

**Clean it Up/Green it Up Division
Audit of Contract Administration and Liens**

Report #575

October 14, 2003



EXECUTIVE SUMMARY

October 14, 2003

Report No. 575

INTRODUCTION

The Clean it Up/Green it Up Division (CIU/GIU) is responsible for performing contract administration for nuisance abatement, demolitions and board-ups of structures when property owners fail to correct violations of Chapter 518 (Property Safety) of the Jacksonville Municipal Code. This includes ensuring that contractors have complied with all contractual terms before payment is remitted and that all associated costs are properly posted as a lien against the property. CIU/GIU is currently staffed by 12 permanent employees and two temporary employees. Of CIU/GIU's \$2.1 million budget for the FY 2001/02, nearly \$500,000 was budgeted for nuisance abatement and approximately \$669,000 was budgeted for demolition and site clearance work.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether payments made to nuisance and demolition contractors were made in accordance with specified terms of the contract and appear valid, reasonable and accurate and whether these costs were billed to the property owner.
2. To determine whether liens were properly processed, recorded and maintained and whether liens were appropriately removed upon satisfaction.

AUDIT CONCLUSIONS

1. Payments made to nuisance and demolition contractors were made in accordance with specified terms of the contract and appear valid, reasonable and accurate in most instances. In addition, it appears that contractual costs were properly billed to the property owners.
2. Overall, liens were properly processed, recorded, maintained and removed from the Lien Database upon satisfaction of the lien; however, liens were cancelled and reduced without proper authorization.

SIGNIFICANT WEAKNESSES AND FINDINGS

Some of the significant weaknesses and findings include:

- The process for generating work orders and abating properties is not operating efficiently.
- No routine reviews of outstanding work orders to ensure that all work orders are processed.
- No formal automated system for tracking the processing of work orders.
- Lack of controls in place to prevent collusion from occurring between the contractor and CIU/GIU, especially given that CIU/GIU prepares the contractors' invoices and inspectors are not rotated to different contractors on a routine basis.
- No evidence of supervisory review on invoices paid to the contractors.

- Work orders were not completed by the contractors in a timely manner in accordance with contractual terms.
- In five instances, duplicate payments were made to contractors, resulting in a total overpayment of \$823.40.
- Security over the Lien Database maintained by the General Accounting Division did not strictly limit access to users.
- Liens totaling \$6,785.89 were cancelled without proper authorization and liens totaling \$4,123.10 were reduced without proper authorization.
- Interest charges on the Lien Database were calculated incorrectly.

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



October 14, 2003

Report No. 575

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of the Clean it Up/Green it Up (CIU/GIU) Division of the Department of Neighborhoods, specifically focusing on contract administration related to nuisance abatement, demolitions and board-ups of structures, as well as the creation, satisfaction and removal of liens on the City's Lien Database. Although our audit focused on the CIU/GIU Division, it should be noted that the General Accounting Division is responsible for maintaining the lien records on the Lien Database. Our audit of the CIU/GIU Division included discussions with employees of the CIU/GIU Division as well as the General Accounting Division, a review of operational efficiencies, an examination of invoices paid to contractors, a review of property case files, and testing of records on the Lien Database.

The CIU/GIU Division's responsibilities include not only beautifying City neighborhoods by cleaning up litter and planting trees, but also performing contract administration for nuisance abatement, demolitions and board-ups of structures when property owners fail to correct violations of Chapter 518 (Property Safety) of the Jacksonville Municipal Code. As part of its contract administration functions, the CIU/GIU Division is responsible for ensuring that contractors hired by the City to perform nuisance abatement, demolition and board-up work have complied with all contractual terms before payment is remitted and that all associated costs are properly posted on the Code Enforcement Management System (CEMS) as a lien against the property. CIU/GIU utilizes six contractors (awarded by bid), one for each zone or planning district within the City, to abate nuisance violations and a variety of contractors from an approved vendor's list for demolitions and board-ups. The main duties carried out by CIU/GIU's contractors include mowing nuisance lots, performing site clearances of trash and debris, and demolishing or boarding up structures.

CIU/GIU is currently staffed by 12 permanent employees, ten of which are directly involved in contract administration, including a Division Chief, an Assistant Management Improvement Officer, an Administrative Assistant, two Clerical Support Aides, two Contract Compliance Specialists (one supervises nuisance abatement and the other supervises demolitions and board-ups) and three Contract Compliance Inspectors. CIU/GIU is also staffed by two temporary Contract Compliance Inspectors. CIU/GIU's total budget for the FY 2001/02 was \$2.1 million, of which nearly \$500,000 was budgeted for payments to nuisance abatement contractors and approximately \$669,000 was budgeted for demolition and site clearance work performed by contractors.

CIU/GIU is governed by written internal policies and procedures, contracts with individual contractors, as well as Chapters 518 (Property Safety and Maintenance) and 112 (Claims by and Against the City) of the Jacksonville Municipal Code.

STATEMENT OF OBJECTIVES

The objectives of the audit were:

1. To determine whether payments made to nuisance and demolition contractors were made in accordance with specified terms of the contract and appear valid, reasonable and accurate and whether these costs were billed to the property owner.
2. To determine whether liens were properly processed, recorded and maintained and whether liens were appropriately removed upon satisfaction.

STATEMENT OF SCOPE

The audit scope for detailed testing was October 1, 2001 through September 30, 2002.

STATEMENT OF METHODOLOGY

Our methodologies included statistical sampling, review of payment and lien records, files and reports, as well as interviews with employees of the CIU/GIU and General Accounting Divisions.

Our report is structured to identify Internal Control Weaknesses and Audit Findings as they relate to our audit objectives. An internal control is a process effected by the administration, CIU/GIU's management and other personnel that is prescribed to provide reasonable assurance about the achievement of CIU/GIU's objectives in relation to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reporting. An Internal Control Weakness is therefore defined as either a defect in the design or operation of CIU/GIU's internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an area where management has established internal controls and procedures, however responsible parties are not operating in compliance with the established controls and procedures.

STATEMENT ON AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

SUMMARY OF AUDIT CONCLUSIONS

1. Payments made to nuisance and demolition contractors were made in accordance with specified terms of the contract and appear valid, reasonable and accurate in most instances. In

addition, although a physical record is not maintained to verify whether invoices were mailed to property owners, it appears based on data recorded in the Lien Database that these contractual costs were properly billed to the property owners. Despite our overall conclusion that contractors were paid accurately in most instances, we did note some Internal Control Weaknesses and Findings related to Audit Objective #1, as described below.

2. Overall, liens were properly processed, recorded, maintained and removed from the Lien Database upon satisfaction of the lien; however, we did note that liens were cancelled and reduced without proper authorization and that access to the Lien Database was not strictly limited among its users, placing the integrity of the data at risk, as further described in the Internal Control Weaknesses and Findings under Audit Objective #2 below.

OVERALL INTERNAL CONTROL WEAKNESSES

Based on discussions with CIU/GIU employees observations throughout the audit, and a review of policies and procedures we noted the following Internal Control Weaknesses and have made recommendations for increasing operational efficiencies. Other Internal Control Weaknesses related specifically to either Audit Objective #1 or Audit Objective #2 are contained within those objectives.

Internal Control Weakness #1

The current process for generating work orders and abating properties is not operating in an efficient manner. More specifically, in many instances when the CIU/GIU Division generates work orders, these files must go back to the Property Safety Division for further processing, including printing of plat maps or obtaining clarification from code officers on case history. However, there is no formal system in place that tracks work orders given back to the Property Safety Division for further processing. The current process allows for work orders and property files to “bounce” back and forth between the CIU/GIU Division and the Property Safety Division, which could ultimately lead to delays in processing a property for abatement and/or result in lost files.

Recommendation to Internal Control Weakness #1

The CIU/GIU Division’s main role in the enforcement of code violations is to have a contractor abate the property if the owner refuses to comply with the City’s Ordinance Code and ensure that the contractor’s work has been properly completed. The CIU/GIU Division should only be provided a work order once all elements needed for abatement have been completed. Therefore, we recommend that the generation of work orders and creation of plat maps needed to process a property for abatement be completed by the Property Safety Division before the file is presented to CIU/GIU for abatement. This should minimize the chance that a file is lost and should allow the overall process to operate more efficiently. In addition, in order to ensure that all work orders have been processed for abatement action and to provide a system of checks and balances, the CIU/GIU Division should be provided a system-generated report on the number of work orders that should have been printed by CEMS on a daily basis.

CIU/GIU's Response to Internal Control Weakness #1

The division concurs with the Council Auditor's Office recommendation. The Property Safety Division (PSD) needs to pull files and attach maps before case files are forwarded to Clean It Up, Green It Up (CIUGIU) and also provide a daily report, which lists all work orders transferred for abatement.

Internal Control Weakness #2

Employees in the Property Safety Division have access to CEMS, the system used for generating work orders to be given to the nuisance and demolition contractors, even after the property has been turned over to the CIU/GIU Division for abatement. This places the integrity of the data at risk and could present problems for the CIU/GIU inspectors who are handling the abatement based on information in the system that could be manipulated by other users.

Recommendation to Internal Control Weakness #2

Whether the CIU/GIU Division continues to generate work orders or this function is assumed by the Property Safety Division, we recommend that only users in the CIU/GIU Division have access to make changes to the property records maintained by CEMS once CIU/GIU begins the abatement process. Users in the Property Safety Division should not have a need to edit these records once the abatement process is being handled by CIU/GIU.

CIU/GIU's Response to Internal Control Weakness #2

The division concurs with the Council Auditor's Office recommendation. The division will request ITD to restrict case file access after a 37A visit code/inspection is posted to the system (the 37A is the final inspection performed by PSD before work order generation and abatement).

Internal Control Weakness #3

Work orders are not automatically generated by CEMS. Instead, an employee in CIU/GIU must go into CEMS on a daily basis and print the work orders. This stems from inherent system limitations for printing any documents whereby users must go into a separate screen on CEMS and direct the system to print documents in the "review" queue. Such a system could allow work orders to be delayed in processing if they are not printed on a daily basis.

Recommendation to Internal Control Weakness #3

Even if the work orders were programmed to be automatically printed by CEMS on a daily basis, this would not ensure that they are taken off of the printers and properly distributed. However, automatic generation of work orders at a scheduled time during the day would at least prevent any delays in distributing work orders if the employee responsible for this task is out of the office. Therefore, we recommend that CIU/GIU meet with staff from ITD to determine whether a system change can be made which would allow work orders to be generated automatically at a scheduled point during the day.

CIU/GIU's Response to Internal Control Weakness #3

The division concurs with the Council Auditor's Office recommendation. The division will request CEMS system changes to automatically generate work orders once 37A inspections are entered into the system.

Internal Control Weakness #4

Currently, there are no routine reviews of outstanding work orders in CEMS to ensure that all work orders are being processed for abatement. This could allow work orders to sit idle with no abatement action.

Recommendation to Internal Control Weakness #4

We recommend that the Nuisance Abatement Supervisor (formally referred to as the Contract Compliance Specialist) at least on a bi-weekly basis, monitor the number of outstanding work orders in CEMS. This would allow the Division to be proactive on cases that otherwise could sit idle in the system or may not be abated in a timely manner. In addition, this could be used as a check and balance system to ensure that once printed, all work orders are distributed to the Nuisance Abatement Supervisor before being given to each of the Contract Compliance Inspectors. Such a process should be implemented even if the Property Safety Division assumes responsibility for generating the work orders.

CIU/GIU's Response to Internal Control Weakness #4

Currently, CEMS only reports case status as 376 (after 37A entry and forwarding of case files to CIU/GIU from PSD abstracting for distribution to contractors). The division will ask ITD about report options. The nuisance Contract Compliance Specialist will weekly monitor work orders after the 37A inspection is completed in CEMS and after physical case files have been forwarded from PSD abstracting to CIU/GIU.

Internal Control Weakness #5

The mechanism used by CIU/GIU for tracking the processing of work orders is not formal or automated. Currently, when work orders are printed by CEMS, the Clerical Support Aide in CIU/GIU lists the work orders on a legal pad and then strikes through each work order when it is ultimately returned to her. Although the Clerical Support Aide may periodically question the inspectors if any work orders remain outstanding for more than 30 days, there is no formal monitoring of outstanding work orders, specifically by the Nuisance Abatement Supervisor, to ensure that all work orders are completed by the contractors, processed by the inspectors and returned to the Clerical Support Aide for creation of the lien.

Recommendation to Internal Control Weakness #5

Without a formal system in place to monitor the work order process, a nuisance property may not be abated in a timely manner or at all. In addition, even if abatement work is performed, the work order could be misplaced and the lien never placed on the property. Therefore, we recommend that CIU/GIU develop a formal system, either through a database or a spreadsheet, for tracking the distribution and processing of work orders to ensure that all work orders have been properly accounted for and that all liens are ultimately placed on the properties.

CIU/GIU's Response to Internal Control Weakness #5

The division will meet with ITD to discuss development of an automated system for tracking of case files after the final 37A inspection has been entered by PSD. The nuisance Contract Compliance Specialist will weekly query and review the status of all outstanding work orders, aged 30+ days.

Internal Control Weakness #6

CIU/GIU currently accepts bids for site clearances and demolitions via the facsimile machine. This system allows bids to be viewed before the formal opening of all other bids that are sealed, which could lead to bid protests.

Recommendation to Internal Control Weakness #6

In order to protect the integrity of the bidding process, we recommend that contractors only be permitted to submit sealed bids for site clearance and demolition work.

CIU/GIU's Response to Internal Control Weakness #6

CIU/GIU concurs with the Council Auditor's Office recommendation. Contractors will be notified that submittal of bids via fax transmission is no longer allowed and that sealed bids must be submitted for site clearance and demolition work.

AUDIT OBJECTIVE #1

In order to determine whether payments made to nuisance and demolition contractors were made in accordance with specified terms of the contract and appear valid, reasonable and accurate and whether these costs were billed to the property owner, we performed the following testing. We reviewed contractual agreements and standard operating procedures, recalculated invoices for mathematical accuracy, agreed select payments to supporting documentation (work orders and photographs), sorted payments to contractors to identify duplicate payments, verified whether there were any payments to non-approved vendors and also reviewed invoice records maintained on the Lien Database to determine whether contractual costs were properly billed to property owners. Our Internal Control Strengths, Weaknesses and Findings related to this objective are detailed below.

INTERNAL CONTROL STRENGTHS- Objective #1

Internal Control Strength #1

All of the nuisance contractors are required to submit before and after photos documenting the condition of the property being abated before payment can be remitted. Through detail testing performed for Audit Objectives #1 and #2, we were able to confirm that CIU/GIU is consistently enforcing this requirement before reimbursing contractors.

Internal Control Strength #2

Payment rates for contractors have been broken down into only two rates, one for mowing and one for removal of debris. This simplified rate methodology minimizes the number of errors that could occur when reimbursing the contractors a particular charge for services.

INTERNAL CONTROL WEAKNESSES- Objective #1

Internal Control Weakness #1-1

Currently, Contract Compliance Inspectors in CIU/GIU create invoices for the costs incurred by the contractors, rather than having the contractor submit a bill for services. Although CIU/GIU did this in an attempt to minimize billing errors, this setup more readily allows for collusion to occur between the contractor and the inspector. While the Nuisance Abatement Supervisor presently reviews each of the work orders with the inspectors, he did not review final invoices during our audit period. Thus, invoices could have been inflated with miscellaneous amounts and processed for payment. In addition, inspectors who are responsible for measuring the square footage of property abated and verifying that the contractors have performed the work specified on the work orders have not been routinely rotated throughout each of the zones, which also increases the risk for collusion to occur. It should be noted that collusion is difficult to detect in any situation, and based on duplicate payment testing performed, we did not note any instances of collusion occurring in the CIU/GIU Division.

Recommendation to Internal Control Weakness #1-1

While recognizing that no system can fully prevent collusion from occurring, there are steps that can be taken to at least minimize the risk of collusion. We do recognize that the inspectors make very frequent changes to work orders submitted by the contractors regarding the amounts to be reimbursed. Thus, although from an accounting perspective, the ideal situation would be to have contractors prepare the invoices, this is not the most practical solution and would most likely create further billing problems. As an alternative, we recommend that CIU/GIU implement either of the following recommendations:

- a) The Contract Compliance Specialist (supervisor) currently reviews each of the work orders that support the invoice amount as prepared by the inspectors to ensure that the contractor is accurately paid. We recommend that the Contract Compliance Specialist compare these work orders to the final invoice (after any adjustments or corrections have been made) to ensure that the invoice is accurate. Once this review is complete, we recommend that the invoice immediately be given to the Administrative Assistant responsible for processing payments. This would help prevent any payments from being added to the invoice that are not associated with completed and approved work orders.

OR

- b) We recommend that CIU/GIU inspectors who conduct compliance inspections in one zone perform the invoicing for another zone. The invoice preparation process could then be rotated every few months so that inspectors are not consistently performing the invoicing for one zone.

Also, as an additional measure to reduce the risk of collusion occurring, we recommend that the inspectors who perform physical measurements of the properties abated be rotated to a different contractor at least annually.

CIU/GIU's Response to Internal Control Weakness #1-1

CIU/GIU concurs with the Council Auditor's Office. We will meet with ITD to discuss development of a system that would allow for electronic entry of work order field data and subsequent automatic creation of invoices upon request. On February 26, 2003, the nuisance Contract Compliance Specialist implemented an ongoing, expanded, mandatory check-down of all abatement contractor invoices which includes comparison of work orders to final invoice. This activity includes review of each work order by the Contract Compliance Specialist and Contract Compliance Inspector, and finally, by the abatement contractor, who must approve the invoice amount by signing the payment document. Invoices are then forwarded for review and approval to the Administrative Assistant, who is responsible for processing payments.

Internal Control Weakness #1-2

Of the 33 invoices reviewed for the six nuisance abatement contractors, we found that none of the detailed invoices contained evidence of supervisory review by the Contract Compliance Specialist. CIU/GIU's current policies do not require supervisory review of the invoices before being given to the Administrative Assistant for processing. However, standard business practices generally dictate that a supervisor review all invoices before payment is remitted. The lack of supervisory review increases the risk that contractors will be improperly paid. Based on detailed testing, we noted that a few work orders were entered multiple times on invoices, that sub-totals from the work orders were keyed into the invoice incorrectly and that amounts were incorrectly transferred from the work order to the invoice. In addition, a lack of supervisory review provides an increased risk for collusion to occur between a Contract Compliance Inspector and an abatement contractor, as previously mentioned in Internal Control Weakness #1-1.

Recommendation to Internal Control Weakness #1-2

We recommend that the Division establish and enforce a policy requiring supervisory review and approval of all invoices. This review and approval should be evident, via a signature, on the final invoice.

CIU/GIU's Response to Internal Control Weakness #1-2

The division concurs with the Council Auditor's Office. Please refer to Internal Control Weakness response #1-1.

FINDINGS- Objective #1

Finding #1-1

Based on recalculations performed on a sample of invoices and work orders and a review of supporting documentation, we found mathematical errors that resulted in a net overpayment to the six nuisance abatement contractors totaling \$909.13. These inaccurate payments can be attributed to several factors, including a lack of formal review by a supervisor, errors from having to re-key information into the invoice, and errors in transferring amounts from the work orders to the invoice.

Recommendation to Finding #1-1

We recommend that CIU/GIU pursue with ITD the development of an automated function on CEMS that would allow completed work orders to be posted to CEMS, leading to the automatic generation of an invoice and eliminating the manual input of costs to be reimbursed to the contractors. In addition, as mentioned above in Internal Control Weaknesses #1-1 and #1-2, we recommend that the Division establish and enforce a policy requiring supervisory review and approval of all invoices, evidenced by the supervisor's signature.

CIU/GIU's Response to Finding #1-1

CIU/GIU concurs with the Council Auditor's Office. Please refer to Internal Control Weakness response #1-1.

Finding #1-2

Pursuant to Section 21 of the contracts with each of the six nuisance contractors, the type of abatement indicated on the work order shall be completed by the contractor within ten calendar days of such notice for non-emergency situations, and within five calendar days for emergency situations. This time requirement is also specified on the work order provided to each nuisance contractor. CIU/GIU also issued a memorandum in May 2001 that required its inspectors to ensure that the contractors provide an explanation as to why the work order is being submitted after the permitted time period. Based on our review of 141 delivery and return times on 124 work orders, we found that 70 items, or 49.7%, were not completed within the prescribed time period (10 or five days) and an excuse was not provided by the contractor explaining the delay. As a result of this finding, nuisance contractors were not in compliance with their respective contracts and were completing work at sites for which the Right of Entry had expired.

Recommendation to Finding #1-2

CIU/GIU has informally adopted a policy that provides the contractor 10 working days, and therefore between 14 to 15 calendar days, to complete the abatement work. If it is the intent of the Division to allow the contractors additional days to complete the abatement work, we recommend that the City amend the contracts and corresponding Right of Entry forms (i.e. work orders). If it is not the Division's intent to allow the contractor additional time, we recommend that the Division enforce its policy regarding the completion of abatement work.

CIU/GIU's Response to Finding #1-2

After a June 24, 2003, consultation with Procurement Services Manager Michael Clapsaddle, Procurement and Supply and CIU/GIU Divisions will distribute notices which clarify the number of days allotted to complete abatement projects, to all contractors.

Finding #1-3

Based on our review of 124 work orders out of a total of 2,437 nuisance work orders processed by CIU/GIU during the FY 2001/02, we found that 11 or 8.9% contained a structure square footage that was less than the square footage of the structure per the Property Appraiser's Database. Given that the square footage of the structure is deducted from the total amount of

square footage to be reimbursed to the contractors, this resulted in contractors being overpaid \$106.30 for acreage that was never abated.

In addition, we found that for 12 of the 124 work orders, or 9.7%, the square footage of the lot calculated by the contractors and approved by the Contract Compliance Inspectors was greater than the square footage of the lot per the Property Appraiser's Database. As a result of these calculations, contractors were overpaid \$163.18 based on the official acreage recorded by the Property Appraiser as well as the plat maps.

Pursuant to CIU/GIU's Standard Operating Procedure No. A108, Step #3, Contract Compliance Inspectors are required to measure the lot, the right-of-way, the house, and any accessory structures (garage, storage shed, etc.) and compare the measurement with the abatement contractor's estimates; if the contractors' estimates are incorrect, the Contract Compliance Inspectors are required to correct them. Also, a memorandum issued by CIU/GIU in May 2001 requires that Contract Compliance Inspectors match their measurement of the lot size to the plat map, which is maintained by the Property Appraiser's Office.

Recommendation to Finding #1-3

It appears that this finding occurred as a result of improper measurements made by the Contract Compliance Inspectors as well as their utilization of older plat maps that did not clearly indicate the measurements of the property. Given that some structures are more difficult to measure and are odd-shaped, we recommend that the Contract Compliance Inspectors continue to physically measure the property, but also utilize the Property Appraiser's Database as a tool for corroborating their physical measurements and making any adjustments to the contractors' calculations. We also recommend that where necessary, CIU/GIU obtain new plat maps for properties that have questionable measurements.

CIU/GIU's Response to Finding #1-3

The division concurs with the Council Auditor's Office. We will utilize inspector field measurements as a primary reference for reimbursement calculations and use the Property Appraiser's Database along with GIS information and existing plat maps as corroborating tools in efforts to enhance accuracy.

Finding #1-4

When contractors are required to remove a significant amount of trash or debris from a nuisance lot, they are authorized pursuant to their contract with CIU/GIU to receive additional compensation, referred to as the "D rate". In order to receive this additional compensation, CIU/GIU requires that photos from the contractor show evidence that the trash was removed from the property and that the debris was actually located on the property. Contract Compliance Inspectors often pro-rate the D rate if the debris and trash are only located in an isolated area of the property. During our review of work orders and invoices, we noted several instances where it appeared questionable whether the D rate of payment was justified based on the pictures provided by the nuisance abatement contractors. In addition, the types of photos provided by the contractors were not consistent from one contractor to the next. As a result of this finding, we were unable to determine whether contractors were paid appropriately.

Recommendation to Finding #1-4

We recommend that CIU/GIU revise its procedures to more clearly define the type of photographs needed to justify the payment of a D rate and to ensure that each of the contractors are providing comparable documentation. We also recommend that CIU/GIU not remit payment to the contractors until it is satisfied that the D rate has sufficient support.

CIU/GIU's Response to Finding #1-4

The division concurs with the Council Auditor's Office. CIU/GIU agrees that since application of a 'D' rate is more subjective, the division will expand existing requirements for photo documentation in these cases, and provide more detailed instructions for photo perspective to enhance uniformity and consistency.

Finding #1-5

Given the lack of preventative controls in place to protect the CIU/GIU against collusion occurring within the organization (refer to Internal Control Weakness #1-1), we performed testing on all 84 nuisance abatement invoices paid during the FY 2001/02 to determine whether any duplicate payments were remitted to the contractors. Based on our testing, we found that in five instances contractors were paid twice for work performed, resulting in a total overpayment of \$823.40. This finding occurred as a result of several factors, including a lack of supervisory review over the invoices prepared by the CIU/GIU Contract Compliance Inspectors, manual entry of data into an Excel spreadsheet, and a failure to stamp work orders once they were invoiced to prevent them from being re-invoiced.

Recommendation to Finding #1-5

As previously mentioned above, we recommend that the Division establish and enforce a policy regarding supervisory review and approval of all invoices. This review and approval should be evident, via a signature, on the final invoice. In addition, once each work order has been entered on an invoice, it should be stamped in some format to indicate that the invoice has been processed for payment. We further recommend that the Administration collect the overpayments from the overpaid contractors.

CIU/GIU's Response to Finding #1-5

The division concurs with the Council Auditor's Office. Please refer to Internal Control Weakness Response #1-1. CIU/GIU will request contractors to reimburse overpayments.

AUDIT OBJECTIVE #2

The balance of outstanding liens (including interest) at the end of the FY 2001/02 totaled \$11,466,118. Collections on nuisance and demolition liens during the FY 2001/02 totaled \$1,208,010. In order to determine whether liens were properly processed, recorded and maintained and whether liens were appropriately removed upon satisfaction, we performed the following testing. We verified that all costs paid to the contractor and any additional fees were accurately recorded on CEMS, that lien amounts recorded on CEMS properly interfaced with the Lien Database maintained by the General Accounting Division, reviewed records on the Lien Database to determine whether liens were removed upon satisfaction, verified that lien

reductions and cancellations were properly authorized, agreed payments received from property owners to the Lien Database, and determined the value of all outstanding liens as of September 30, 2002. Our internal control weaknesses and findings related to this objective are as follows:

INTERNAL CONTROL WEAKNESSES- Objective #2

Internal Control Weakness #2-1

Currently, the CIU/GIU inspectors must submit all completed work orders to the Clerical Support Aides in order for the nuisance and demolition liens to be posted to CEMS and ultimately to the Lien Database maintained by the General Accounting Division. Given that the recording of the lien requires a physical piece of paper, there is an increased risk that liens may not be placed on properties due to misplaced work orders.

Recommendation to Internal Control Weakness #2-1

As previously mentioned in Internal Control Weakness #5, we recommend that CIU/GIU pursue with ITD the development of an automated function on CEMS that would allow completed work orders to be posted to CEMS, leading to the automatic generation of an invoice and then ultimately to the automatic recording of the lien on CEMS without requiring that a physical piece of paper be given to the clerk in order for the lien to be posted. This would also minimize any delays from lost work orders.

CIU/GIU's Response to Internal Control Weakness #2-1

The division concurs with the Council Auditor's Office. CIU/GIU will meet with ITD to discuss CEMS contracting module changes.

Internal Control Weakness #2-2

The security over the Lien Database does not strictly limit access to users, allowing them to enter payments, add comments and change owner information. Such access places the integrity of the Lien Database at risk.

Recommendation to Internal Control Weakness #2-2

We recommend that the General Accounting Division review its access for users and establish necessary system limitations to ensure that the utmost security exists over the Lien Database.

General Accounting Division's Response to Internal Control Weakness #2-2

A/R does agree to the findings. Accounts Receivable has reviewed Lien Database security access and has made the following changes:

Accounts Receivable area has reviewed and updated accessibility to the lien database by restricting who has the capability to do certain functions within the system as described below. The Accounting Division is the only area that can perform accounting functions such as posting

payments, cancellations or adjustments to the lien data base system. The Tax Collector has inquiry status only. The Neighborhood's Division has inquiry capability and stopping the mail.

FINDINGS- Objective #2

Finding #2-1

Based on testing performed on 57 demolition and board-up work orders out of a total of 208 demolition and 51 board-up work orders processed by CIU/GIU during the FY 2001/02, we found that in two instances CIU/GIU paid contractors, but liens were never placed against the properties. One payment to a contractor totaled \$790, while the other payment to a separate contractor totaled \$2,830. As a result of this finding, the City incurred costs for demolition and board-up work for which no reimbursement was sought from the property owner. This finding occurred as a result of the process which by design requires that a piece of paper be transferred from one employee to another in order for the lien to be calculated and entered into CEMS.

Recommendation to Finding #2-1

During the course of our audit field work, CIU/GIU took immediate steps to verify that ownership changes had not occurred before it placed liens on these two properties. However, we still recommend that CIU/GIU review its current process for calculating and recording liens in CEMS to ensure that all liens are completely and accurately recorded. This may entail developing a tracking sheet of work orders that have been entered into CEMS. We also recommend that CIU/GIU store all work orders awaiting processing in a secure location.

CIU/GIU's Response to Finding #2-1

The division concurs with the Council Auditor's Office. CIUGIU will meet with ITD to discuss development of an automated posting and generation function to address concerns for retention and posting of physical pieces of paper associated with work orders. In the meantime, the demolition Contract Compliance Specialist maintains tracking sheets of pending and completed demolition projects. Locks have been installed on demolition file cabinets and case files awaiting completion are now stored in locked file drawers which limits access and the potential for misplacement of documents.

Finding #2-2

Section 518.145 of Jacksonville Municipal Code states "the Director of Administration and Finance, with the concurrence of the Real Estate Officer shall be authorized to settle any lien for less than its face amount on following the procedures set forth in Part 3, Chapter 112, for settlement of claims and suits". Section 112.302 of the Jacksonville Municipal Code further states that if a lien is less then \$5,000, the Department Head (considered the Director of Administration and Finance pursuant to a legal opinion issued by the General Counsel's Office) may settle upon a determination that it is in the best interest of the City to settle the claim, with written approval of the General Counsel or his/her designee.

Based on testing performed on lien cancellations and reductions posted to the Lien Database during the FY 2001/02, we found that liens were canceled entirely and reduced without obtaining appropriate authorization. More specifically, we found that thirteen out of 137 liens that were cancelled, or 9.50%, were not properly authorized by all required personnel. These cancelled liens totaled \$6,785.89. For lien reductions, we found that six out of 54 liens, or 11.11%, were reduced without proper authorization. These lien reductions totaled \$4,123.10. In most of these instances, the General Counsel's signature was not obtained. In addition, we noted that some of the Lien Disposition Forms did not contain a signature line for the General Counsel.

Recommendation to Finding #2-2

The General Accounting Division, who is responsible for posting all lien cancellations and reductions to the Lien Database, is now more aware of the signatures that must be present on a Lien Disposition Form before any cancellation or reduction can be recorded on the system. We recommend that the General Accounting Division verify that all required parties have signed the Lien Disposition Forms before posting a lien cancellation or reduction. In addition, we recommend that CIU/GIU no longer utilize any outdated Lien Disposition Forms that do not contain all required signature lines.

CIU/GIU's Response to Finding #2-2

In the past, different forms were used by city agencies to request action on liens (adjustment, cancellation, etc.). After review by Tracey Arpen, O.G.C. developed and distributed three forms, based on local ordinance Chapters 112 and 518, for lien cancellation or settlement. Each form requires signatures from the initiating agency and designated parties such as the Director of Administration and Finance, the Real Estate Officer, and the Office of General Counsel. CIU/GIU currently uses these new forms and format for any lien action requests.

General Accounting Division's Response to Finding #2-2

Accounts Receivable is in agreement that 13 out of 137 liens were cancelled and 6 out of 54 liens were reduced without the proper authorization. Accounts Receivable has implemented a standard operating procedure to review all documents for proper authorizations to prevent this reoccurrence, which will ensure that the A/R is in compliance with Part3, Chapter 112. The findings noted were re-established within the lien database until proper authorization was obtained for cancellation purposes or adjustments. The re-established liens were sent back to the Clean it Up/Green it Up Division to obtain all the proper authorizations. In the future, if all proper authorizations aren't on the document, GAD will immediately send it back to the Clean it Up/Green it Up Division.

Finding #2-3

While performing our testing on lien reductions, we found in one instance that a lien was cancelled in its entirety rather than reduced. Pursuant to the Lien Disposition Form, the lien was authorized to be reduced from \$392.74 to \$194.74, for a total reduction of \$198. However, according to the Lien Database records, after the reduction was made, the remaining balance of

\$194.74 was then canceled. This finding appears to be an oversight by the clerk responsible for posting the lien reduction to the Lien Database.

Recommendation to Finding #2-3

Given that we only noted one occurrence during our detailed testing, we do not feel it would be cost beneficial to recommend any significant procedural changes. However, we do recommend that if possible, this lien be restored on the Lien Database and the property owner be re-notified of this outstanding balance owed to the City.

General Accounting Division's Response to Finding #2-3

The error was an oversight by an Account Technician. Accounts Receivable has made the necessary correction to the Lien Database.

Finding #2-4

The Lien Database maintained by the General Accounting Division is programmed to calculate simple interest of 12% per year (1% per month) beginning at day one of lien creation. However, if the lien is paid off within 180 days, all interest charges are waived. Based on sample testing performed on lien reductions, we found that for four out of 54 liens, or 7.41%, reductions in the interest charges totaling \$213.43 were calculated incorrectly. This finding occurred as a result of the Lien Database system being programmed to calculate interest at a compound rate rather than a simple rate.

Recommendation to Finding #2-4

According to the General Accounting Division, its system analyst has made the appropriate changes to the Lien Database to ensure that interest charges are now calculated correctly. However, even though corrections were made to the system, no adjustments were made to liens that were already recorded in the Lien Database. We recommend that the General Accounting Division verify that all interest charges have been correctly calculated before posting any reductions to lien balances and associated interest charges.

General Accounting Division's Response to Finding #2-4

Accounts Receivable does agree that there was a problem in computing the interest on liens. Accounts receivable has implemented the change to the database so that the system is calculating the interest at a simple rate to be in compliance with Chapter 518.308. The four noted with discrepancies have been corrected. A/R is verifying that interest is being computed properly before any reductions to lien balances.

We wish to thank both the CIU/GIU Division and the General Accounting Division for their courtesy and cooperation extended to us during the course of our audit. As noted in their responses, both Divisions have been receptive to our recommendations and have already taken steps to enhance the efficiencies of their operations.

Respectfully Submitted,

Richard Wallace, CPA
Council Auditor

Audit Performed by:

Kim Taylor, CPA

Tasha Morgan, CPA

Adam Mathews



Clean-It-Up/Green-It-Up Division


Equal Opportunity Employer



MEMORANDUM

DATE: July 11, 2003

TO: Richard Wallace, Council Auditor
City Council

FROM: John Shellhorn, Chief 
Clean It Up, Green It Up Division

RE: City Council Audit Response

After an initial staff review, subsequent meetings with Council audit staff, and approval by my Director, I have submitted responses to audit findings which I understand will be incorporated into the final audit document. We are currently initiating implementation actions based on recommendations coming out of the audit. I'd like to commend your audit staff for the level of professionalism exhibited during this process. Communication was excellent and we look forward to improvements which will ensue based on findings and recommendations.

Cc: John W. Curtin, Director
Neighborhoods Department

Kim Taylor, Public Accounts Auditor
Council Auditor



DEPARTMENT OF ADMINISTRATION AND FINANCE
Accounting Division



MEMORANDUM

DATE: July 15, 2003
TO: Pam Markham , Principal Auditor
CC: Kevin Stork, City Comptroller
FROM: Vanita Boston, Manager of Accounting Services Accounts Receivable *VB*
SUBJ: Responses to Draft Audit Report for Clean it Up/ Green it Up Division

Internal Control Weakness # 2-2: A/R does agree to the findings. Accounts Receivable has reviewed Lien Database security access and has made the following changes:

Accounts Receivable area has reviewed and updated accessibility to the lien database by restricting who has the capability to do certain functions within the system as described below. The Accounting Division is the only area that can perform accounting functions such as posting payments, cancellations or adjustments to the lien data base system. The Tax Collector has inquiry status only. The Neighborhood's Division has inquiry capability and stopping the mail.

Finding# 2-2: Accounts Receivable is in agreement that 13 out of 137 liens were cancelled and 6 out of 54 liens were reduced without the proper authorization. Accounts Receivable has implemented a standard operating procedure to review all documents for proper authorizations to prevent this reoccurrence, which will ensure that the A/R is in compliance with Part3, Chapter 112. The findings noted were re-established within the lien database until proper authorization was obtained for cancellation purposes or adjustments. The re-established liens were sent back to the Clean it Up/Green it Up Division to obtain all the proper authorizations. In the future, if all proper authorizations aren't on the document, GAD will immediately send it back to the Clean it Up/Green it Up Division.

Finding #2-3: The error was an oversight by an Account Technician. Accounts Receivable has made the necessary correction to the Lien Database.

Finding#2-4: Accounts Receivable does agree that there was a problem in computing the interest on liens. Accounts receivable has implemented the change to the database so that the system is calculating the interest at a simple rate to be in compliance with Chapter 518.308. The four noted with discrepancies have been corrected. A/R is verifying that interest is being computed properly before any reductions to lien balances.

These responses have been incorporated into sections of the Auditor's draft report based on their recommendations from the findings.