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Date: October 31, 2012

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit Code Enforcement Program – Final Report

cc: Kari Kent, Deputy City Manager
Christine Zielonka, Development & Sustainability Dept. Director
Laura Hyneman, Development & Sustainability Dept. Deputy Director

Attached is the final report on our Audit of the City's Code Enforcement Program. The report includes 3 Corrective Action Plans (CAPs) and a response from management. The report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.



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AUDIT REPORT

CITY AUDITOR

Report Date:	October 31, 2012
Department:	Development & Sustainability
Subject:	Code Enforcement Program
Lead Auditor:	Karen Newman, Sr. Internal Auditor

OBJECTIVES

The objectives of this audit were to verify that the Code Enforcement Program operates in compliance with Community Development Block Grant (CDBG) funding requirements and determine whether internal controls are adequate to minimize risks and maximize effectiveness.

SCOPE & METHODOLOGY

To accomplish our objectives, we interviewed key personnel and reviewed Federal CDBG requirements, the Memorandum of Understanding for the Code Enforcement Program, CDBG expense reimbursement requests, Code Enforcement processes and code violation cases for fiscal years 2010 through 2012.

BACKGROUND

The U.S. Department of Housing and Urban Development (HUD) provides yearly grants through the Community Development Block Grant (CDBG) for the purpose of developing viable urban communities by providing decent housing and a suitable living environment principally for low- and moderate-income individuals.

The City of Mesa Development and Sustainability Department is a subrecipient of these funds and uses a portion of the funds to supplement the Code Enforcement Program. According to the Code Enforcement Program Memorandum of Understanding, "*The City of Mesa Development and Sustainability Department will utilize CDBG funds for the Code Enforcement Program to improve slum and blight in the low-moderate income census tracts in the City of Mesa*".

CDBG funds provide salaries and employee related expenses for Code Enforcement Officers and additional staff hours directly related to the Code Enforcement Program. These employees educate citizens and enforce nuisance, public health and safety, zoning and other sections of the Mesa City Code, which are designed to improve slum and blighted conditions and to prevent further deterioration. They also manage the enforcement process, either through civil hearings or criminal proceedings, when voluntary compliance with code requirements is not achieved.

CONCLUSION

Overall, it is our opinion that the City's Code Enforcement Program operates in compliance with CDBG funding requirements and complaints/violations are managed effectively. Code Enforcement staff members work closely with Housing and Community Development staff members, through ongoing communication and cooperation, to ensure requirements are met and program objectives are achieved. We did, however, identify a few opportunities to further reduce risks and improve effectiveness; and we have made several recommendations, which are summarized below.

Additional details and complete recommendations are provided in the attached Corrective Action Plans (CAPs), followed by a response from management. We intend to conduct a follow-up review in approximately one year, to ensure all planned corrective actions have been effectively implemented.

SUMMARY OF RECOMMENDATIONS

We recommend that management do the following:

- Update and expand the checklist(s) used by staff to ensure that only eligible expenses are included on the summary worksheet submitted for CDBG reimbursement, and verify that all required supporting documentation is included prior to submission.
- Ensure timely and appropriate follow up of code violations, by reviewing case status aging reports and updating the Case Enforcement Process Work Instructions.
- Segregate the duties of issuing invoices and receiving payments for civil citations; or implement compensating controls to ensure that all invoices issued and payments received are properly recorded.
- Develop a process to reconcile civil citation invoices to the City's Accounts Receivable system.
- Document the code violation civil citation process.

CAP#1: Monthly Summaries of CDBG Expenses – Processes and Documentation

- Observations:** Each month, the Code Enforcement Division tracks CDBG-eligible expenses and provides a summary report, along with supporting documents, to the Housing & Community Development Department. This information is used to request CDBG reimbursement from HUD. Overall, we found that the process for reporting these expenses is adequate; however, the following observations indicate that improved internal controls are needed:
1. Some monthly summaries did not include all of the required supporting documentation and/or could not be reconciled to the supporting documentation provided.
 2. Ineligible expenses have been posted to CDBG Work Orders and included in monthly summaries. (Fortunately, these ineligible expenses were identified by Housing & Community Development Department staff and were not included in the final CDBG funding request submitted to HUD.)
 3. Based on a cursory statistical analysis of data related to labor hours and inspections of CDBG/non-CDBG properties, the processes used to attribute Code Officers' time to CDBG-eligible activities may need improvement.
- Comments:** Inadequate supporting documentation may result in expenses being deemed ineligible for CDBG grant funding reimbursement. Although improvements have been made recently to help ensure that only eligible expenses are included on the monthly summaries used for CDBG funding reimbursement, and that all required supporting documentation is provided, additional strengthening of internal controls is needed to ensure accuracy and completeness.
- Recommendations:**
1. Management should ensure that all expense summaries prepared for the purpose of obtaining CDBG reimbursement are accurate and complete; and that all required supporting documentation is included prior to submission.
 2. Management should ensure that only eligible expenses are submitted for CDBG reimbursement. To that end, we suggest that improved checklists be developed, to include the specific items, tasks and reconciliation steps needed to ensure accuracy and completeness.
 3. Specific Officers are now assigned to CDBG properties, eliminating the need to track the amount of time they spend on CDBG and non-CDGB activities. However, if such tracking should be needed in the future, a more structured approach to time tracking should be considered, in order to ensure consistency and accuracy.

CAP#2: Case Management – Follow-up/Monitoring Process

Observations: The majority of Code Enforcement cases are followed up on in a timely manner. However, since there is currently no periodic review of code cases less than 90 days old, delayed responses sometimes go unnoticed. The following observations indicate that improved controls may be needed:

1. Some cases took up to 30 days to move from “Received” to “Active” status. In other cases, inspections were delayed up to several weeks.
2. The Department’s “Basic Case Enforcement Process Work Instructions” do not provide specific guidance on what is considered timely follow up for code violation cases.

Comments: Untimely follow up may lead to continued and/or additional violations, dissatisfied citizens, and decline of the area in question. In each of the cases referenced above, action was taken as soon as staff was made aware of the oversight. Therefore, it is likely that the risk of untimely follow-up could be greatly reduced by additional management review of case status data, to identify cases that may have been inadvertently overlooked.

In addition, departmental written procedures should set clear expectations for appropriate, consistent, and timely responses to code complaints/violations, with the understanding that the ability to meet these expectations may be impacted by staffing levels and workload.

Recommendations:

1. Management should run case status aging reports and review them on a regular basis to ensure timely and appropriate follow up of code violations.
2. Management should update the Case Enforcement Process Work Instructions to include clear guidance and expectations for timely follow up of code violation cases.

CAP#3: Civil Citation Process Controls

- Observations:** The following observations indicate a need for improved internal controls over the code violation civil citation process:
1. The individual that processes civil citation invoices also receives the payments generated by those invoices.
 2. Due to system limitations, Tidemark¹ invoices generated for civil citations are not numbered sequentially, which inhibits the ability to reconcile them with the City's Accounts Receivable (A/R) system. Furthermore, re-invoicing for outstanding civil citations creates new invoice numbers which further complicates the reconciliation process.
 3. The code violation civil citation process is not documented.

- Comments:** Although we found no evidence of wrongdoing, without proper segregation of duties and reconciliation controls there is an increased risk that:
- Invoices could be issued and not recorded in the A/R system.
 - Payments received could be misappropriated.
 - Errors or fraud could occur without detection.

In addition, since there is only one individual responsible for the civil citation process (and other processes), having no written procedures increases the risk that continuity of operations could be impacted if the City were to lose this individual.

- Recommendations:**
1. Ideally, management should segregate the duties of issuing invoices and receiving payments for civil citations. However, if limited staffing prevents segregation, compensating internal controls should be developed and implemented to ensure that all invoices issued and payments received are properly recorded. Compensating controls can vary, but may include additional management reviews/oversight, independently performed reconciliations, rotation of duties, etc.
 2. Management should develop a process through which all civil citation invoices and payments are reconciled with the City's A/R system, to ensure that the creation and disposition of all Tidemark invoices accurately reflects those recorded in A/R.
 3. Management should ensure that written procedures for administering the code violation civil citation process are complete, accurate, and regularly updated.

¹The Tidemark system is a database used to track Code Enforcement cases.

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AUDIT RESPONSE FORM
Audit of Code Enforcement Program**

Please enter your response to each recommendation into the white cells below. 11/07/12

	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)	Estimated Implementation Date (Month/Yr)
CAP #1: Monthly Summaries of CDBG Expenses – Processes and Documentation			
Rec #1	Agree	<p>Management should ensure that all expense summaries prepared for the purpose of obtaining CDBG reimbursement are accurate and complete; and that all required supporting documentation is included prior to submission.</p> <p>The Development and Sustainability Department has been working closely with Housing & Community Development on the checklist for submitting supporting documentation. A checklist has been developed to ensure that supporting documentation submitted is accurate and complete. The checklist also includes a signature line to confirm receipt by Housing. (Exhibit A) Work Instructions will be updated.</p> <p>The MOU between Development and Sustainability Department & Housing and Community Development states that CDBG funds may be spend on salaries and training for 4 full time employees and temporary employee services. With the implementation of the new Advantage system, Accounting provides Code Admin a Payroll Extract, showing the actual payroll costs associated each employee on a bi-weekly basis. These Payroll Extract Reports are provided to Housing with Officer Activities reports, Activity Summary reports, and Timecards. In the past this information was pulled from a variety of sources and depended on each officer documenting their daily activities spent inside and outside CDBG areas. With 4 officers assigned exclusively to CDBG areas, documentation is much simpler and less likely to result in errors.</p>	8/12 – checklist 10/12 – work instructions
Rec #2	Agree	<p>Management should ensure that only eligible expenses are submitted for CDBG reimbursement. To that end, we suggest that improved checklists be developed, to include the specific items, tasks and reconciliation steps needed to ensure accuracy and completeness.</p> <p>Two practices have been put in place to ensure that only eligible expenses are submitted to Housing for CDBG reimbursement: four code officers are assigned exclusively to CDBG areas and a new report has been developed to confirm that cases each code officer works on is located within a CDBG area.</p> <p>The Tidemark system has been modified so that it automatically identifies whether a parcel is within or outside a CDBG area. When a code case is opened, this information is viewable by the Code Officer on the opening page of the code case. A Tidemark report, “CDBG Areas – Addresses Opened” shows code enforcement activities, the Code Officer’s name, an address for each case and whether the property is within or outside a CDBG area. (Exhibit B)</p>	10/12

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	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)	Estimated Implementation Date (Month/Yr)
		Previously, code officers worked both inside and outside a CDBG area. The department relied on each officer documenting the time they spent inside and outside CDBG areas on a daily basis. Summarizing these activities involved a combination of reports. This year, accounting for Code Officers activities has been simplified with the new assignments.	
Rec #3	Agree	<p>Specific Officers are now assigned to CDBG properties, eliminating the need to track the amount of time they spend on CDBG and non-CDGB activities. However, if such tracking should be needed in the future, a more structured approach to time tracking should be considered, in order to ensure consistency and accuracy.</p> <p>A Tidemark report has been developed that shows each COD case, the Code Officer assigned to work on the COD case and whether the COD case was located in a CDBG area. This report will verify for Housing and Community Development that Code Officers assigned to CDBG areas did indeed work in CDBG areas. (Exhibit B)</p> <p>In the future, if Code Officers are assigned to work both inside and outside the CDBG areas, a more structured approach will be developed. A strategic approach to the allocation of work and time tracking will be developed to ensure reports are consistent and accurate.</p>	10/12
CAP #2: Case Management – Follow-up/Monitoring Process			
Rec #1	Agree	<p>Management should run case status aging reports and review them on a regular basis to ensure timely and appropriate follow up of code violations.</p> <p>The Code Supervisor runs a report entitled Code Cases 90 Days Old on a weekly basis. Each open case is reviewed to determine if the case is active and to ensure there is appropriate follow up. The Deputy Director reviews the Code Cases 90 Days Old report with the Supervisor on a monthly basis.</p> <p>A new task was added to Tidemark that enables anyone to look at cases that have been opened but that have not had any follow up activity. This task has been added to the Supervisors and Deputy Directors task lists and will be reviewed by the Supervisor weekly and the Deputy Director monthly.</p> <p>This monitoring procedure will be added to the Work Instructions.</p>	2/12 – report created 8/12 – task added 10/12 – work instructions revised

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	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)	Estimated Implementation Date (Month/Yr)
Rec #2	Agree	Management should update the Case Enforcement Process Work Instructions to include clear guidance and expectations for timely follow up of code violation cases.	10/12
		<p>The Work Instructions have been updated with specific guidance on follow up times for each step of the code enforcement process. The goal is to obtain voluntary and prompt compliance whenever possible while also building evidence if a civil or criminal action is needed. Additional time may be given to implement corrective actions depending on the severity and hazards associated with the type of violation(s), the necessity for submitting plans and/or obtaining permits from the City or other agencies, and the availability of services or materials. Timeframes provided may also be shortened based on the severity and hazards associated with the type of violation and whether the violation was a conducted in a knowingly or willful manner. (Exhibit C)</p> <p>Assignment of four officers to the CDBG area and three officers to the remainder of the City has impacted the response time for confirmation of new code cases. Response times are compiled for management on a monthly basis.</p>	
CAP #3: Civil Citation Process Controls			
Rec #1	Agree	Ideally, management should segregate the duties of issuing invoices and receiving payments for civil citations. However, if limited staffing prevents segregation, compensating internal controls should be developed and implemented to ensure that all invoices issued and payments received are properly recorded. Compensating controls can vary, but may include additional management reviews/oversight, independently performed reconciliations, rotation of duties, etc.	10/12
		<p>Citation process controls that segregate the issuance of invoices from the collection of payments have been improved in two ways: implementation of the Advantage system and logging of payments sent directly to the Civil Hearing Office.</p> <p>The Civil Hearing Offices creates invoices and enters them into the Advantage system. Payments made by mail are processed by Customer Service. Then the Code Administrative Supervisor enters all payment information into Tidemark. Hand-delivered payments are received by the Development Services Front Desk staff are entered into Tidemark and submitted to Customer Service. If payments are sent directly to the Civil Hearing Office by mistake, department administrative support staff will log the payments in a spreadsheet and take the check to Customer Service. After reviewing the spreadsheet, the Code Administrative Supervisor will enter all payment information into Tidemark.</p>	

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	Agree Or Disagree	Brief Summary of Implementation Plan (NOTE: If recommendation will not be implemented, please explain your alternative plan to address the observation.)	Estimated Implementation Date (Month/Yr)
		Work Instructions are being revised to reflect how information is entered and received from the new Advantage system.	
Rec #2	Agree	Management should develop a process through which all civil citation invoices and payments are reconciled with the City's A/R system, to ensure that the creation and disposition of all Tidemark invoices accurately reflects those recorded in A/R.	Anticipated – 1/2013
		The Civil Hearing Office has sent the Advantage accounting team a request for a report that will show all Code and Civil hearing invoices and payments. The report will be used to reconcile fee information in Tidemark. Work Instructions will be revised when the procedure is finalized.	
Rec #3	Agree	Management should ensure that written procedures for administering the code violation civil citation process are complete, accurate, and regularly updated.	Anticipated WI for administration - 1/2013
		Work Instructions were written in Feb 2012 to document the Code Enforcement Process including the Citation Process. The Citation Service Requirements Work Instructions have been updated and reviewed by the City Attorney. Administrative Work Instructions, including preparing invoices and documenting payments, will be updated to include instructions for the new Advantage System. Civil Hearing Office Staff is working with Development Services Front Counter staff to insure that all payments are accurately documented in Tidemark. Work instructions have been written and the Code admin staff has provided training. Accounts and Work Instructions will be reviewed regularly to ensure they are consistent with current procedures and to ensure they include best management practices.	