



INTERNAL AUDIT REPORT

AUDIT TITLE:	ABATEMENT PROCESS AUDIT
DEPARTMENT:	BUILDING AND CODES
AUDIT PERIOD:	APRIL 2011 – JUNE 2012

CITY OF CLARKSVILLE
ABATEMENT PROCESS AUDIT
BUILDING AND CODES
AUDIT # 1303

James P. McNaughton - Auditor

Lynn Stokes – Director of Internal Audit

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Date

**CITY OF CLARKSVILLE
INTERNAL AUDIT REPORT
ABATEMENT PROCESS
Building and Codes Department
April 2011 to June 2012**

Table of Contents

Origin of Audit.....	1
Audit Objectives.....	1
Scope and Methodology of Audit.....	1
Statement of Auditing Standards	2
Background	2
Statistical Information.....	2-5
Noteworthy Accomplishments.....	5
Results of the Audit	
Findings and Recommendations.....	5-17
Other Conclusions and Recommendations.....	18-19
Conclusions	19-20

Internal Audit Report

Origin of the Audit

This audit was conducted as a part of the annual audit plan approved by the Audit Committee for the fiscal years 2012 and 2013.

Audit Objectives

The specific audit objectives were:

- To determine if the abatement program complies with City Code and other regulations;
- To determine if the internal control system is adequately designed and operating effectively;
- To compare the cost benefit factors of the in-house abatement crew compared to the outsourced contractor crews; and
- To review the abatement process for possible improvements in efficiency and/or effectiveness.

Scope and Methodology of the Audit

The audit covered the time period from April 2011 through June 2012. Evidence to support our conclusions was gathered from inquiries of management and staff as well as observations of source documentation and tests of the controls surrounding the abatement process. We interviewed each of the 14 employees who were employed in the abatement process during the audit period in order to gain an understanding of the internal control environment. One of the employees no longer works at Buildings and Codes. We sent out 96 surveys to citizens who had received violation letters during the audit period to determine citizen satisfaction and identify possible exceptions to policy. Eleven surveys were returned as undeliverable. Twenty-three survey responses were received that provided input on the program. A random sample of 104 case files out of a total population of 10,463 files was reviewed for completeness and compliance. Additionally, 53 case files were reviewed that various employees brought to our attention that might reflect noncompliance with policy.

Statement of Auditing Standards

We conducted this audit in accordance with generally accepted government auditing standards, except for the peer review. Those standards require that we plan and perform the audit to obtain sufficient, 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.

Background

The City’s abatement program is designed to enforce the requirements of City Code relating to privately owned commercial and residential property. Violations include such things as grass/weeds over 12” tall, debris and downed trees and broken furniture or appliances on the property.

The abatement program is part of the Codes Enforcement division of the Building and Codes Department. Case files are generated as a result of citizen complaints or as a result of a Codes Enforcement Officer (CEO) identifying a problem in his enforcement area. Property owners are notified of a violation and given 14 days to correct the problem. If they do not correct the problem, then Codes Enforcement sends in the City abatement crew or hires an outside contractor to correct the violation. The property owner is charged for the work done. If the property is non-owner occupied or vacant, a lien is placed on the property for the amount of the charge. If the property is owner occupied and the charge is greater than \$500, a lien is placed on the property.

The in-house abatement program began in April 2011. Prior to that time, outside contractors were used exclusively to address code violations that were not corrected in a timely manner by property owners.

Statistical Information

General Code Enforcement Activity:

- On average 533 new code enforcement cases are generated in a month.¹**
- On average 34% of cases are initiated by citizen complaints and 66% are initiated by Building and Codes officers.¹**
- Citizen complaints are seasonal (on average 96 per month in the winter season (Oct-Feb) and 246 per month in the growing season (Mar-Sep)).¹**
- Building and Codes initiated complaints are not seasonal (on average 347 per month in the Winter season (Oct-Feb) and 352 per month in the growing seasons (Mar-Sep)).¹**

¹ 24 month average calculated based on “Analysis of Activity of the Building and Codes Department” reports (FY 2011 and FY 2012)

- Approximately 15% of code violations end up being referred for abatement (the other 85% are corrected by the owner before the final inspection).²

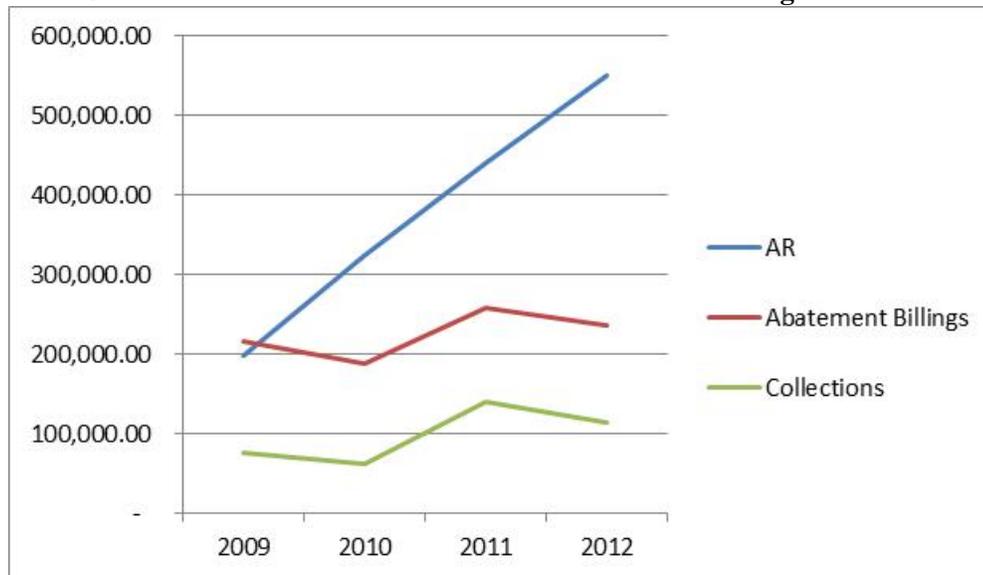
Abatement Activity:

- Building and Codes has handled considerably more cases in the past two years (72% more cases were handled in FY 2012 as compared FY 2010. Note: FY 2011 was a partial abatement crew year).
- Abatement actions have generated an average of \$247k per year in service invoices for the last 2 fiscal years.³

Billing/Collection Activity:

- The accounts receivable (AR) balances related to abatement services totaled \$550k at the end of FY 2012. As seen in the graph below, the AR balance has been increasing due to a low rate of collection.
- The rate of collection (amount collected each fiscal year / amount invoiced each fiscal year) was 33% in FY 2010, 54% in FY 2011 and 48% in FY 2012. This means the City has been collecting significantly less than it has been invoicing for those years.⁴
- The dollar amount of abatement billings (potential revenue) has remained relatively stable for the years FY 2009 through FY 2012.

Growth in abatement services accounts receivable through FY 2012



- Per Finance and Revenue, the vast majority of AR balances are supported by property liens. Our testwork supports this assertion since all of the abatement

² Determined by dividing the total number of abatement files by the total number of complaints over the audit period.

³ Pulled from Munis AR activity detail and averaged over FY 2011 and FY 2012.

⁴ Collection / Service Invoices (based on Munis AR detail for FY 2010, FY 2011, and FY 2012)

cases in our audit sample that were charged for services (30 cases) were supported by liens.⁵

- The average number of months to collect AR at the end of FY 2012 was 25.15 months. This average number of months to collect has been increasing steadily over the past several years-- i.e. 16.7 months in FY 2010, 17.8 months in FY 2011. This financial ratio is used to measure the efficiency of the collection process. The lower the number the more efficient the collection process.⁶

Cost Comparison:

The following table illustrates the comparison of the cost of the in-house abatement crew with the cost of outsourcing the services to independent contractors. FYs 2009 and 2010 were years where all abatement services were outsourced. In FY 2011, the in-house abatement crew was operational for the last quarter of the year. In FY 2012, the in-house crew was operational for the entire year.

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Operating Expenses	152,242	136,557	104,761	47,223
Gas/Maintenance	-	-	1,498	10,099
Veh/Equipment Depreciation	-	-	599	7,189
Salaries/Benefits*	-	-	<u>27,449</u>	<u>119,652</u>
Abatement Program Total	<u>152,242</u>	<u>136,557</u>	<u>134,306</u>	<u>184,163</u>
Number of abatements performed	477	493	507	820
Cost per abatement	\$ 319	\$ 277	\$ 265	\$ 225

* Benefits will increase as employees become eligible for retirement contributions by the City (after 6 month probation period).

The total cost of the abatement program increased by \$47K between FY 2010 and FY 2012 (an increase of 35%) however the cost per abatement decreased because of the increase in the number of abatements performed. We could not determine whether the increase in the number of abatements performed is a result of bringing the abatement function in-house or a result of the increase in the number of violations that the CEOs are required to cite each month.

Abatement Activity Contribution Comparison:

The following table illustates the comparison of potential contribution (potential “net income”) to City General government that results from the change to the in-house abatement crew. Grant revenue and expenses have been removed from the figures to provide a proper comparison of the services and billings provided by the abatement crew. Prior to April 2011, all abatement services were outsourced. After April 2011, the in-house abatement crew performed all non-grant abatement services.

⁵ Determined from interviews with City Finance personnel and from review of the 157 case files that were the basis for this report.

⁶ Based on Munis AR detail for FY 2010, FY 2011, and FY 2012

<u>Non-Grant</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Abatement Program Total Billings	\$ 215,609	\$ 163,136	\$ 211,439	\$ 191,857
Abatement Program Total Cost	(152,242)	(136,557)	(134,306)	(184,163)
Potential Program Contribution *	\$ 63,367	\$ 26,578	\$ 77,133	\$ 7,693

* The contribution is considered “potential” because abatement billings need to be collected before any contribution to the City’s General fund is realized.

The potential contribution to City General government decreased in FY 2012, the first full year of the in-house abatement crew, by 71% compared to FY 2010. Even though more abatements were performed in FY 2012 the billings did not increase at the same rate. The additional abatements performed were small in size. Seventy-eight percent of the billings in FY 2012 were less than \$225 (the breakeven point shown in the cost comparison section that would recover costs).

Noteworthy Accomplishments

Building and Codes has increased the number of city code violation cases that are worked on an annual basis from 477 in FY 2009 to 820 in FY 2012. According to Building and Codes officials the response time required to abate a violation has decreased from 30 days to 21 days.

Results of Audit

Auditor testing and research revealed the following findings and recommendations. The internal control standard used in determining the strength of controls over the Abatement Process was *Internal Control – Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

- 1. Weak control environment: Policies and procedures regarding certain aspects of the abatement process are lacking.**

Criteria: An organization should develop policies and related procedures that clearly establish what is expected of employees to accomplish the mission of the organization. Those policies and procedures should be approved by an oversight body. Management should not be permitted to override the established policies and procedures of the organization without written justification.

Condition: The Code Enforcement division including the abatement function has written policies and procedures. However, our tests of case files revealed that there are deviations from the written procedures with the appearance of management override of policy in 2 of the 104 randomly selected case files and 43 of 53 referred files (38 of these referred files relate to a block of vacant lots under common ownership that were handled under as single abatement case).

Cause: According to inquiries made of management these exceptions were due to special situations that required on the spot decisions that were made in an effort to help citizens and to foster good relations. The documentation in the files is insufficient to substantiate the decision making process. With no written policy about how to handle or document exceptions to policy, management has dealt with each one differently and with little or no written justification or documentation.

Effect: Without a predefined process and adequate documentation the exceptions can be perceived as favoritism. Once there is a perception of favoritism, the process loses its integrity.

Recommendation: Develop policies and procedures that define how to handle and document allowable exceptions to policy. Develop criteria for allowable exceptions and apply the criteria consistently. Document the independence of all management and service providers when any exception to standard policy is made. Have all policies and procedures and exception criteria approved by the Public Safety Committee.

Management Comments:

Agree X

Disagree _____

Corrective Action Plan: We have already corrected some of these procedures and will continue to train our personnel. There will be no exception to our abatement policy as it relates to billing for services unless otherwise directed.

Projected Completion Date: September 1, 2012

Responsible Manager: Bob Kendrick and Les Crocker

2. **Internal control weakness: Documentation in case files is missing or insufficient.**

Criteria: Each abatement case file should clearly document the abatement process from beginning to end. The files should establish a timeline for the code violation actions and should document all actions taken and decisions made on a case. These actions and decisions should be backed up by photographic evidence. Each file should be reviewed for completeness before the case is closed.

Condition: Our tests of the case files revealed that there is incomplete documentation in many of the files. In our random sample of 104 case files:

- 17% of the case files did not have the origin of the complaint noted.
- 72% did not have the CEO assignment information.
- 10% did not have the occupancy status noted.

- 33% required extra research to determine what happened in the case because the notes were insufficient.
- All of the case files which had been forwarded to the abatement crew for work to be performed and which were subsequently corrected by the owner had missing work orders. These work orders are pulled, filed and retained in a separate place. We traced our sample cases to the pulled copies and in at least one case worktime was recorded on the work order and then whited out with no explanation.
- There is inconsistent photographic documentation in the files.

Cause: Case file procedures do not specifically address how the case should be documented.

Effect: When actions and decisions are not documented a confident analysis of case files is difficult and could impact the collectability of amounts invoiced.

Recommendation: The auditors recommend the following:

- Training of the CEOs and the abatement crew should stress the importance of well documented cases and complete case files.
- All fields on all forms should be completed or the forms should be redesigned so that redundant writing is not necessary.
- A written explanation should be provided for all cases where the minimum number of photos is not included in the file.
- The time spent on work order visits should be documented in each file. The time it takes to assess and take pictures of each property as well as the time spent doing billable work should be documented. Both the work done and the time required to accomplish it should be specifically noted on the work order and initialed by all crew members.
- The work performed should be supported by photos but photos should not stand as the only documentation for work performed. All photos should be saved on a secure server and identified by a unique reference that ties the photo to a case file (such as the work order number). The photos should reside on a server that is periodically backed up.
- The reasons for all time gaps, e.g. if property owner is given extra time to correct a violation, should be noted in the case file.
- Any billing exceptions should be justified by identifying a predefined allowable exception. The independence of the work crew and management should be noted either on the form or on an attachment referencing the work order and the date of service.
- Each file should be reviewed for completeness with a checklist and a final sign off signature before a case is closed.

Management Comments:

Management understands the need for complete case files. In the past we have relied on certain assumptions and interpretation to complete the case file.

Agree _____ **X** _____

Disagree _____

Corrective Action Plan: We will implement training and revamp paperwork to meet recommendations by both divisions to ensure completeness of files as listed above.

Projected Completion Date: December 1, 2012

Responsible Manager: Brigitte, Papastathis, Bob Kendrick, Les Crocker

3. **Internal control weakness: Some key elements of internal control are missing or flawed in design.**

Criteria: An organization should select and develop control activities that mitigate the risks of mistakes, wrongdoing, and other problems that hinder achievement of program objectives. Properly designed internal controls include proper segregation of duties, independent approvals and reconciliations, and quality assessments.

Condition: The following conditions affecting the design and effectiveness of internal control exist:

- There are two databases that track violation case files. One is maintained by the CEO supervisor and the other is maintained by the abatement supervisor. There is no cross referencing between the databases and therefore it is not easy to confidently identify a case in one database with a case in the other database. No reconciliation is performed between the databases to verify that all cases turned over to the abatement crew are assigned work orders.
- Two independent invoices are generated for the work performed by the abatement team for the cost of services. One is generated as a summary by Building and Codes and is supposed to remain in the case file. The second is generated by Finance and Revenue and is the invoice that is mailed to the property owner. One shows Building and Codes as the payee and the other shows Finance and Revenue as the payee. In two cases the Building and Codes invoice was mailed directly to the property owner bypassing the Finance and Revenue department altogether.
- As mentioned in finding #2, work orders for owner corrected properties are pulled from the case files. This eliminates key evidence showing what the abatement crew did to follow up on a case referred to them by Codes Enforcement. Also, the time required to take pictures or talk to the property owner/resident is not captured on work orders although this would be a good method of documenting the crew's actions and total hours at the end of the day. Also, the time and services recorded on the work order are not verified by crew members' initials, noting their agreement. We noted two cases in our review of files where the time on the work order had been whited out showing no time worked and no explanation for the change.
- Complaint forms are pre-numbered but no independent review is done to account for all numbers. Work order forms are pre-numbered but no

independent review is done to account for all work order numbers. Since both forms generate the use of City resources and can result in payment to the City, all numbers should be accounted for.

- The Revenue and Finance letter to property owners does not reference the work order number and no reconciliation is performed to assure that all work orders that result in billable time have been sent to Finance and Revenue for billing.

Cause: Because the in-house abatement crew is a relatively new program, the procedures are still being developed and tested.

Effect: The following situations can result from the above listed weaknesses.

- Work orders can be independently generated without an accompanying complaint. This could lead to misappropriation of City resources or fraud.
- Complaints can be generated but nothing is done about the complaint and no work is performed. This could result in the program not meeting its objectives.
- A Building and Codes invoice could be given directly to a property owner and payment requested directly to Building and Codes or directly to an employee. This could lead to confusion or fraud.
- Work order times can be altered after the fact. This could lead to a misappropriation of City resources, preferential treatment or fraud.
- Finance and Revenue could inadvertently not receive the information from Building and Codes to bill a property owner and the mistake is not discovered. This could result in reduced revenue collection.

Recommendation: The auditors make the following recommendations:

- Building and Codes should consider using an integrated software package to manage their code enforcement and abatement function. These software packages are available and can be researched on the internet. According to our research these programs offer workflow management of cases, provide case reporting, promote consistency and efficiency, and reduce errors. They also can provide segregation of duties, data protection, and an audit trail of changes.
- Until an integrated software package solution can be implemented, both databases should be cross referenced with the complaint number and the work order number. An independent periodic reconciliation should be performed to assure that all cases turned over to the abatement crew have been assigned a work order number and that no work orders have been generated without an accompanying complaint form. Complaint forms and work order forms should be used in numerical sequence and all should be accounted for. Retain voided complaint forms and voided work order forms according to Building and Codes' record retention policy.
- The Building and Codes invoice should be eliminated from the file. If a separate sheet is needed showing hours worked and billable amount, redesign the form so that it doesn't look like an invoice.
- Work orders should not be pulled from any file. Unbillable time as well as billable time should be documented for each visit to a property. Crew members should initial agreement of the documented time on the work order. If time

needs to be changed on a work order it should be lined through with a written explanation and re-initialed by the crew members.

- Finance and Revenue letters to property owners should reference the work order number. Finance and Revenue should perform a periodic independent reconciliation of the work order database (and/or the complaint form data base for contractor provided services) with the letters that have been sent to property owners to assure that all cases have been billed.

Management Comments: Management agrees that the above mentioned reconciliations and other changes need to be done.

Agree _____

Disagree _____

Corrective Action Plan: We will implement the recommendations: We have already completed several recommendations and will continue to strive towards completion of all other recommendations.

Projected Completion Date: December 1, 2012

Responsible Manager: Brigitte Papastathis, Bob Kendrick, Les Crocker

4. **Lack of a formalized method of collecting outstanding abatement billings has resulted in delayed receipt of revenue for the City.**

Criteria: A formalized method to collect debt should be in place which includes periodic notification to debtors with timetables and consequences for unpaid debt. Aged and disputed items should be reviewed for collectability on a periodic basis. If historical data indicate that a portion of the debt is uncollectible, an allowance for uncollectible accounts should be recorded on the financial statements. A means to resolve disputes should be established so that debt can be collected or account balances can be adjusted in a timely manner.

Condition: The FY 2012 AR balance for the abatement program is \$550,332. Prior to June 2012, the only collection effort that was made after the initial abatement invoice was mailed to the property owner was when contact was made for other reasons, such as tax collections. The AR balance has not been reviewed for collectability on a regular basis.

Cause: There are numerous reasons for the growing AR balance related to the abatement program.

- Collection of abatement receivables was not established as a priority due to the fact that many of the amounts owed are supported by liens against property. The supposition was that the City would eventually be paid during property transfers.

- According to the City Legal Department, transfers of property have taken place without abatement liens being paid off due to the misspelling of property owners' names on the liens. Liens are placed on properties according to the name of the property owner, not the property address.
- The increase in the volume of properties abated since the in-house abatement program began has contributed to the growing AR balance.
- Poor documentation in some of the abatement case files has slowed down the collection process when a dispute arises.
- The City Legal Department has been understaffed until May 2012 and has not had the manpower to pursue collections on liens and other debt.
- Historically, the City Legal Department has been pushed to address legislative priorities, and the management of litigation over debt collection.
- There has been no process in place whereby Building and Codes and/or Finance route files on a periodic basis to the City Legal Department for collection.
- There has not been a clear process and communication between the County Trustee, Delinquent Tax Attorney and the City regarding abatement invoice collection.
- Availability of real time property information from the County Assessor's Office has been hampered by software and IT limitations.
- Due to legal requirements outlined in the Tennessee Code Annotated, the time line from the date a property is abated until the time the property can be sold to recover expenses is approximately three years.

Effect: Uncollected revenue decreases the City's ability to recover resources already expended for work performed in the abatement program.

Overstated AR balances may be misleading on financial statements.

Recommendation: The auditors recommend the following:

- Establish a systematic method for collecting the outstanding debt including procedures for Finance and Revenue and City Legal and formalize the method in writing;
- Establish incentives that accelerate the collection of delinquent abatement AR. We recommend a strategy that includes incentives for early payment (discounts), and a declaration of an amnesty period (with substantial one time discount) aimed at collecting the oldest delinquent AR balances with the threat of tax sales or other punitive measures if no payment is received during the amnesty period.
- Establish a systematic method for Finance and Revenue and City Legal for resolving disputes;
- Establish a review of names placed on liens for correct spelling (done by Building and Codes);
- Track historical data to determine if an allowance for uncollectible accounts needs to be recorded on the financial statements;
- Establish an interlocal agreement with the Delinquent Tax Attorney, the County Trustee, and the City that defines the handling of delinquent abatement AR.

Management Comments:

Finance and Revenue Comments:

Since late June 2012, Finance and Revenue has begun to pursue collections on the aged AR associated with the abatement program in a systematic way. The initial collection letter to property owners has brought in both a significant amount of revenue and a significant number of disputes. Finance is processing the disputes through the City Attorney's office to establish whether the disputes are valid. Finance is also making determinations on the collectability of AR based on the advice of the City Attorney's office. Revenue collection notifications for new abatement billings will be sent out at 30, 60, and 90 day intervals beginning in August 2012.

Legal Department Comments:

We will work with the Mayor and City Council to prioritize debt collection along with other Legal Department responsibilities. We will implement protocol between Building and Codes, Finance, and the City Legal Department that directs the handling of abatement service collection. We will seek an Interlocal Agreement between the County Trustee, the Delinquent Tax Attorney, and the City that addresses the handling of delinquent abatement AR.

Agree _____ X _____

Disagree _____

Corrective Action Plan: Effective August 2012, we have initiated a plan to notify debtors at 30, 60 and 90 day intervals. We have also implemented a review process with the City Attorney's office for resolving disputes. We will work on formalizing the process with all the participants in order that all parties understand the process.

Projected Completion Date: March 2013

Responsible Manager: Debra Frazier

5. **Abatement revenue has been prematurely recognized in the financial statements.**

Criteria: For modified accrual accounting, revenue is recognized when it is earned, measurable and available to finance expenditures in the current period. Generally, this revenue recognition principle requires that revenue be recognized in the period when it is collected instead of the period in which it is earned.

Condition: The City has a valid claim for reimbursement for the cost of abatement services and the amount is measurable. However, of the \$550,332 in outstanding AR at the end of FY 2012, \$445,980 was prematurely recognized as revenue since it had not yet been collected. The remaining \$104,352 (grant revenue) was correctly recorded as deferred revenue.

Cause: The City records all non-grant abatement receivables directly to revenue when the invoices are issued.

Effect: At the end of FY 2012, the City had an excess of \$445,980 in its unrestricted fund balance.

Recommendation: The City should reclassify the \$445,980 to a deferred revenue account. The City should code all invoices that have been issued in FY 2013 and going forward to deferred revenue. Only when payments have been received against the invoices should revenue be recognized.

Management Comments: Management has made the reclassification entry and any prior period adjustments as appropriate. We agree that the abatement revenue was recognized before it was available. Abatement receivables were originally recorded with property tax receivables which are correctly recorded as deferred revenue. When the abatement receivables were separated from property tax receivables, the thought was that all of the abatement receivables would be collected in the current period and the receivable amount should be recorded as revenue. That assumption has not proven accurate and we will make the appropriate adjusting entries.

Agree X

Disagree _____

Corrective Action Plan: We have adjusted the revenue that was prematurely recorded prior to June 30, 2011 as a prior period adjustment to fund balance. We have reclassified the prematurely recorded revenue for FY 2012 to deferred revenue since the FY 2012 financial statements have not yet been finalized.

Projected Completion Date: September 21, 2012

Responsible Manager: Debra Frazier

6. **Weak control environment: Distrust and poor communication between employees and management create a weak control environment.**

Criteria: According to the COSO Internal Control Framework a good internal control environment includes, but is not limited to, the following characteristics. Management of an organization must:

- Demonstrate its commitment to integrity and ethical values;
- Demonstrate its commitment to attract, develop and retain competent employees;
- Set realistic performance targets for employees;
- Define reporting lines, authorities and responsibilities clearly;
- Demonstrate a willingness to report and listen. Employees must believe that managers want to know about problems and will deal with them as necessary.

Condition: The work environment in the Codes Enforcement/Abatement division of Building and Codes Department is marked by the following characteristics:

- Seven of fourteen employees interviewed believe that they have been asked to give contractors special treatment which is not included in written policy;
- Two of fourteen employees interviewed believe that they have been asked to perform tasks for which they are not qualified;
- Eight of ten employees interviewed who write citations believe that the current quota of 65 citations per month during the winter months is difficult to meet and results in unnecessary or marginal citations being written;
- Eight of fourteen employees interviewed believe that communication within the department is hampered because reporting lines are blurred or because directives are not consistent or because employee input is not valued.
- All fourteen employees noted that the work environment is stressful due to distrust between management and some employees. Five employees indicated that the stress was great enough to cause problems outside of work.
- Two employees believe that there are other employees who have fabricated stories and are interested in stirring up trouble in the department.

Cause: Some causes include:

- The department has an unwritten policy of notifying contractors verbally if a codes citation has been issued. Verbal notification is not given to regular citizens and is not part of the normal abatement process. Some employees perceive this practice as giving preferential treatment to contractors.
- According to management, the quota of 65 cases per month was implemented to motivate employees to work harder. Management's perception is that the previous quota of 45 cases per month resulted in some employees ceasing to write citations once they met their monthly goal.
- The recent legal investigation and related employee allegations in the Codes Enforcement/Abatement division have created an atmosphere of distrust. Some employees bring tape recorders to meetings in order to document what is said.

Effect: The effect of the current work environment is that department business may suffer. Institute of Internal Audit studies have shown that when employees perceive that management practices are unethical they are more likely to participate in unethical practices themselves putting the organization at risk. Also, important messages from management to employees and vice versa may be misunderstood or misinterpreted due to distrust or poor communication channels or inconsistent directives. In addition, aggressive performance targets can result in fabricated numbers or other undesirable outcomes.

Recommendation: The auditors recommend the following:

- The practice of verbal notification should cease unless it is formalized and offered to all property owners as a means of notification. Any exception needs to be formalized and approved by the Public Safety Committee.
- Management should assure that employees have proper training for all tasks, particularly for ones that involve safety issues. Management should document

- any expressed concerns on the part of an employee along with the effort put forth to address the concerns.
- Management should revisit the quota system with consideration given to the following possible alternatives:
 - Reduce the quota amount in the winter months when the grass is not growing.
 - Use the monthly number of required citations as a goal instead of a quota. Use performance evaluations to modify employee behavior.
 - Management should consider hiring an independent outside facilitator to help the department move forward. Multiple meetings with the facilitator several months apart may be helpful or necessary to return trust and establish communication within the department. The Baldrige Performance Excellence Assessment Tools (one for staff and one for management) are useful tools for identifying the areas of perceived differences between staff and management. These tools can be used in conjunction with a facilitator or by management itself to help identify the perceived differences within the department.

Management Comments: Management will continue to provide a good work environment. For years it has been stressed to Codes Enforcement that it was the group charged to keep Clarksville appearing clean. To meet that challenge requires consistent work by the CEOs and consistent issuing of citations at a level that addresses that charge. The current requirement of 65 citations/month was implemented only after due consideration by, and input from, supervisory Codes Enforcement personnel. Management does not consider the 65/month amount as an aggressive performance target - - it is routinely met, and typically exceeded, by the CEOs - - Also, Management is satisfied that resort to writing unnecessary or marginal citations is not needed to achieve the 65/month citation requirement. Respectfully, comment and recommendation concerning the 65/month code citations required from each CEO is outside of the scope of an audit of a city-run abatement process that affects only those citations not addressed by the property owner. Additionally, it is inconsistent for the audit to highlight and praise, as a “Noteworthy Accomplishment,” the substantial increase in code violation cases worked (Draft Report, page 4) while recommending alteration of a principal reason why the number of code violation cases are there to be worked. The idea of reducing the number of required monthly citations for the winter months is not supported by the audit’s finding that CEO initiated complaints are not seasonal (Draft Report, page 2), but potential reduction of the 65 citations/month in the winter months is the topic of on-going discussions with the supervisory personnel of the Department and is a matter that could change if consistent without meeting the ongoing challenge of keeping the City clean in appearance, as best we can. Finally, establishment of a required number of code violation cases to be worked per month is within the discretion of the Director of Buildings and Codes to supervise, manage and direct the staff and to prioritize and assign work. Problems regarding required monthly citation totals, therefore, would need to be raised in an HR context regarding the exercise of the Director’s discretion, not in the context of an audit focused on the abatement process. Respectfully, Management disagrees with the

Recommendation set forth in the audit relating to reconsideration of requiring 65 code violation citations a month for each CEO, but in noting this disagreement, it should also be noted that Management is continuing discussions within the Department regarding possible reduction of the monthly numbers for winter months.

Management must also respectfully disagree with the recommendation that an independent facilitator be hired “to help the department move forward”. The Director and all Supervisors in Building and Codes feel that such would be counter-productive - - it would allow for the prolonging, if not exaggerating, of disputes which, it is felt, are lessening among those in the Building and Codes Department. Hiring such a facilitator would also constitute an expense to the City at a time when revenue generating projects - such as the city-run abatement program - - should be emphasized. Finally, and similar to comments above, disputes between Building and Codes Department individuals are HR issues and, respectfully, are outside of the scope of an audit of a city-run abatement process.

Accordingly, Management AGREES with the first two recommendations and DISAGREES with the last two recommendations.

Agree _____ Disagree _____

Corrective Action Plan: We will implement the two (2) recommendations that management agrees with and if HR deems it necessary all staff and all management will complete the Baldrige Performance Excellence Assessment Tools and review the results with Human Resources.

Projected Completion Date: 1st response October 1, 2012,
2nd response December 1, 2012

Responsible Manager: Les Crocker

Auditor Comments to Management Comments: *The auditors disagree with management’s assertion that commenting on and making a recommendation to revisit the quota policy is beyond the scope of this audit. Codes Enforcement is an integral part of the abatement process and, as required by Government Auditing Standards, we reviewed the policies and procedures of Codes Enforcement and the Abatement Crew and the internal control environment of both.*

During the course of our audit, we received feedback from both Codes Enforcement officers and citizens that argued against the effectiveness of the quota policy especially during the winter months. Eight of the 10 Code Enforcement Officers interviewed said that the current requirements have led to citations that were marginal in nature. We also noted in citizen survey responses that there is a perception that the attitude of the department is more aggressive than it used to be. This policy that stresses quantity of citations over quality of citations risks damage to the City’s public relations.

As a result, we stand by our recommendation that the number of citations required per month during the winter months should be reconsidered. Our recommendation is that management open communication lines to those implementing the policy and to those being subjected to the policy. We are not advising a specific solution. We are concerned with evidence that there is a breakdown in communication between management and those affected by its policy directives. Specifically, we are concerned that the internal control environment is being weakened by not keeping these communication lines open. Effective communication within an organization is considered one of the five elements of internal control by Government Auditing Standards and COSO Internal Control Framework.

The auditors disagree with management's assessment that the personnel problems at Building and Codes are solely HR issues. All 14 employees interviewed noted that the work environment was stressful due to ongoing mistrust between management and employees. Four of 14 individuals interviewed indicated that they have sought outside professional counseling as a result of the work environment. Such an environment poses an internal control risk because communication breaks down in such an environment and important messages are not received by both management and personnel. Effective communication is hampered.

The recommendation to use an outside facilitator to move the department forward was offered as a way to reestablish communication lines, and to directly address work environment issues within the department with an independent professional.

Other Conclusions and Recommendations

The following recommendations do not relate directly to findings or exceptions to policy but that the auditors believe the implementation would help improve the overall abatement process.

1. **Develop a clearly defined mission statement that can act as the criteria by which all activities are measured. Identify and define all the salient parts of the mission of the Codes Enforcement/Abatement division, e.g. helping the elderly (if that is part of the mission). Support the mission of the department with policies and procedures that reflect the mission. Have the mission statement and related policies approved by the Public Safety committee so that there is independent confirmation of what the mission and policies should be.**

Management Comments:

Agree _____ **X** _____

Disagree _____

Corrective Action Plan: We will develop a detailed mission statement for the abatement program and design our policies and procedures to reflect the mission. We will have these approved by the Public Safety Committee.

Projected Completion Date: December 1, 2012

Responsible Manager: Bob Kendrick and Les Crocker

2. Proactively educate the public about Code requirements relating to grass, debris, property maintenance, etc. so that when citations are issued citizens are not surprised. A goal might be that all citizens know the standards and the process before they receive a notice of violation. This can be done on the City TV channel, in the newspaper, on the City website, and through information distributed in utility billings.

Management Comments:

Agree _____ X _____

Disagree _____

Corrective Action Plan: Newspaper articles and use the City webpage.

Projected Completion Date: This will be an ongoing process.

Responsible Manager: Les Crocker

3. Improve the letter that is mailed to the property owner notifying him of a violation. According to our survey results few people understand that there is an appeals process. The letter is long and identifies a host of possible violations. Sometimes there is confusion over exactly what the citizen needs to do in order to correct the problem.

Management Comments: We will meet with the City Attorney to make appropriate changes/corrections.

Agree _____ X _____

Disagree _____

Corrective Action Plan: We will redesign the letter and have it approved by the Public Safety Committee.

Projected Completion Date: December 1, 2012

Responsible Manager: Brigitte Papastathis and Les Crocker

4. Use alternative sources to identify the correct addresses of property owners when letters are returned. Approximately 10-15% of the files tested had violation letters that had been returned due to wrong addresses. While the City is not required

legally to do more than send a notice to the address on the property record, the extra effort may pay off in better public relations and less Legal work on the back end. There are website services, such as spokeo.com, that can be purchased and used to get up to date information. Clarksville Gas and Water has also agreed to provide support in supplying up to date addresses.

Management Comments: Management agrees that wrong addresses cause problems with notifications and collections.

Agree _____ X _____

Disagree _____

Corrective Action Plan: We will investigate alternative sources of information for identifying the latest address for property owners.

Projected Completion Date: This is an ongoing process.

Responsible Manager: Brigitte Papastathis and Les Crocker

Conclusions

The Abatement program at Buildings and Codes has undergone significant changes in the past two years as abatement activities have been brought in-house as opposed to being contracted out to independent contractors and the CEOs are required to cite more violations per month.

In accordance with our audit objectives we determined that:

- The abatement program complies with City Code and other regulations.
- The internal controls surrounding the activity need to be strengthened in certain areas, as outlined in findings 1, 2, 3 and 6.
- The cost analysis of the in-house abatement program compared to the outsourced program revealed the following:
 - The number of abatements increased by 76% when the abatement program was brought in-house. We could not determine whether the increase in the number of abatements is due to bringing the abatement services in-house or due to the increase in the number of citations written monthly by the CEOs or a combination of both.
 - The amount of billings (potential revenue) increased by 15%.
 - Total expenses increased by 26%.
 - Overall potential contribution of the program (potential “net income”) decreased by 71%.
- The following process improvements need to be made:
 - AR collection procedures and revenue recognition procedures need to be changed in accordance with findings 4 and 5.
- Additional recommendations for process improvements that should be considered are reported in the “Other Recommendations” section above.

The auditors would like to thank the Codes Enforcement staff, the Abatement staff and other Building and Codes employees for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

If further information about this audit is desired please contact Internal Audit at 931-648-6106.