



# DEMOLITION AND CLEAN-UP AUDIT

Neighborhood Services Department  
Finance Department  
City Clerk Department

2021-11  
February 2022

THE CITY OF FORT SMITH  
COMPLIANCE WITH  
CODES AND ORDINANCES  
REGARDING THE PROPER  
MAINTENANCE AND CARE  
OF PROPERTY

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## **INTRODUCTION**

The City of Fort Smith Neighborhood Services Division (NSD) exists to protect the public's health, safety, aesthetics and welfare in the City by seeking Citizen compliance to the City of Fort Smith codes and ordinances regarding the proper maintenance and care of property.

## **BACKGROUND**

NSD inspects properties for overgrowth of grass and weeds, trash, debris, graffiti, abandoned vehicles, deteriorated structures and other items affecting the appearance of property and neighborhoods to ensure safe conditions.

When property owners fail to maintain their property according to City municipal code requirements, the City may hire contractors to clean up the property at the owner's expense. In certain situations, structures on the property may pose a threat to the public's health, safety, and welfare. To be considered unsafe, a structure generally has foundation failure, has suffered fire damage, and/or it is not considered structurally sound. NS enforces the City code by requiring property owners to make the needed repairs to the unsafe property. If the structure cannot be repaired, it must be demolished to ensure citizen safety. NS makes every effort to ensure the responsibility of the repair or demolition is undertaken by the property owner, but if the property owner refuses to take action the City is required to hire a demolition contractor at the owner's expense.

NSD provides to the Finance Department documentation to pay the contractor for services provided and to bill the property owner for the expense incurred and maintained in Munis system. The Finance Department prepares a Notice of Lien that is notarized and provided to the Sebastian County Clerk and Recorder to be certified with the County. The Notice of Lien is returned to Finance and the information is entered into the Lien Database. If the property owner pays the invoiced amount, the Finance Department will complete a Lien Release that is notarized and provided to the Sebastian County Clerk and Recorder to be released. The paperwork is returned to the Finance Department and the lien is removed from the Lien Database.

When the property owner fails to pay the invoice, the City Clerk provides the information to the Property Owners Review Board. After the Property Owners Review Board process is complete, the information is submitted to the Board of Directors. If approved, it is certified with the County Tax Collector. The County Tax Collector adds the final invoice amount plus 10% to the property owner's account and the Finance Department adjusts the property owner's account in the Munis system.

The process from when the property clean-up begins until it is certified to the Sebastian County Clerk and Recorder cannot exceed 120 days or the City will be unable to require the property owner to pay the amount invoiced.

NSD submitted to the Finance Department the following:

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- In 2018, approximately 583 properties were demolished or cleaned totaling \$86,214 and property owners were charged approximately \$138,298.
  - In 2019, approximately 474 properties were demolished or cleaned totaling \$107,711 and property owners were charged approximately \$132,050.
  - In 2020, approximately 478 properties were demolished or cleaned totaling \$95,691 and property owners were charged approximately \$121,518.

## **AUDIT SCOPE AND OBJECTIVES**

The scope considered years 2018 through 2020 to include the system conversion (to Munis) and employee position changes. Our audit objectives, as refined during the audit of the Demolition and Cleanup services for the course of our work, are as follows:

1. Determine if there is proper oversight of demolition and clean-up contracts.
2. Finance timely and properly filed any liens related to demolition or cleanup costs incurred by the City.
3. Accounts were charged appropriate charges in Kevin system. Kevin is a database built by ITS to maintain the lien information for Finance and City Clerk
4. Determine if NSD followed demolition and clean-up processes and other relevant laws and regulations.
5. Documentation and Records process is complete and accurate.
6. Adjustments, payments, and release of liens were accurate, had supporting documentation, and appropriately released in Munis and the Lien Database.

## **PROCEDURES PERFORMED**

To obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

### **PLANNING**

- Conducted interviews and process walkthroughs with key individuals;
- Identified key risks and controls;
- Identified potential areas for process improvements and control gaps;
- Refined work plan based on risks, standards, and processes, and developed test plans; and
- Performed and issued data request for detailed testing of demolition and cleanup records/accounts.

### **FIELDWORK**

- Obtained demolition and cleanup report from NSD.
- Obtain demolition and cleanup files from NSD.
- Obtain demolition and cleanup files from Finance Department.
- Examined Kevin (Lien Database) system demolition and cleanup accounts.
- Examined City Clerk demolition and cleanup records.

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- Documented findings and confirmed with process owners

## **REPORTING**

- Prepared a draft report to include testing results and recommendations
- Discussed draft findings with process owners and management, obtained management responses, and assessed management responses.

## **AUDIT METHODOLOGY**

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors. 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. The scope of our work did not constitute an evaluation of the overall internal control structure of the NSD, City Clerk Department and Finance Department. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

## **CONCLUSIONS AND SIGNIFICANT ISSUES**

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report

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## ***FINDINGS AND RECOMMENDATIONS***

The NSD has the responsibility for managing all property violations and maintaining proper documentation.

The Finance Department has the responsibility for managing the paperwork such as the notice of lien, release of liens, lien database, invoices to property owners, payments to the contractor, property owner account in Munis.

The City Clerk's office has the responsibility for notarizing the notice of liens and the release of liens, requested adjustments, payments, delinquent liens are presented to the Property Owners Appeal Board, presenting the delinquent properties to the Board of Directors, and detailing all of the delinquent liens to be submitted to the County Tax Collector to be placed on the tax books.

Effective management of property owner violations requires that reliable and accurate information be maintained, supported, and completed/submitted accurately and timely.

There were processes identified during the audit with control weaknesses and deficiencies and the following were noted for years 2018 through 2020:

1. Notice of Liens – had computer generated signature notarized, incorrect property owner address, not certified to the tax collector timely, not filed with the county or not certified with the county timely, not released in the database, incorrect lien amount, and incorrect invoice number. Additionally, the notarized date was before the Affidavit of Notice notarized date, incorrect work date, lien amount and work date not on the lien, notice of lien was before the work date, no county stamp, could not locate the lien form, duplicate lien numbers, and lien not completed timely.
2. Munis system – contained the incorrect charge code for the property owner account, lien adjusted and certified to the tax collector with a zero balance, not certified to the tax collector or certified timely, transaction moved and no final disposition identified, lien paid twice and property owner due a refund, property owner paid more than amount owed and due a refund, no documentation to support charge error/write-off.
3. Affidavit of Notice – computer generated signature notarized, computer generated signature in notary signature spot, could not be located, and completed incorrectly.
4. Property Owner – white out used on documents notarized, invoice had the incorrect property address and/or incorrect amount, partial payment however remaining amount not certified to tax collector, and incorrect property address on purchase order. Additionally the property owner was not given proper notification and therefore could not be filed, could not locate folder, pictures/charges were not clearly identified and property owner not billed for demolition.
5. Folder/Purchase Order – incorrect Environmental Code Services (ESC) on the purchase order, and purchase order did not have the support attached.
6. Sheet documentation – supervisor did not sign Assignment Inspection Report, supervisor did not approve the contractor assignment sheet, assigned contractor does not agree to other documents, and inspector did not sign the contract assignment sheet. Additionally, the checklist and assignment sheet was not in the packet, amounts on contract sheet did not agree to inspector's checklist sheet, finance sheet had the incorrect address, and contractor did not sign assignment sheet.
7. Clean-up – notice could not be located, notice not posted, and not provided to finance timely.
8. Charges – charges not calculated correctly, contractor amount not documented correctly on finance charge sheet, lien filed without including administrative fee, and landfill charges not included.
9. Release of Lien – lien not released in the database timely, could not locate lien release form, and lien released but not paid and has an unpaid amount in the system. Additionally, the release date doesn't agree with the database, and there were multiple lien releases for a property.

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10. Database – database has the lien released; however the Munis system has it certified to the Tax Collector fully adjusted and does not reflect a payment, database has the lien released 30 day or more before the Sebastian County Direct Deposit adjustment, information into database not entered correctly, database has lien released before the payment was received or there was not a payment in the Munis system. Additionally, the work date/information was not entered into the database correctly, and the lien number or date was not recorded in the database.
  11. Notary – notary did not witness the clerks’ signature (the notary date was after the clerks’ signature date).

#### **OTHER FINDINGS/OBSERVATIONS TO BE CONSIDERED FOR CORRECTION**

1. Some instances of the Finance Sheet not updated for each property owner violation with the accurate photo and postage charges.
2. A notary signature appears to be altered from their original signature on some notary documents.
3. The property owner lien report had some accounts as “active” and the account was actually “released” before the report was ran. The database should be reviewed to identify why the accounts are not reflecting the correct status.
4. Property owner has adjustments to lien(s) with other liens still outstanding that are before and after the particular adjusted lien.
5. Munis system reflects payment received but not paid in full.
6. Adjustments approved by City Administrator for the majority of the property owners liens on the same date for majority of liens on property owner account.
7. Some instances of the Finance sheet not updated correctly with each violation.
8. Missing original landfill receipts (only copies contained therein).

#### ***CONCLUSION AND RECOMMENDATIONS***

IA met with NSD, City Clerk, and Finance Department personnel. Collaboratively, we worked through the findings, discussed the challenges, changes of management/employees within their departments, and changes of the software system in 2019. Additionally, we discussed that the process has not been reviewed or changed for a number of years and what adjustments/changes have been made within the last year since the new Neighborhood Services Supervisor came on board.

Topics discussed during the meeting included the upcoming change from the EnerGov software to the CityView software that has better functionality to handle liens and property owner violations. IA agreed with management that the new processes and recommendations should be incorporated with the new software so that all departments involved worked together at the beginning of the implementation.

Additionally, management agreed that several meetings should be held with the departments to walkthrough and document how the processes were suppose to work for each department, integrate the new requirements for each department and ensure they had the best controls in place.

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The departments immediately reviewed and made changes to some of the forms, used the exhibits provided by IA and held training with their staff, and implemented a checklist for each of their departments.

IA will have a follow up meeting with the departments after implementation of the new software and ensure the changes have addressed the risk and the right controls have been implemented with their processes.

Lastly, before the City Administrator allows for an adjustment on the property owners account, a complete list of properties with outstanding amounts, adjustments already allowed, and the amounts already paid on the account should be provided to the City Administrator. The City Administrator explained he did not generally allow adjustments above 25% of the land's assessed value as a guide. He also stated that he reviews the age of the liens, the previous land owners, and who is purchasing the land, are included in some of the factors in his decided for any allowable adjustments. Any adjustments allowed outside of this guideline should be created and retained. Additionally, any adjustments allowed outside of the administrative fees for property clean-up should also be documented and retained. All approvals by the City Administrator should be attached in the Munis system as support. The City Administrator also explained that at the City Clerks discretion a 10% adjustment is allowed when a property owner has a reasonable circumstance for not being able to pay the full amount. Additionally, a policy identifying the guidelines and requirements should be written and implemented.

IA thanks all involved departments for their patience, time, knowledge, and help with this audit. Additionally, all involved departments identified and recognized the importance of reassessing the process and identified areas that needed immediate attention.

Note: IA provided the draft demolition and clean-up audit report to the City Administrator to ensure the understanding of the process for adjustments were correctly captured in the report and the recommendation were appropriate for those areas. However, after multiple email attempts, IA has not received a response and is finalizing the report based upon the understanding of the process written above.