



Municipal Code Compliance Division Revenue Audit #726

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the City's Charter and Chapter 102 of the Municipal Code, we conducted an audit of the major revenue sources of the Municipal Code Compliance Division (MCCD).

The focus of our audit was on the assessment, collection, recording, and depositing of revenue from nuisance abatement, demolition, and administrative liens.

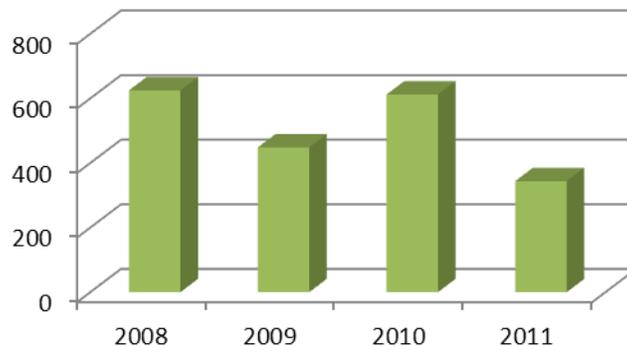
What CAO Recommends

Adequate internal controls are needed to establish proper segregation of duties in revenue collection and limited user access to the systems. Some interface issues need to be resolved and overall, the Tax Lien Database is inadequate for the needs of its users. Standard operating procedures should be created for processing administrative liens. Also, interest collection for nuisance and abatement liens should be consistently applied by the Accounting Division.

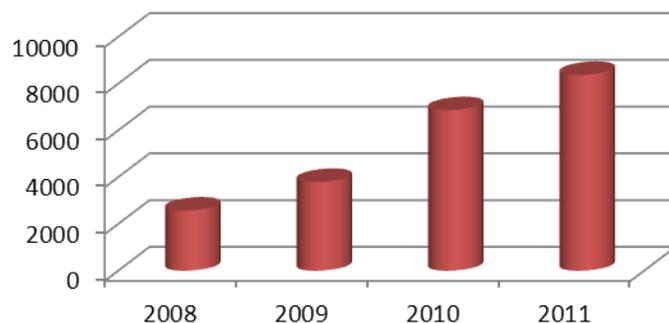
What CAO Found

- Lack of segregation of duties regarding the receipt of cash and record-keeping functions
- Inappropriate access rights for some users of the Tax Lien Database (TLD) and Property Information Contract Solutions system
- TLD is not adequate for the needs of its users
- There are no standard operating procedures for processing administrative liens
- Inconsistencies in interest waiving process

Number of Administrative Fines Assessed



Number of Properties Abated by City





Council Auditor's Office

Municipal Code Compliance Division Revenue Audit

April 27, 2012

Report #726

Released on : November 29, 2012

EXECUTIVE SUMMARY

AUDIT REPORT #726

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



April 27, 2012

Report #726

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the City's Charter and Chapter 102 of the Municipal Code, we conducted an audit of the major revenue sources of the Municipal Code Compliance Division (MCCD) within the Environmental and Compliance Department (as known during our audit). MCCD is now a part of the Neighborhoods Department after the reorganization approved by City Council in Ordinance 2011-732-E. The major revenue sources we reviewed included Administrative and Nuisance Abatement and Demolition Liens. Our audit scope was closed lien cases, lien payments, and nuisance abatement and demolition liens created for July 1, 2010 through June 30, 2011.

The Municipal Code Compliance Division enforces property maintenance, safety, and zoning codes for the City of Jacksonville. The three types of liens that the Division administers are Nuisance Abatement, Demolition, and Administrative Liens (formally called "Order Assessing an Administrative Fine Until Compliance is Achieved"), as outlined in Ordinance Code Chapters 91 and 518. Ordinance Code Sections 518.133(e)(4) and 518.306 allow the City to place a lien on any property in which the City incurred a cost to abate a property or demolish a structure in response to a code violation. These nuisance abatement and demolition liens are maintained by the City's Accounting Division in the Tax Lien Database, but are not filed with the Clerk of the Court's Office. Ordinance Code Section 91.107 allows for the assessment of Administrative Fines (Liens) for properties with code violations in which the City will not or cannot abate. Administrative liens are maintained by the MCCD within their case management system and are recorded with the Clerk of the Court's Office as a lien on both the property and the property owner. The total amount of Administrative Fines collected during our audit scope was \$313,497. The total amount of nuisance abatement and demolition liens collected for the same period was \$1,394,765.

STATEMENT OF OBJECTIVE

The objective of the audit was to determine whether revenue from nuisance abatement, demolition and administrative liens was assessed, collected, recorded and deposited in an accurate and timely manner.

STATEMENT OF SCOPE AND METHODOLOGY

The time period of the audit work was July 1, 2010 through June 30, 2011. We focused on closed lien cases, lien payments, and nuisance abatement and demolition liens created during this period. To complete the audit, we conducted interviews with applicable personnel and reviewed supporting documentation related to the Municipal Code Compliance Division's (MCCD) operations. We obtained data from PICS (Property Inspection and Contract Solutions, which is Municipal Code Compliance Division's case management system), Manatron (Tax Collector's receipt system), Tax Lien Database (Accounting Division's database for nuisance and demolition liens), and OnCore (Clerk of the Courts' public records database).

For administrative liens, we matched cases closed during our audit scope in the PICS to the records obtained from the Clerk of Courts (where release letters are voluntarily filed when the violation is corrected in order to remove the lien from the property) and from the Tax Collector (payments for liens). For nuisance abatement and demolition liens, we matched cases closed during our audit scope in the Tax Lien Database to the records obtained from the Tax Collector (payments for liens). For each type of lien, we investigated cases that didn't match to determine that payment was properly deposited for any closed cases and that processes functioned as designed.

For matched administrative liens cases, we verified that final inspections were performed, necessary applicable documents were properly approved and scanned into the system, and correct amounts were paid to the City. For matched nuisance abatement and demolition liens cases, we reviewed supporting documentation for a sample of transactions to verify accuracy of the lien amounts applied and tested to ensure that payments agreed to lien amounts. We also compared cases created in the PICS during our audit scope to newly created liens in the Tax Lien Database. We investigated any mismatched cases to ensure that all violations corrected by the City were actually converted into liens. We also reviewed liens sent to a collection agency to verify that they were sent in a timely manner.

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the 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 instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation.

We received initial responses from the Municipal Code Compliance Division, via Terrance L. Ashanta-Barker, JD, Acting Director of Neighborhoods Department, in a memorandum dated August 1, 2012. We received updated responses via email from the Municipal Code Compliance Division Chief, Kimberly Scott, on November 5, 2012.

We received initial responses from the Accounting Division via C. Ronald Belton, Chief Financial Officer, in a memorandum dated August 1, 2012. We received updated responses via email from the Accounting Division on November 9, 2012.

We received responses from the Intra-Governmental Services Department (for both the Administrative Services and Information Technology Divisions), via Cole Cartledge, Director of Intra-Governmental Services in a memorandum dated August 16, 2012.

We received responses from the Tax Collector, via Michael Corrigan, Duval County Tax Collector in a memorandum dated July 31, 2012.

We received responses from the Office of General Counsel, via Cherry A. Shaw, Assistant General Counsel in a memorandum dated July 24, 2012.

AUDIT CONCLUSION

Overall, it appears that revenues from nuisance abatement, demolition and administrative liens were assessed, collected, recorded and deposited in an accurate and timely manner. However, we did note several internal control weaknesses and findings that should be addressed.

AUDIT OBJECTIVE

To determine whether revenue from nuisance abatement, demolition and administrative liens was assessed, collected, recorded and deposited in an accurate and timely manner.

INTERNAL CONTROL WEAKNESSES

Internal Control Weakness #1 *Lack of Segregation of Duties*

There could be an increased opportunity for misappropriation of public funds based on how payments for administrative liens and nuisance abatement and demolition liens, as well as other fees, are currently processed. We found that the MCCD employee in charge of managing administrative liens and maintaining the records is the same employee that accepts payments and sends the funds to the Administrative Services Division (ASD) for deposit. We also found that

accounting employees in charge of keeping records for nuisance abatement and demolition liens also accepted payments on occasion. Finally, although we did not perform specific testing on citation revenue, we noted that the employee who tracks citations and has the ability to rescind citations in the system also occasionally accepts payments for those citations when customers bring or mail their payments to MCCD.

Part II, Section B.(2) of the City’s Standard Operating Procedures for Cash Receipts requires that appropriate segregation of duties be established to avoid having the same employee receive, deposit and record cash collections. In addition, Article 11.01 of the City’s Charter states that “The tax collector shall be responsible for the collection of all taxes, fees, service charges, and all other revenues of any type due the consolidated government...”

Recommendation to Internal Control Weakness #1

We recommend that customers remitting payments for all fees, liens, and citations be directed to pay the Tax Collector.

MCCD Response to Internal Control Weakness #1

Agree Disagree Partially Agree

We acknowledge Part II, Section B (2) of the City’s Standard Operating Procedures for Cash Receipts. However, we question whether this procedure is still practical given the reduction of workforce and the quest for operational efficiency. We also acknowledge the position that there could be an increased opportunity for the misappropriation of public funds when the same employee that accepts payments and sends the funds to the Administrative Services Division (“ASD”) for deposit is the same employee charged with managing administrative liens and maintaining the records. However, we do not believe that this is a likely outcome. The individual in this role is a highly regarded professional and has performed these duties with excellence for some time. Further, from a functionality and efficiency perspective, it may not be the most cost effective activity having separate employees managing, maintaining, collecting and depositing administrative liens. Nevertheless, MCCD will change our procedure and have another employee collect and deposit the administrative lien funds with ASD to ensure compliance with the above referenced procedure.

We further acknowledge the existence of Article 11.01 of the City’s Charter, but question its applicability to the collection of administrative liens. Instead, we believe that Section 518, Jacksonville Property Safety and Maintenance Code, controls who should collect administrative liens relating to property safety and administrative code violations. Section 518.102 (a) states that “The city finds and declares that there is a need to consolidate all existing Municipal Code provisions related to property safety and maintenance into one Chapter of the Ordinance Code; to assign the responsibility for the enforcement of the safety and maintenance provisions of this Chapter to the Municipal Code Compliance Division of the Neighborhoods Department; and to assign the functions of settlement, collection and inventorying of special assessment liens to the Finance Department and the Real Estate Division of the city’s Public Works Department.” Further, Sections 518.145(a) and (b) state that

518.145 (a) *“The Director of Finance shall prepare a system of inventory control, record billing, collection, settlement, write-off and extinguishment of all nuisance abatement and demolition liens. The inventory system shall contain, but not be limited, to the following information: (1) Invoice number; (2) Real Estate number of the property as described in the Property Appraiser's and Tax Collector's records; (3) Location of the property; (4) Owner of the property; (5) Time the lien was placed; (6) Amount of the lien; (7) Lien number; (8) Address of property owner.”*”

518.145(b) *“The Director of Finance or his/her authorized representative shall be authorized to use whatever means are available under this Chapter or law to collect the unpaid liens. Collection methods shall include, but not necessarily be limited to: (1) Foreclosure of the lien, including methods set forth in F.S. Ch. 173; (2) Placing the unpaid lien on the non ad valorem tax assessment roll pursuant to F.S. § 197.3635; (3) Filing a lawsuit against the property owner for the value of the lien; (4) Referring the lien to a collection agency; (5) Referring the uncollected lien to outside counsel when the General Counsel's Office has authorized such procedure.”*

MCCD acts as the Director of Finance’s authorized representative in the collection of administrative liens.

In addition, we also agree that customers may remit payments for all fees, liens, and citations to the Office of the Tax Collector (“OTC”). However, we do not agree that OTC is the only department that can collect administrative liens.

Currently, General Accounting Division approves some customers for payment arrangements (in installments) via promissory note, and customers may remit payment at the OTC or General Accounting Division. Although the OTC accepts partial payments from customers approved to remit payment in installments, reportedly, they do not initiate these agreements. To continue assisting customers in this manner, please contact the OTC to request if they will allow customers to pay by this method. Finally, please acknowledge the auditor found no evidence of impropriety by related parties.

Accounting Division Response to Internal Control Weakness #1

Agree Disagree Partially Agree

We agree that all payments should be directed to the Tax Collector's Office. Accounts Receivables (A/R) does not make it a practice to accept payment on customer accounts. However, there have been times when accounting has accepted payments and created a CR for the customer to keep for their records. We accepted payment because the Tax collector could not see or identify the document to apply the payment to and they sent the customer to accounting. To avoid sending the customer back and forth, we accepted the payment from the customer. These are very rare incidents.

We have met with the Tax Collector on such issues. We have put in place the following procedure. When the Tax Collector receives a payment that they cannot identify, they will accept the payment and deposit that check into their pre-til account. Afterwards, the Tax Collector will notify accounts receivables via e-mail that they have received a check that they cannot identify where to apply the payment. Accounts receivables will research the information and let the Tax Collector know where to apply the payment.

Internal Control Weakness #2 *Access Rights*

We have discovered various issues with system access rights for both the PICS and Tax Lien databases:

PICS (Property Inspection and Contract Solutions):

- Access rights to sensitive information were given to many users that appeared to have no valid business purpose for those rights.
- Seven employees had “super access” to the system that could allow them to make any changes to the data.
- Access rights are currently assigned on a group-based principle (a new user receives the same rights as everyone in the group she or he is assigned to) which leads to increased possibility of assigning certain rights to users with no valid business purpose.

Tax Lien Database:

- An account set up for an auditor in the Council Auditor’s Office who audited the Accounting Division in the past was not disabled.
- Three employees have administrator-level access rights which could allow them to make any changes to data and to access rights of other users.
- Fourteen users from various departments have “tax collector” access rights which allows for them to record payments (although, these payments have to be approved by someone with “supervisor” access rights).
- Seven employees from various departments have “mail stop” access rights which allows them to put a stop on mail being sent until the correct address is found.

Recommendation to Internal Control Weakness #2

Accounting and MCCD should review access rights for all users in the PICS and the Tax Lien Database. Access rights should be modified to ensure that rights are assigned based on the business purpose of each user. Critical roles such as system administrator and any other roles with super access should be limited to a minimum number of users. Periodic review of access rights tables should also be performed. Additionally, MCCD should consider switching to an individual-based principle of assigning rights. If such an approach is not practical for allowing employees the access they need, the current group-based approach should be modified to expand the number of groups to ensure that rights are only assigned to users with a valid business purpose.

It should be noted that during the course of our audit, MCCD took steps to address this issue as soon as we made them aware of the problem.

MCCD Response to Internal Control Weakness #2

Agree Disagree Partially Agree

Since deployment of the PICS database in 2006, certain employees were assigned as system administrators, due to their knowledge of specific work areas and assigned roles as ITD contacts for the division, hence the reason for the previous number of division system administrators. Regarding the Tax Lien database, only General Accounting Division authorizes access. Currently, three MCCD employees and one Information Technologies Department employee are assigned

system administrator rights to the PICS database. General Accounting Division may verify employees with access rights to the Tax Lien database. Please acknowledge the auditor found no evidence of impropriety.

In order to address this recommendation, Accounting and MCCD has reviewed access rights for all current users in the PICS and the Tax Lien Database with a focus on modifying and optimizing access rights based on business purpose (whether using an individual-based or group-based approach) and minimizing super access rights to the appropriate individuals. MCCD will also take steps to periodically review of access rights tables.

ITD Response to Internal Control Weakness #2

Agree Disagree Partially Agree

Access rights to an application are managed by either ITD or the business unit dependent on business requirements, past practice and resources. The two applications in question are not managed by ITD, but ITD is available to assist where necessary. ITD will reach out to both the Accounting and Municipal Code Compliance divisions to offer assistance.

Accounting Division Response to Internal Control Weakness #2

Agree Disagree Partially Agree

From time to time A/R review the access rights of individuals in the lien tracking database and have found a number of individuals were disabled. We do not make it a practice to delete those individuals that had access rights in order to keep a history as to who had access rights from the beginning.

Access rights are assigned based on the business purpose of the user. But because of system limitations, the access rights are usually higher than desired. For example, Public Info access will allow the user to see the lien but it does not allow the user to see important dates such as when the lien was established or when the lien went to collections. It also would not allow the user to see the lien owner if for some reason ownership had to be established.

I would be willing to talk with ITD and others to see how this could be modified. Until then, A/R will continue to monitor and review the access right level of the individuals assigned in the lien tracking system database.

Internal Control Weakness #3 *Problems with the Tax Lien Database*

We discovered various issues with the Tax Lien Database that is used to track all nuisance abatement and demolition liens:

- The Tax Lien Database used by the Accounting Division is a Microsoft Access database which allows anyone with access to the system to potentially manipulate the data tables and alter lien data.
- Public access to liens is only available at the Tax Collector's Office (the data is a static copy).

- According to the Accounting Division, up to one-third of the payments received by the Tax Collector's Office are not properly posted through the interface to the Tax Lien Database due to system limitations. Therefore, accounting has to research those payments and manually input payment information into the database.
- Accounting employees cannot create custom reports and are forced to contact the City's Information Technology Department (ITD) when custom reports are needed.
- When a payment is received during the six-month period in which interest is forgiven, employees have to manually adjust the interest as opposed to the system adjusting the interest.
- On a daily basis, employees in the Accounting Division must run a report that shows the prior day's payments made at the Tax Collector's Office. In order for the payments to actually be posted to the Tax Lien Database, they must then approve each payment. Due to incorrect design of the payment report query, it appears that some payments do not appear on the report in a timely fashion and are therefore, not posted to the Tax Lien Database in a timely manner. (Some payments may not be posted for several days after payment is received until the Accounting Division performs a periodic review of the reports.)

Recommendation to Internal Control Weakness #3

The Accounting Division and the City's Information Technology Division should evaluate the cost/benefit of replacing the current system to increase efficiency and improve security. For example, switching to a web-based system could improve performance and make maintenance easier. In addition, a web-based system would provide online access to the system for the public and reduce time spent by the City's employees on inquiries. Moreover, there are various groups of employees (General Counsel, MCCD, Tax Collector) who would also benefit from getting online access to the records.

ITD Response to Internal Control Weakness #3

Agree Disagree Partially Agree

ITD agrees that migrating from an Access database to an current technology application would bring a number of benefits including security. A cost/benefit analysis would need to be done to determine whether this is a favorable project to undertake given limited resources. ITD will reach out to the Accounting Division.

Accounting Division Response to Internal Control Weakness #3

Agree Disagree Partially Agree

There are a lot of problems and system limitations with the current tax lien database. The possibility of getting a new tax lien database has been in discussion for several years with the prior administration. During the last fiscal year, (F/Y 2010-2011) the city performed a study with Enterprise Resource Planning (ERP) on getting a new financial system that would be an umbrella system to include liens. At the end of the analysis there was a change in administration and the idea of a new tax lien system database or any other system for that matter presents a cost problem.

Internal Control Weakness #4 *Standard Operating Procedures*

MCCD does not have standard operating procedures on processing administrative liens. It is a good business practice to have Standard Operating Procedures (SOPs) for major processes. SOPs help train new hires, guide existing employees and provide standards that could be used in evaluating employee performance.

Recommendation to Internal Control Weakness #4

MCCD should develop and implement a set of SOPs on the process of managing administrative liens.

MCCD Response to Internal Control Weakness #4

Agree Disagree Partially Agree

MCCD has not developed Standard Operating Procedure (“SOP”) for the management of administrative liens because we follow the procedure developed by MCE Special Magistrates. More specifically, Administrative fines/liens, formally known as an Order to Impose an Administrative Fine Until Compliance is Achieved, are developed by MCE Special Magistrates and placed on public record until paid or settled. The related settlement process is clearly defined in the Special Magistrate MCE Fine Reduction Policy, which contains applicable information, such as: 1) General Policy Statement; 2) a detailed information table for current owners, who request reduction; 3) a detailed information table for new owners, who achieve compliance of outstanding violations and request reduction, and; 4) a detailed information table for existing or prospective owners, who request an agreement to reduce fines prior to achieving compliance. In addition, Jacksonville Ordinance Code Sections 91.113 and 91.114 provide additional guidance. The Office of General Counsel reviews all requests for (administrative lien) reduction. Please acknowledge the auditor found no evidence of impropriety. MCCD will conduct a review of its internal management of administrative liens and determine if additional SOP are needed.

FINDINGS

Administrative Liens

Finding #1 *Special Releases at Different Fees*

For Administrative Liens, the lien amount is tied to the property owner and his properties at the time the Special Magistrate assesses the fine. Therefore, a person owning multiple properties is unable to sell any of his properties until the violation is corrected and the lien is paid on the specific property in violation. In special circumstances, the MCCD may grant a partial lien release to allow the property owner to sell one of his other properties on which the lien is not specifically placed. MCCD currently charges a fee for the partial lien release, but we found the fees were inconsistent and were not included in the Ordinance Code. During our testing of 16 partial releases, 10 had \$500 administrative fees, two had \$750 fees, and four had no fee.

Additionally, in separate testing of 84 closed Administrative Lien cases on which payments were properly received and deposited, we found that the City accepted a \$500 fee for three separate cases involving removal of liens on foreclosed properties. This \$500 fee is not addressed in MCCD's official Administrative Lien policy, nor is it authorized in the Ordinance Code.

Recommendation to Finding #1

We recommend that all fees assessed by the MCCD be codified in order to allow for consistent application. It should be noted that during the course of our audit, MCCD and the General Counsel's Office began drafting legislation to address this issue as soon as it was brought to their attention.

MCCD Response to Finding #1

Agree Disagree Partially Agree

The division concurs. Please acknowledge the auditor found no evidence of impropriety.

Office of General Counsel Response to Finding #1

Agree Disagree Partially Agree

In the case of partial lien release requests, the new owner has purchased the property long after the original owner who caused the original violation on the subject property has, without correcting the original code violations, conveyed the subject property to another. In addition, if a mortgage is attached to the subject property, the mortgage holder (financial institution), may foreclose its mortgage, and sell the property to the highest bidder. As such, the new owner has no control over or no financial interest in the original violated property, and therefore, cannot correct the violations therein. Accordingly, it is not fair to penalize the new owner for such violations, and a partial lien release, at the time, was thought to be a fair resolution. Although legislation was drafted, the best course of action is to eliminate the partial lien request, and allow for lien releases consistent with the requirements of the existing Special Magistrate Lien Reduction Policy, and Section 91.113, Ordinance Code, which requires that the violating property be corrected prior to issuance of a lien release.

Finding #2 *Closing Administrative Lien Cases*

During our testing, we discovered 45 out of 181 administrative lien cases that were still open in PICS during our scope period, but should have been closed. Some of the cases were due to them being re-opened to upload documents into the system without being closed afterwards.

Recommendation to Finding #2

We recommend that if additional documents need to be scanned into PICS for an already closed case, the Code Contract Compliance Manager should be the only person who is able to re-open a closed case. That way he is made aware of any re-opened closed cases that need to be closed again.

Also, to preserve the reliability of information in the system, multiple people should not have access to reopen closed cases.

MCCD Response to Finding #2

Agree Disagree Partially Agree

The division concurs. Previous clearance allowed some employees to document receipt of correspondence received by the division following case closure. Currently, only system administrators have clearance to re-activate closed cases for documentation purposes. Please acknowledge the auditor found no evidence of impropriety.

Finding #3 *Compliance Awareness*

In some cases, the Code Contract Compliance Manager was not aware of the compliance of a property so that he could start the release process and close the case in PICS. According to the MCCD, it is the owner’s responsibility to contact the MCCD and make them aware that the property violations have been corrected. During our testing, we found that in eight (8) of the 86 cases with payments that were tested (9%), the Manager was not aware that the property had been complied under a settlement agreement. The City’s Ordinance Code requires payment of the settlement fee and compliance of the property before a property can be released from an administrative lien.

Recommendation to Finding #3

We recommend that the MCCD determine if there is an alert function that could be implemented in PICS to remind the Manager to check for compliance as the settlement agreements state.

MCCD Response to Finding #3

Agree Disagree Partially Agree

The division concurs. When the Office of General Counsel approves settlement agreements, the Contract Compliance Manager schedules a PICS review activity to check property status. Please acknowledge the auditor found no evidence of impropriety.

Nuisance Abatement and Demolition Liens

Finding #4 *Payments Not Applied to Lien Database*

As part of our testing, we matched payments for nuisance abatement and demolition liens as reflected in the Tax Lien Database to the Tax Collector’s system. Based on this comparison, we found there were 244 cases for which payments did not match in the two systems. We examined all 244 mismatched payments and found that four out of 244 (or 2%) totaling \$9,435 were not applied to the lien amount balance owed because they did not interface properly from the Tax Collector’s system. Also, 10 out of 244 (or 4%) mismatched payments totaling \$3,695 were applied but were not approved by the Accounting Division, causing the system to show an incorrect balance. (Refer

to Internal Control Weakness #3, bullet six, for an explanation of how the improper design of the report query contributed to this problem.) The remaining 230 cases did properly interface from the Tax Collector's System into the Tax Lien Database.

Recommendation to Finding #4

On a daily basis, employees in the Accounting Division must run a report that shows the prior day's payments made at the Tax Collector's Office. In order for the payments to actually be posted to the Tax Lien Database, they must then approve each payment. We recommend that the Tax Collector, Information Technology Department and the Accounting Division discuss this issue and update the design of the reports to ensure that all payments are pulled from Tax Collector's database for application to the accounts and approval by the Accounting Division. The Accounting Division should work with ITD to create a report that would identify possible "lost" payments and investigate if those payments were indeed not interfaced into the Tax Lien Database.

Tax Collector Response to Finding #4

Agree Disagree Partially Agree

The Tax Collector's Office worked with the Accounting Division and Information Technologies to identify the correct dates fields to be used in Accounting's report. It was determined that an incorrect date field was used in the original reporting which has since been corrected.

ITD Response to Finding #4

Agree Disagree Partially Agree

A cost/benefit analysis would need to be done to determine whether this is a favorable project to undertake given limited resources. ITD will reach out to the Accounting Division.

Accounting Response to Finding #4

Agree Disagree Partially Agree

We agree that the lien database should be updated to ensure all payments are pulled from the Tax Collector's database.

This problem developed from the Tax Collector backdating payment in their financial system (Manatron) which interfaces into the lien system database. A/R has spoken to the supervisor in that area and a stop has been put in place by ITD so no backdating occurs. Since the Tax Collector has stopped backdating, A/R has not experienced payments missing from the report.

Finding #5 *Interest Waived*

The Accounting Division inconsistently waives interest for nuisance abatement and demolition liens. Interest is applied to the lien amount at the rate of 1% per month. If a lien is paid within 6 months, interest is waived pursuant to Section 518.308 of the Municipal Code. Out of 65 liens tested that were not paid within the first 6 months, we noted that interest was partially or completely

waived for 17 liens (26%). Out of these 17 liens, eight were waived one month's worth of interest and the other nine were waived two or more months' worth of interest. The waived interest totaled \$169 and \$1,189 out of \$8,159, respectively, in interest accrued.

Since interest is applied once a month, it is probable that the eight cases where one month's worth of interest was waived were due to a time lag. It appears that out of the nine cases in which more than two months' worth of interest was waived, only one case was settled (see table below), and in the other eight cases, the incorrect amount was paid and accepted by the Accounting Division.

	Lien	Lien + Interest	Collected	Variance
1	\$ 4,221.56	\$ 5,234.73	\$ 4,221.56	\$ 1,013.17*
2	\$ 709.32	\$ 865.37	\$ 851.12	\$ 14.25
3	\$ 291.01	\$ 349.21	\$ 308.47	\$ 40.74
4	\$ 322.16	\$ 351.15	\$ 341.48	\$ 9.67
5	\$ 199.51	\$ 215.47	\$ 211.51	\$ 3.96
6	\$ 539.54	\$ 582.70	\$ 561.17	\$ 21.53
7	\$ 658.50	\$ 717.77	\$ 698.04	\$ 19.73
8	\$ 322.96	\$ 371.40	\$ 322.96	\$ 48.44
9	\$ 844.54	\$ 912.10	\$ 895.24	\$ 16.86

* Lien was settled

While Section 112.110 of the Municipal Code allows for a disputed bill to be settled, it also requires a settlement authorization in writing from the Director of Finance "if the principle amount of the disputed claim, bill or judgment is \$1,000 or greater, but less than \$5,000". It appears that the Accounting Division is not aware of this requirement. Therefore, proper written authorization was not obtained. Moreover, Section 112.106 states that an undisputed bill shall not be compromised for less than its full value. Since variances for the remaining eight items are insignificant, it indicated that those cases were not disputed; therefore, the Accounting Division should not have waived any portion of the interest.

Recommendation to Finding #5

Per Section 112.106 of the Municipal Code, the Accounting Division should halt the practice of adjusting interest when a payment is less than an outstanding amount for undisputed bills. Proper written authorizations from Revenue Manager, Director of Finance and others must be documented for disputed bills as it is required by the Section 112.110 of the Municipal Code.

Accounting Division Response to Finding #5

Agree Disagree Partially Agree

We agree that we should follow the procedures in Section 112.106 and 112.110 of the Municipal Code as it allows for disputed and or settled bills. In the test sample, accounting did not consider these liens disputed or settled. In some cases, the interest was removed due to the backdating of

payments by the Tax Collector. Accounting has talked with the supervisor of Liens at the Tax Collector office and this issue has been resolved.

In the case of the first item in the test sample, a demolition lien, accounting did not consider this a settlement or disputed item. It was noted in the lien system that the property had changed hands and the incorrect property owner was notified. At that time we notified the correct property owner of the lien and allow the new owner the opportunity to pay the lien within the six months allowed without interest.

In the future, accounting will be watchful of such issues and follow the procedures as set forth in section 112.106 and 112.110 regardless the circumstances.

Finding #6 *Timely Transfer to the Collection Agency*

While the current process of forwarding uncollected liens to a collections agency appears to be reasonable, there are no guidelines in the standard operating procedures that establish timelines for this process. The Accounting Division's unwritten standard procedure is to forward nuisance abatement and demolition liens to the collection agency 180 days after a lien's creation. Since liens are forwarded every two weeks, it appears that 195 days after lien's creation is a reasonable benchmark that we used during our testing for measuring timeliness. We found that seven out of 75 (or 9.3%) liens tested were not transferred to the collection agency in a timely manner. On average, they were sent to the collection agency 203 days after lien creation.

Recommendation to Finding #6

The Accounting Division should review and update its written procedures and design controls to ensure that liens are forwarded to the collection agency in a timely manner.

Accounting Division Response to Finding #6

Agree Disagree Partially Agree

Forwarding liens to the collection agency is a manual process. We do not have a system that automatically updates information and forwards the lien to the collections agency. Because of this, it is unlikely the lien will be sent to collections exactly on the 180th day. But we do make every effort to send the liens to collection within the six month period after the lien has been created.

As part of the process of sending liens to collections, a review is done of the liens that are selected to go to collections. If it is noted that the property has changed owners on any of these liens, an update must be done in the lien system and the new owner must be notified. This lien will not go to collections in order to give the new owner an opportunity to pay the lien in a timely manner.

SOP(s) are being reviewed and updated accordingly.

OPPORTUNITIES FOR IMPROVEMENT

Opportunity for Improvement #1 *Collection Fees*

Collection agency fees are currently not recovered by the City when payments for nuisance abatement and demolition liens are collected by the City’s third party collection agency. Collection fees can be either 35% or 50% of the amount of the lien pursuant to the agreement with the outside collection agency. Ordinance Code Section 112.115 states “...the Director of Finance, the Office of General Counsel, and any collection agency or attorney retained by the City to collect any fee, fine, cost, service charge, civil penalty, or property damage claim owed to the City, shall add on and attempt to recover a collection fee of 40 percent of the amount owed at the time the matter is submitted for collection, which collection fee includes all administrative time of City personnel, any collection agency fees, and any attorneys’ fees and costs of the City.”

Recommendation to Opportunity for Improvement #1

We recommend that the Accounting Division consider collecting from the property owner the collection fees as spoken of in the Ordinance Code. The contract with a collection agency signed in 2001 would need to be amended. Moreover, the possibility of re-bidding this contract should be considered since market conditions have changed since 2001, and the City could possibly save taxpayers’ dollars by entering into a new contract with lower rates. We had previously recommended in Report #697, City Accounts Receivable Audit, that the City consider rebidding this contract.

Accounting Division Response to Opportunity for Improvement #1

Agree Disagree Partially Agree

The accounting division has discussed adding the cost of collection to the liens. It was pointed out by the accounts receivable supervisor that the lien system would have to be modified to do so. Since the city was considering a new financial system which would be an umbrella system that would include liens, this was tabled until the research and analysis for the new system was completed. At the end of the analysis the City changed administration.

I have talked with the ITD concerning the modification of the current lien system to accommodate other fees and charges. The current system can be modified but the cost has not been determined as of yet.

Each year, accounts receivable review and evaluate the current contract with NCO. We have interviewed other collection agencies seeking to do business with the City of Jacksonville. According to Section 112.103 of the municipal code, the Mayor can enter into a contract on behalf of the city with a collection agency upon recommendation of the chairman of the Committee on Finance, the Director of Finance and the General Counsel.

Opportunity for Improvement #2 *Scanned PICS Documents*

We noted that MCCD was scanning in certain documents relevant to an administrative lien case into the PICS, but not on a consistent basis. During our testing, we noted 56 out of 84 cases in which a

settlement agreement or request to reduce/rescind a fine was not found in PICS. In addition, 63 out of the 84 cases did not have a copy of the respective Release Letter found in PICS. We found the scanning of these documents to be beneficial from an efficiency standpoint.

Recommendation to Opportunity for Improvement #2

Although “hard” case files (paper copies of applicable documents) are kept by M CCD, we recommend that settlement agreements, requests to reduce/rescind a fine, and release letters for each case be scanned into PICS. This may make the search for documents easier by being able to obtain copies of documents in the computer system versus having to sort through paper files that may not be easily available.

M CCD Response to Opportunity for Improvement #2

Agree Disagree Partially Agree

The division concurs.

We appreciate the assistance and cooperation we received from the Municipal Code Enforcement Division, as well as several other City Departments, throughout the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kim Taylor, CPA
Carmen Martin, CPA
Elena Korsakova, CPA