10

*Regulated by the State of Florida
April 30, 2009

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted an audit of the Construction Licensing Board. Our audit objectives were to determine whether internal controls of cash receipts and licenses are adequate; internal controls of the evaluation process of license applicants' qualifications are adequate; the fees and fines are reasonable and adequate; and the enforcement process adequately protects the public.

We conclude that the internal controls related to cash receipts and issuance of contractor licenses and internal controls for the evaluation process of contractor license applicants' qualifications are adequate. The Pinellas County Construction Licensing Board (PCCLB) fees are reasonable and adequate for funding existing PCCLB services. However, Pinellas contractor licensing fees are significantly lower in four of the five categories when compared to five other Florida counties. Except for the lack of a formal education program to inform the public about the potential risks of dealing with unlicensed contractors and the need for documenting contracted work requirements, the PCCLB enforcement process is adequate. Opportunities for Improvement are presented in this report.

We appreciate the cooperation shown by the staff of the Pinellas County Construction Licensing Board during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,

Robert W. Melton
Chief Deputy Director
Internal Audit Division

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor
*Regulated by the State of Florida
**Introduction**

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**Opportunities for Improvement**

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Synopsis

The Pinellas County Construction Licensing Board (PCCLB) does not have a formal program to adequately warn the public of the risks of dealing with construction and home improvement contractors. Approximately $50,000 of PCCLB funds are inappropriately transferred annually by the County to the County General Fund. The additional funding should be used for enforcement and education of Pinellas County consumers.

Scope and Methodology

We conducted an audit of the Pinellas County Construction Licensing Board (PCCLB). The scope of the audit included the review of the internal controls for cash receipts of fees and fines, as well as the controls of applicants’ compliance of the construction licensing requirements. The audit also reviewed the reasonableness and adequacy of PCCLB fee and fine rates. We reviewed the PCCLB enforcement and the controls over the license applicant testing results.

The objectives of our audit were to:

- Determine whether internal controls of cash receipts and licenses are adequate.
- Determine whether internal controls of the evaluation process of license applicants’ qualifications are adequate.
- Determine whether the fees and fines are reasonable and adequate.
- Determine whether the enforcement process adequately protects the public.

In order to meet our objectives, we interviewed management and tested, on a sample basis, to determine the adequacy of the internal controls of the cash receipts and license applicants’ qualifications. We determined if the fees and fines were adequate to support the PCCLB functions, and if they were comparable to other counties’ fees. We evaluated the effectiveness of the PCCLB enforcement processes.
Introduction
Audit of Construction Licensing Board

We performed such other procedures as we considered necessary in the circumstances.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. The audit period was October 1, 2006 through June 30, 2008. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

The PCCLB internal controls related to cash receipts and issuance of contractor licenses are adequate. We conclude that the internal controls for the evaluation process of contractor license applicants' qualifications are adequate. The PCCLB fees are reasonable and adequate for funding existing PCCLB services. However, Pinellas contractor licensing fees are significantly lower in four of the five categories when compared to five other Florida counties. Except for the lack of a formal education program to inform the public about the potential risks of dealing with unlicensed contractors and the need for documenting contracted work requirements, the PCCLB enforcement process is adequate. Opportunities for Improvement are included in our report.

Background

The Pinellas County Construction Licensing Board (PCCLB) was created in 1973 by a Special Act of the Florida Legislature to regulate the construction industry in Pinellas County. Since the Board was created by an Act of the Legislature, it operates as a separate and autonomous policy-making body. A function of the PCCLB is to regulate certain construction and home improvement contractors practicing in all Pinellas jurisdictions. In addition, the PCCLB adopts and amends the family of building codes for application and enforcement countywide to provide safe, economic, and sound buildings and structures throughout Pinellas County.

The Construction Licensing Board regulates the construction and home improvement industry in Pinellas County through uniform contractor competency licensing, code adoption and code interpretations. There are twenty-one members on the Construction Licensing Board. The Building Directors of Pinellas County, and the Cities of Clearwater and St. Petersburg, are permanent members. The remaining eighteen members are appointed by the Board of County Commissioners to serve two year terms. Fiscal Year 2008 budgeted revenue and expenditures is $1,709,510, with eleven total permanent positions. The PCCLB is funded and operates solely upon revenue derived from license fees and fines paid by contractors. The Board is authorized to establish reasonable fees for certification, registration, examination, hearings...
and any fees deemed necessary to accomplish the purpose of this division. Any funds received by the PCCLB from fees which remain uncommitted and unexpended at the end of each biennium shall be paid into the County General Revenue Fund. The total number of active licenses on file at the PCCLB as of July 31, 2008 was 8,944, as follows:

<table>
<thead>
<tr>
<th>TYPE OF ACTIVE LICENSES</th>
<th>No. of Licenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>State certified contractors registered to operate in Pinellas County</td>
<td>5,216</td>
</tr>
<tr>
<td>Pinellas County certified contractors</td>
<td>2,492</td>
</tr>
<tr>
<td>Pinellas County certified Journeymen (certified to do manual work, but not certified to operate as a contractor)</td>
<td>1,236</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8,944</td>
</tr>
</tbody>
</table>
Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. The PCCLB Should Expand Their Efforts To Educate And Inform The Public.

The PCCLB does not have a formal program for educating the consumer on the risks of using unlicensed contractors, as well as a need for written detailed contracts with contractors. Consumer education is not a requirement of PCCLB, or a formal objective for the current operations. Management stated that they have spoken to civic or neighborhood organizations about the risks of using unlicensed contractors, as well as the lack of written documents related to their construction and home improvement projects. In addition, there had been some articles in the newspaper and local weekly newspapers displayed a consumer’s warning in the classified section to always use licensed contractors. All of the examples given to us by management for educating/warning the public were occasional or sporadic, and generally to very limited audiences.

The PCCLB website states that, "The function of the Pinellas County Construction Licensing Board is to regulate certain construction and home improvement contractors practicing in all Pinellas jurisdictions."

Proactive, ongoing education for the public regarding the risks of using unlicensed contractors, or of not obtaining written agreements with licensed contractors, should be considered part of the PCCLB regulation function. In addition to the benefits of helping protect the consumers, this education should assist the PCCLB in overseeing the contractors; especially those that are unlicensed.

PCCLB management stated that not having a more formal ongoing proactive educational warning program in place for the public was a result of lack of agency funds for advertising.
All Pinellas County licensed contractors have taken competency tests, completed background screening, and are required to take continuing education to maintain their licenses. Licensees must provide proof of having sufficient current Liability and Worker's Comprehensive insurance coverage. Consumers who utilize an unlicensed contractor run the risk of hiring someone who is not competent for that particular project, who might not have successfully passed a background test, and/or who might not have adequate insurance. Potential effects include the consumer eventually having to spend substantial amounts of additional money for a licensed contractor to remedy and complete a project that had been started by an unlicensed contractor. The public could run the risk of the unlicensed contractor’s work not passing County Code inspections. Also, a property owner could potentially be held legally liable if an unlicensed contractor with no insurance gets hurt working on his property. If the property owner does not get bids, cost estimates, work agreements and change orders documented in writing, the property owner does not have the information documented to resolve any potential disputes. The current education program is not adequate to be a positive action to support the licensed contractors' business in Pinellas County, which is being adversely affected by unlicensed contractors' work.

We recommend management consider the education of the public regarding the risks of using unlicensed contractors, and the need for written agreements with licensed contractors, as part of the PCCLB contractor regulation function. Management should consider the uncommitted funds being returned to the County as a possible funding source for the education program. (See Opportunity for Improvement No. 2).

Management Response:

Although we are not able to explore increased educational programs for the citizens of Pinellas County due to budget constraints; PCCLB staff is involved with coordinating a bi-monthly meeting of the Enforcement and Law Officers Networking Group (ELONG). This meeting brings together, as its name implies, law enforcement individuals from all over the region to “get out the word” to the public and it affords an important tool for the exchange of information critical to serving the public. Additionally, I and my staff seize every opportunity to speak with trade groups, home owner associations and public in general about the ramifications of hiring unlicensed individuals. Sharing information such as access to licensing information is ongoing but this Board, unfortunately, has no monies budgeted for marketing beyond those activities referenced above.
2. **PCCLB Funds Are Being Transferred To The County’s General Fund When They Should Remain With The PCCLB To Benefit The Consumers Of Pinellas County.**

PCCLB revenue is being transferred to the County General Fund as "Uncommitted" as a standard procedure without adequate written authority. Transfers averaging $50,000 per year, or about 5% of the PCCLB total annual revenues, are made from the PCCLB funds to the County's General Fund. These transfers are made by the County's Office of Management and Budget (OMB) department based on its interpretation of County Code, Section 26, Subsection 126, page 9, which states that, "Any funds received by the (PCCLB) board from fees which remain uncommitted and unexpended at the end of each biennium shall be paid into the county general revenue fund." This PCCLB fund transfer amount is budgeted, and therefore, is not available for PCCLB use in their operations. PCCLB management stated, with the current process, these funds could be made available for their usage if special permission is obtained due to a funding emergency. Since the PCCLB is self-funded through their fee and fine revenues, the County's requirement imposed through the budget to transfer PCCLB funds to the County is not proper.

The funds being transferred from the PCCLB to the County's General Fund are about 5% of the revenue generated from PCCLB fees and fines. The funds do not represent County funds given to the PCCLB at one time that were never expended or committed, and are now being returned to the County. The County does not fund the PCCLB. The PCCLB was created in 1973 by a Special Act of the Florida Legislature to regulate the construction industry in Pinellas County. Since the Board was created by an Act of the Legislature, it operates as a separate and autonomous policy-making body. The PCCLB is funded and operates solely upon revenue derived from license fees and fines paid by contractors. The PCCLB Board is authorized to establish reasonable fees for certification, registration, examination, hearings and any fees deemed necessary to accomplish the purpose of this division. Also, the PCCLB is charged by the County and pays for all services rendered to the PCCLB.

The funds transferred to the County are viewed as uncommitted by the County’s OMB prior to the start of the fiscal year. Therefore, they are viewed by the PCCLB as "committed" in their budget; to be transferred to the County's General Fund. Therefore, they go unexpended by the PCCLB.
The PCCLB is missing the opportunity to utilize $50,000, or approximately 5%, of their revenues each year to expand their investigative services, or to increase the public's awareness of the risks of using unlicensed contractors because these funds are being transferred to the County. This effect is compounded because the PCCLB does not have any contingency reserves of their funds.

We recommend the PCCLB work with the County to discontinue the practice of transferring PCCLB funds to the County's General Fund and allow the PCCLB to commit $50,000 to other areas that will benefit the general public and licensed contractor industry in Pinellas County.

Management Response:

Pinellas County’s practice of “sweeping” funds from the revenue generated by the PCCLB over and above the PCCLB’s obligation to pay for all services provided to the PCCLB by Pinellas County stems from an inter-local agreement establishing a cooperative relationship between the PCCLB and Pinellas County. Although we see no immediate relief during these difficult budget times, I and my staff are committed to working with the Department of Business and Professional Regulation, other local licensing agencies, as well as other regulatory agencies to improve public awareness and broaden our investigative efforts.

3. Advertisements Of Construction And Home Improvement Firms Contained Contractor Licensing-Related Problems That Could Adversely Affect Consumers Use Of The Contractors.

Twenty-five percent of the advertisements of construction and home improvement firms contained contractor licensing-related problems. We reviewed 112 advertisements for professional services that appeared in some of the small local newspapers and coupon books to determine if the contractors are properly licensed.

We determined that 28, or 25%, of the 112 advertisements we had reviewed represented one of the following problems:
<table>
<thead>
<tr>
<th>PROBLEM</th>
<th>NUMBER OF ADS</th>
</tr>
</thead>
<tbody>
<tr>
<td>No license number shown in the ad, and the firm could not be found in</td>
<td>11</td>
</tr>
<tr>
<td>the PCCLB website files via a name search.</td>
<td></td>
</tr>
<tr>
<td>A license number was shown in the ad, but neither the license nor the</td>
<td>8</td>
</tr>
<tr>
<td>firm name could be found via PCCLB website searches.</td>
<td></td>
</tr>
<tr>
<td>A license number was shown in the ad, but a different contractor name</td>
<td>5</td>
</tr>
<tr>
<td>for that license was found in the PCCLB website files.</td>
<td></td>
</tr>
<tr>
<td>A license number was shown in the ad, but a different license number</td>
<td>2</td>
</tr>
<tr>
<td>was found in the PCCLB website files via a name search.</td>
<td></td>
</tr>
<tr>
<td>No license number shown in the ad, but the firm and its license was</td>
<td>2</td>
</tr>
<tr>
<td>found via a PCCLB website search via a name search.</td>
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There is a limited process in place to protect the public from consumer advertisements for construction and home improvement contractors not properly presenting their services and being properly licensed in the construction area being offered.

The effect of having a substantial portion of the advertisements for construction and home improvement firms representing some type of license problem is that the public cannot rely on the advertisements to determine if a firm is properly licensed to conduct business in the County. Our review indicated that unlicensed contractors may be advertising to the public.

**We recommend** PCCLB management continue its investigation and enforcement activities as it relates to contractor advertising in newspapers. However, based on the number of advertisements presented in so many different types of communications, the best prevention is education of the Pinellas County consumer related to doing business with contractors.

**Management Response:**

We are currently in the process of working with the providers of the advertisement in an effort to circumvent the unlawful advertising prior to it becoming accessible to the public. Currently, citizenry can access the PCCLB’s on-line listing of current and actively licensed contractors. Additionally, we plan to implement an on-line listing of contractor records when we can afford to input these records for website review.