



Mayor Teresa Ann Isaac

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Division of Internal Audit

INTERNAL AUDIT REPORT

DATE: December 9, 2005

TO: Teresa Ann Isaac, Mayor

CC: Mike Scanlon, Vice-Mayor
Milton Dohoney, Chief Administrative Officer
Rebecca Langston, Commissioner of Public Safety
David Jarvis, Director of Code Enforcement
Brian Marcum, Director of Purchasing
Dewitt Hisle, Audit Board Chairman
Dr. David Stevens, Council Budget & Finance Committee Chairman

FROM: Bruce Sahli, Director of Internal Audit

RE: Code Enforcement Billings Process Audit

Background

The Division of Code Enforcement is responsible for ensuring compliance with minimum maintenance and repairs standards for all existing structures and properties throughout Lexington and Fayette County. Division staff provides inspections of residential and commercial structures to ensure they are maintained to the minimum standards set forth in the International Property Maintenance Code. The Division also addresses nuisances such as junk cars, garbage on lots, and weeds as directed by the LFUCG Code of Ordinances. In those instances where property owners fail to correct violations, Code Enforcement will abate the nuisance.

Abatement work is performed by independent contractors as directed by the Division of Code Enforcement. To be eligible for abatement work, all contractors must participate in the LFUCG Bid Process from which a Price Contract for abatement services is executed. Code Enforcement reimburses the contractor for the cost of abatement and passes the cost on to the property owner in the form of an invoice payable to LFUCG. A lien is placed against the property if the owner subsequently fails to repay LFUCG.

H O R S E C A P I T A L O F T H E W O R L D

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In September 2005 Commissioner of Public Safety Rebecca Langston requested an examination of the fee, penalty, and abatement billing process administered by the Division of Code Enforcement. This audit was conducted in response to that request.

Scope and Objectives

The general control objectives for the audit were to determine that:

- Processes for selecting abatement service contractors comply with LFUCG Policies & Procedures
- Processes for determining fees, penalties, and abatement costs related to code violations comply with the LFUCG Code of Ordinances
- Invoices issued to property owners for penalties and abatement costs are accurate and the generation of such invoices is properly managed

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. 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. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

SUMMARY OF AUDIT FINDINGS

Nuisance Abatement Project Issues

We examined a sample of nuisance abatement projects occurring during FY 2004 and FY 2005. We stratified our sample so as to examine the top 25 projects in terms of abatement cost as well as randomly selecting 25 additional projects for the purposes of our detail testing. We also examined the FY 2006 abatement project occurring at Property A as specifically requested by Commissioner Langston. From our examination of these 51 projects, we found four instances where the abatement

contractor's invoice exceeded the related bid (the dollar amounts were not significant). It appears Code Enforcement appropriately paid the bid amount; however, the full cost of the contractor's invoice was passed on to the property owner. We also noted three instances where hourly rates per the abatement invoice did not agree with the contractor's price contract. Details of the exceptions have been provided to management.

Regarding the abatement project at Property A, the only bid sheet related to this project indicated that a bid from Contractor A in the amount of \$10,000 received on April 21 2005 was the low bid, while Contractor B's bid on that date was \$15,000. Contractor B was subsequently awarded the project in July 2005 after apparently issuing a second bid of \$8,000. The Code Enforcement officer indicated that, due to the significant project cost indicated by the bid amounts received in April, he had subsequently requested a second bid. No documentation could be found to support this statement. The project was completed by Contractor B on July 27 and the contractor issued an invoice in the amount of \$8,384. After the property owners challenged the cost of abatement, the contractor issued another invoice adjusting down the cost 24% to \$6,384. This amount is currently being paid off by the property owners. Code Enforcement management stated during the audit that clean up of this particular property was given heightened priority in order to control criminal activity that was occurring there as a result of the natural cover provided by weeds and bushes that were removed during the abatement. We obtained police reports and e-mails related to activity at that location which supported this statement.

In any circumstances where a bid or re-bid occurs, documentation demonstrating the bid amounts received should be completed on a consistent basis in order to comply with Purchasing procedures. It is also recommended that procedures be put in place to compare all contractor abatement invoices to the related price contract and to ensure all invoices billed to property owners are limited to the lower of bid or actual cost. Code Enforcement's Contractor Analysis of Charges form used by contractors to provide detail of abatement costs should be amended to reflect all cost categories listed on the Price Contract to enhance the efficiency of invoice price reviews.

Division of Code Enforcement Management Response: In this particular instance the property involved a large abatement amount which had to be approved by Council, thus delaying any abatement efforts by Code Enforcement. By the time of abatement the original contractor's bids were outdated and some of the contractors were not interested in bidding this project. Due to the ongoing Police, neighborhood, business, and Mayor's office complaints we decided to proceed with this abatement within the preset guidelines. The Division of Code Enforcement will work with Purchasing to develop a more comprehensive price contract to be used by the contractors, and all abatement projects that are expected to exceed \$500.00 (five hundred dollars) will be required to have 3 bids.

Project Cost Reduction Steps Encouraged

In 26 of the 51 abatement projects examined, there was no documentation to indicate multiple bids were obtained for the abatement work. Eleven of these projects were for abatement charges exceeding \$500, while 15 were for projects having abatement costs less than \$500. The overall range of the project costs was from \$113.50 to \$2,175.00. Also, based upon the before and after abatement

photos contained in the project files and the descriptions of work performed as contained on the contractor's invoices, we noted five instances out of the 51 projects examined where the cost of abatement appeared to be excessive, one of which (Property A) saw the contractor reduce the abatement invoice by 24% after the abatement cost was challenged by the property owner.

Purchasing procedures do not require bids for specific abatement work as all abatement contractors have Price Contracts with LFUCG. Therefore, Code Enforcement is operating within acceptable procedures by simply giving the project to the first available contractor. For a time, Code Enforcement essentially practiced this approach by awarding projects to two separate contractors on a rotating basis. This practice ceased around January 2005. However, in order to contain abatement costs (which are passed in full to the property owners), it is recommended that at least three bids be obtained for all abatement projects when possible, and that these bids be reviewed for reasonableness. If the lowest bid for a project is deemed excessive, Code Enforcement personnel should request re-bids from all contractors participating in the specific project's initial bid. It is also recommended that abatement costs be reviewed by qualified Code Enforcement personnel for reasonableness prior to making payment to the contractor. Costs that appear excessive should be questioned so that reasonable abatement costs can be passed on to the property owners.

Current LFUCG policy requires a minimum liability insurance of \$1,000,000 for all contractors performing abatement services. The Division of Internal Audit requested the Division of Risk Management evaluate whether \$500,000 in liability insurance is sufficient for small projects of minimal risk in order to provide small contractors with less operating overhead the ability to perform the work at a lower cost. It was the recommendation of Risk Management to not risk the additional liability exposure to LFUCG by reducing insurance coverage requirements to realize potential cost savings for small abatement projects.

Division of Code Enforcement Management Response: Code Enforcement operates under the established guidelines set out by the Division of Purchasing, but took it upon themselves to require bids for abatement of large projects. This was to ensure fair and equitable treatment for the property owner regarding abatement costs. The most difficult aspect of this process is that the work that is involved in abating most of the nuisance situations is not always a desirable task to be performed, removal of trash, debris, human feces, snakes, rodents. Therefore it sometimes appears that the bids are inflated and then readjusted after all costs are calculated as in the Property A site. The Division of Code Enforcement will adopt a more comprehensive set of Standard Operating Procedures relating to bid and invoice review as of 12/05.

Invoicing System Controls need Enhanced

The Code Enforcement invoicing system is an in-house software system used to generate invoices for civil penalties and abatements. Invoices generated from that system are not numbered and invoice amounts can be overwritten with no journaling of what changes were made, the time of the change, or the user initiating the change. Currently the system can be accessed by several staff members.

Sequentially numbered invoices are a standard control that increases accountability within an invoicing system. It is recommended that Code Enforcement investigate their current system's ability

to generate invoice numbers. If the system cannot provide its own pre-numbering system, Code Enforcement should consider purchasing pre-numbered invoices that can accommodate the system's invoice format. If possible, the invoicing system should also be re-programmed to generate a new pre-numbered invoice each time changes are made to an abatement account in order to provide accountability for change activity. The invoicing system should also be evaluated to determine if it can be programmed to produce an exception report that will list all account changes for management's review.

Division of Code Enforcement Management Response: Our hopes are that with the implementation of the new ERP system that invoice tracking will be addressed. Additionally Code Enforcement will request budgeted funds to hire a consultant to update our outdated filing system in hopes of addressing the problems of having numerous locations of files pertaining to the same property. Currently civil penalties files, housing notices and abatement records are not kept in the same location. And the Division of Code Enforcement will request in their 2007 budget funds to acquire handheld computer field devices for inspection and re-inspection purposes aiding in the tracking of cases and issuance of civil penalties. Code Enforcement is also working with Computer Services to evaluate and possibly develop invoice tracking and exception report capabilities within our invoicing system. These are just a few of the many changes that the new Director would like to implement.