

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
CODE ENFORCEMENT
SPECIAL MASTER'S PROGRAM OPERATIONS
MANAGEMENT ASSISTANCE PROJECT
MAY 22, 2006

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Frank McDowell, Code Enforcement Director
Garth Collier, County Attorney
Amy Gillis, CPA, Finance Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: May 22, 2006

SUBJECT: Code Enforcement Special Master's Program - Management Assistance Project

The Audit Services Department's (ASD) Audit Projects Schedule included assisting management with enhancing Special Master Program operations as they relate to the Board of County Commissioners' Code Enforcement Department. This project was requested by the Code Enforcement Director. Based upon communications with key personnel, sample testing, and observations, the ASD has produced the attached report for your review. Management's response to the recommendations is also included. A copy of the report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the ASD exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected. Specific areas for improvement are addressed later in this report.

I would like to thank the Code Enforcement Department's and the County Attorney's Offices' management and staff members for their cooperation during this project. I would also like to thank Garry Allen and Ian Sutton-Brown from Technology Services for their assistance with recommending automated enhancements to the LION database and for their cooperation with implementing some of those enhancements during fieldwork.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

copy: BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley
Commissioner Hannah "Nancy" M. Robinson
Chairwoman Diane Rowden
Commissioner Robert C. Schenck
Commissioner Jeff Stabins
Gary Kuhl, County Administrator
Larry Jennings, Deputy County Administrator
George Zoettlein, Office of Management and Budget Director
Jon Jouben, Assistant County Attorney

OTHER:

Lori Nissen, Partner, KPMG
Hernando Today
St. Petersburg Times - Hernando Edition
WWJB Radio Station
Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Director, and
Paul DuFour, CIA, Internal Auditor

Code Enforcement's management response was provided by:

Frank McDowell, Code Enforcement Director

County Attorney's Office's management response was provided by:

Garth Coller, County Attorney

Frank McDowell's management response was authorized by:

Gary Kuhl, County Administrator

Finance Department's management response was provided by:

Amy Gillis, CPA, Finance Director

Amy Gillis' management response was authorized by:

Karen Nicolai, CPA, Clerk of Circuit Court

This report was reviewed and authorized by Karen Nicolai, Clerk of Circuit Court, on May 18, 2006.

Purpose and Scope

PURPOSE

The Audit Services Department (ASD) considered the operational strengths and weaknesses of the Special Master's Program as it relates to Code Enforcement operations. The ASD provided recommendations for enhancing and fine tuning operations, as applicable.

SCOPE

The ASD addressed the adequacy of written policies and procedures, or lack of the same, the cash control environment, record keeping practices, and efficiency and effectiveness of communications and paper flows. The ASD considered compliance with applicable and County Ordinances. The ASD performed interviews and observations, then compared actual practices to written policies and best practices. The ASD performed sample testing.

The scope of work was limited to current practices (October 1, 2004, through April 10, 2006). Any review of the County Attorney's Office's role in the Special Master program was limited to clerical and administrative functions in relation to Code Enforcement and Sheriff's Office code violations/cases. Legal advice or handling of cases was outside the scope of work performed.

Baseline

In 2004, Hernando County's Special Master Program was created to establish a supplemental code enforcement process for the County. The Special Master is vested with all the powers granted under Chapter 162 Florida Statutes as amended from time to time. The Special Master was appointed by the County Administrator on the basis of experience or interest in code enforcement.

Code Enforcement Officers (CEOs) have the duty of enforcing the various County codes and initiating enforcement proceedings before the Special Master. If a violation of the codes is found, the CEO notifies the violator of the violation, and gives the violator a reasonable time to correct the violation. Should the violation continue beyond the specified time for corrective action, the CEO requests a hearing be set and notification be given to the violator of the hearing date and time before the Special Master. The County Attorney's Office is responsible for setting these hearings and for presenting cases to the Special Master.

It appears that the Code Enforcement Officer's, County Attorney's Office's, and the Special Master's roles are very different.

- The Code Enforcement Officer's role is to identify and communicate code violations. Code Enforcement Officers have the authority to use judgment to determine and assess an appropriate fine amount based upon the severity of the violation.
- The County Attorney's Office's role is to present noncompliance code violation cases to the Special Master. The County Attorney's Office has personnel licensed to apply legal discretion, and therefore, has the authority to dismiss parking violations, as applicable. This function appears to be appropriately positioned in the County Attorney's Office.
- The Special Master's role is enforcement.

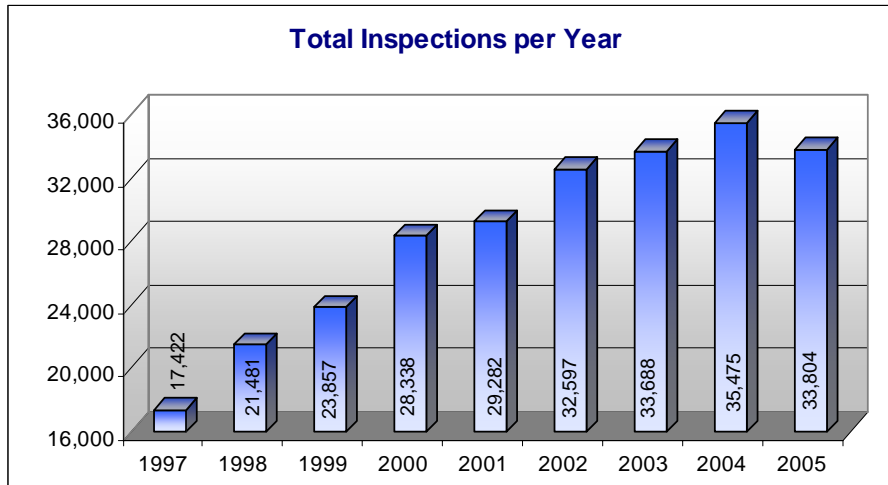
Since the Special Master has the authority to increase, decrease, or waive fines, a detailed code violation fine schedule is not necessary for the Code Enforcement Department because, these fines are addressed in *County Ordinances, Chapter 2, Article III* and are enforced through the Special Master's Orders.

The Code Enforcement Department and the County Attorney's Office use manual and automated means to record and report data. These departments share the LION database. The County Attorney's Office does not handle any cash receipts. This function is performed by Code Enforcement. Code Enforcement handles cash receipts for Code Enforcement, Sheriff's Office, and some Animal Services and Hernando County Fire Rescue code violations.

As shown in the graph below, the number of inspections performed by the Code Enforcement Department has almost doubled since 1997. During 2005, there were 6.6 full-time equivalent

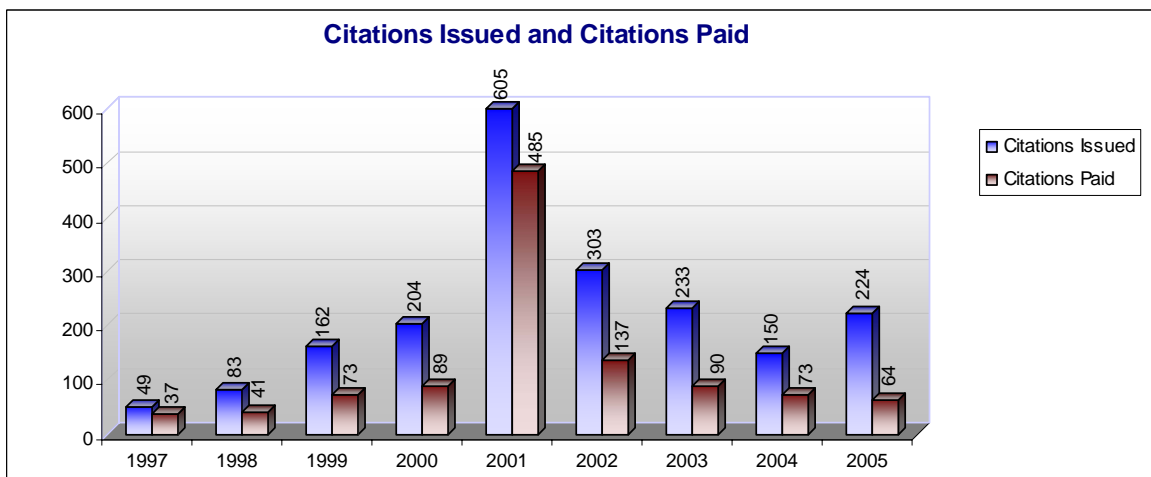
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CEOs. On average, each CEO performed 20 inspections per day.



As shown in the graph below, during 2005, (224) citations were written and 64 citations were paid. These payments do not include property lien payments. An explanation for the difference between citations issued and citations paid is that some fines have not yet been paid (accounts receivable stage), the citations were dismissed, waived or withheld, or the cases have been continued.

Per management, the spike in citations issued and paid in 2001 and partially in 2002 represents an increase in water restrictions (and corresponding code enforcement) due to a drought.



DISCUSSION POINTS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSE

POLICIES AND PROCEDURES

Per Code Enforcement management, any procedure not addressed in Code Enforcement's Standard Operating Procedure (SOP) Manual is addressed in *Hernando County Code of Ordinances, Chapter 2, Article III*. These Ordinances address the qualifications, duties and responsibilities of the Special Master, enforcement procedures, and service and content of notice.

The Department's policies appear to be clearly written, easy to understand, and referenced documents are exhibited, as applicable. Authorization and decision points appear to be at the appropriate level of management. The workflow process addressed in the SOP Manual appears to follow good business practices.

No material concerns were identified during a review of the SOP Manual.

WORKFLOW CONTROL ENVIRONMENT

Based upon interviews, observations and testing, the auditors created a workflow diagram of the Special Master function as it relates to Code Enforcement. This workflow was compared to actual practices. It appears that Code Enforcement has implemented a reasonable control environment with the exception of the following:

- There is a lack of segregation of incompatible duties in the cash handling function; and
- LION's automated controls are weak in that they allow lower level employees to add, change and delete data with little, if any, preventative or monitoring controls (i.e., automated override rights or audit trail).

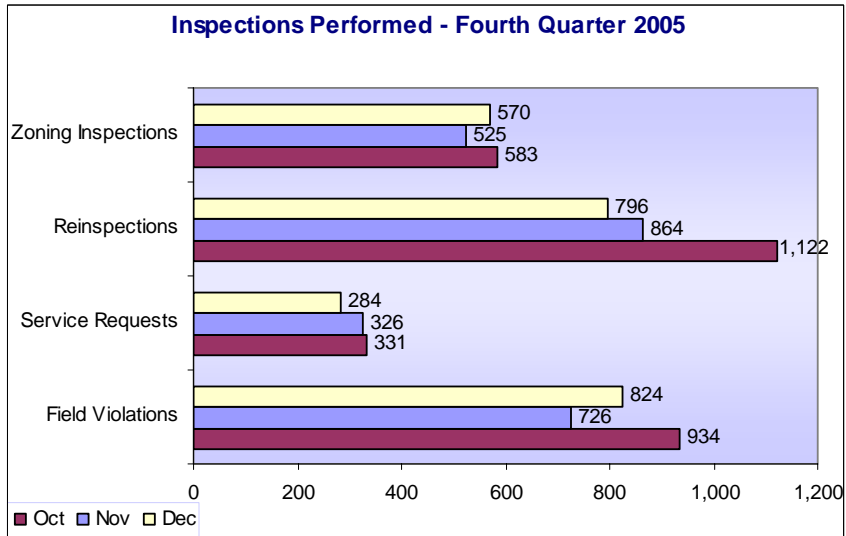
Due to a small cashier/customer service representative staffing level, full segregation of incompatible duties is not feasible at this time, however, automated controls could be implemented to enhance the internal control structure. *(See discussion and recommendations in the Cash Transaction Section, pages 7-9).*

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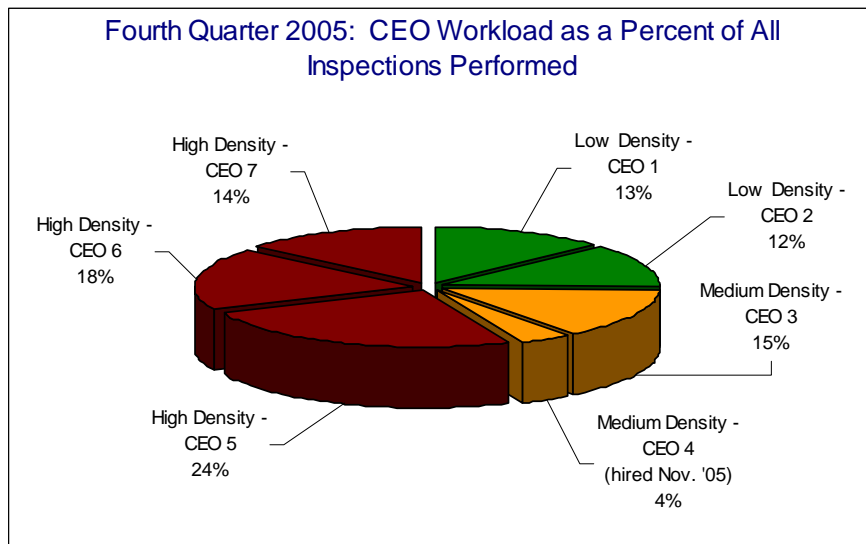
WORKLOAD – FOURTH QUARTER 2005 TOTAL INSPECTIONS

The ASD addressed whether CEO workload was well balanced in direct correlation with inspections and the Special Master program. The ASD focused its efforts on the fourth quarter of 2005 (October through December). No material concerns were identified during testing as discussed below.

Based upon Code Enforcement records, as shown in the graph to the right, the 6.6 full-time equivalents (FTE) CEO's performed 7,873 inspections during the fourth quarter of 2005. This was a combination of zoning inspections, reinspections, service requests, and field violations.

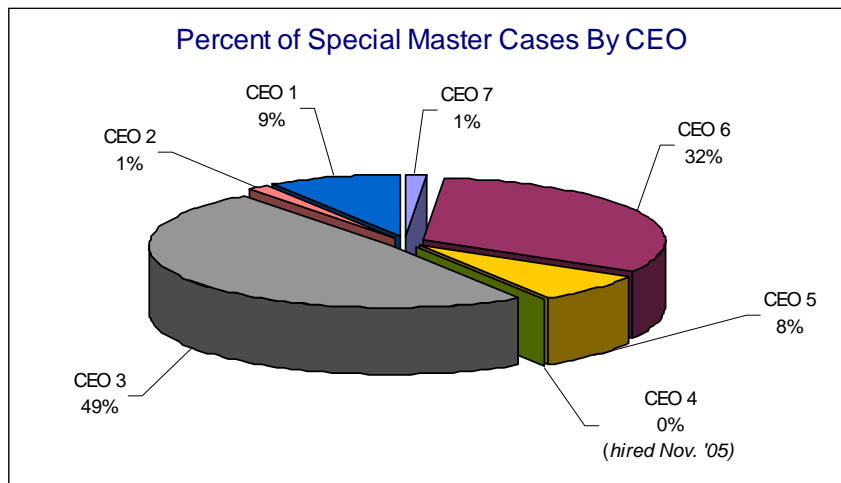


The ASD considered the service areas assigned to each CEO and the density of the population for each area. In the graph below, the service areas in red represent a high density of population; the areas in orange represent a medium density of population; and the areas in green represent a low density of population. The ASD found that 53% of inspections are performed in high density areas, and the remaining 47% are performed in medium to low densities.



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The ASD did not identify any significant discrepancies when comparing each CEO's workload history as discussed above, however, as shown in the graph below, during the fourth quarter of 2005, of the 99 Code Enforcement cases brought before the Special Master in enforcement hearings, 81% of these cases were the result of inspections performed by two (2) CEO's. At first glance, there appears to be a workload imbalance in the amount of cases that each CEO forwards to the Special Master.



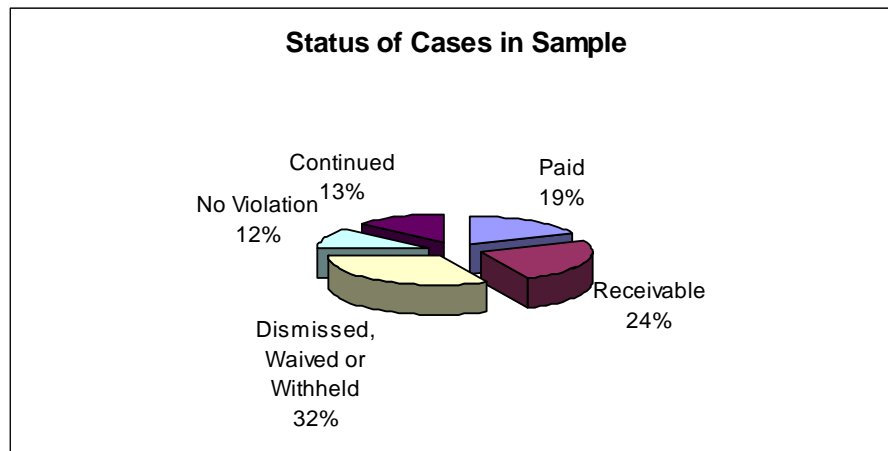
During fieldwork, management cited that it views cases that go before the Special Master as service failures. This is because there is a strong preference to educate the public (and violators) and to resolve code violations through corrective action.

The ASD considered management's perspective when addressing the appearance of a workload imbalance. The ASD questioned if the imbalance could be a training issue. Per Management, service areas have varied zoning types (i.e. agriculture, residential, commercial, etc.), therefore, it is difficult to compare workloads based strictly upon the quantity of inspections, the density of population, and/or the quantity of cases that go before the Special Master. In addition, management cited a direct correlation between failure to educate violators and the cases that go before the Special Master. CEO's who have a high workload may not have as much time to educate violators as those with a less demanding workload. Management cited that service areas are periodically reviewed and adjusted to ensure workload balance. Weekly staff meetings are held to address any concerns the CEO's or management may have and to provide training, as needed. As a monitoring control, management reviews cases before they go before the Special Master to ensure that the CEO attempted to achieve code compliance (corrective action), and also to ensure appropriate work performance and paper flow.

SAMPLE TESTING OF CODE VIOLATIONS

A. INSPECTIONS AND ASSESSMENTS OF FINES

The ASD randomly selected a sample of 57 cases for testing. These cases were traced through their life cycle from when the concern was brought to Code Enforcement's attention to the current status of the case (closed, continued, etc.). If any fine was assessed, the ASD traced the fine and corresponding payment, as applicable, through its life cycle. Of the 57 cases in the test sample, the ASD found that:



- Nineteen percent (19%) of the fines assessed were paid. No material concerns were identified with any of the payments reviewed.
- Twenty-four percent (24%) of the fines were in the receivable stage of the life cycle. Most of these cases did not yet have a due date or become due because of the lag-time from the Special Master hearing to the date the Order was written, and to the due date assigned by the Special Master (normally 30 days from date of Order). Of those payments that were past due, the ASD generally found that the case was being processed for the upcoming Special Master hearing. No material concerns were identified with any of the accounts receivable cases reviewed.
- Thirty-two percent (32%) of the cases were dismissed, the fine was waived, or the fine was withheld. The auditor did not draw an opinion in regards to the appropriateness of dismissing, waiving or withholding fines because the auditor does not have a license to practice law and is, therefore, not qualified to apply judgment.
- The CEO who inspected the potential violation did not identify any code violation in 12% of the cases reviewed.
- Thirteen percent (13%) of the cases were continued. These cases were either continued by the Special Master, or are pending the first hearing in front of the Special Master. No material concerns were identified during testing any of these cases.

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B. TIMELINESS OF INSPECTIONS

Code Enforcement has a written objective to complete commercial zoning inspections within one (1) working day and all other inspections within three (3) working days. The ASD's random sample of 57 cases did not contain any commercial zoning inspections, therefore, the ASD limited testing to "other" first time inspections. Test results indicate that Code Enforcement regularly met or exceeded its three (3) working day first inspection goal. During testing, the ASD reviewed the corresponding LION database for completeness and accuracy of inspection record keeping. No material concerns were identified during testing.

C. FINES ASSESSED BY CEO'S

The ASD performed testing on a sample of 57 cases. Based upon testing, it appears that the fines assessed by CEO's were reasonably and consistently applied to violators. No material concerns were identified during testing.

D. RECORD KEEPING PRACTICES

The ASD tested a sample of 57 cases for record keeping practices. Based upon testing, it appears that Code Enforcement reasonably maintained complete and reliable records. No material concerns were identified during testing.

CASH TRANSACTIONS

The ASD addressed the adequacy of the cash control and the record keeping environment by performing interviews, observations, and testing.

A. AUTOMATED CONTROL ENVIRONMENT – REVERSING CASH TRANSACTIONS

Due to LION's automated control structure, cashiers cannot change a cash transaction amount after it is data input. However, cashiers are able to reverse cash transactions. LION has a monitoring control which creates an audit trail of any reversed cash transaction. These transactions are listed on Pay Valuation Reports which are forwarded to the Finance Department with Code Enforcement's daily work. Finance personnel monitor the Pay Valuation Reports for inconsistencies. No material concerns were identified with the ability to reverse cash transactions.

B. AUTOMATED CONTROL ENVIRONMENT – EDITING FINE AMOUNTS

Cashiers are able to edit fine amounts in the LION database. If fines are edited, the procedure is for the cashier to notify the County Attorney's Office and/or to make a notation in the LION database, as applicable. Test results indicate that cashiers followed this procedure. Although the procedure appears to be followed, this honor system is not an adequate preventative or monitoring control. During fieldwork, management cited that cashiers need the ability to edit fines in the normal performance of their job duties; therefore, the ASD considered recommending monitoring controls rather than preventative controls. During fieldwork, the ASD, Code Enforcement and Technology Services discussed implementing automated monitoring controls into the LION database. Some enhancements are in the process of being implemented.

Recommendation 1: Consideration should be given to implementing an automated audit trail. This audit trail should identify what fine amount was changed, who changed it, and when it was changed. Periodically, management should review (monitor) this audit trail for training issues, fraud, or abuse.

Management's Response: Code Enforcement Admin Staff is working with Technology Services to make an automated trail using the LION system. (*Response provided by Frank McDowell.*)

C. CASH RECEIPTS

Cash receipts are normally generated in LION, however, there are certain types of cash transactions which Code Enforcement manually processes. During fieldwork, the ASD, Code Enforcement and Technology Services discussed automated enhancements to the cash receipt process to eliminate or minimize manual receipt writing. Some enhancements are in the process of being implemented.

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Recommendation 2: Consideration should be given to utilizing LION to process, record and report all cash transactions. As addressed during fieldwork, LION may require some fine tuning to meet Code Enforcement's specific needs.

Management's Response: Changes to the LION system are already in work to process cash transactions. At this date we are fine tuning with the Programmers in Technology Services to bring this change online. (*Response provided by Frank McDowell.*)

D. CASH HANDLING

Based upon interviews and observations, it appears that cashiers lock their cash drawers when not in use, and cash drawer keys remain in the presence of the cashier throughout the shift. The keys are transferred to a supervisor at the end of the shift. The supervisor does not count the cash when custodial responsibilities are transferred. The practice of transferring keys and cash custodial responsibility is inefficient and lacks appropriate controls.

When the above concern was brought to management's attention, management explained that it desired to have "emergency" access to cash drawers. To resolve the concern, duplicate cash drawer keys were made. One key now remains in the custody of the cashier and the other key is secured by management in a tamper resistant envelope. The tamper resistant envelope, for each cashier, was signed by the cashier and by the cashier's immediate supervisor.

E. SEGREGATION OF INCOMPATIBLE DUTIES

There is a lack of segregation of incompatible cashier duties. Cashiers handle original source documents, perform data input, handle customer inquiries and complaints, process mail, process cash transactions, prepare daily work records, and prepare bank deposits. The ASD found that the automated controls did not alleviate the concern as the ASD found that cashiers have the ability to edit any LION data input cell except the cash payment amount and the citation number. There is a lack of an adequate audit trail (monitoring control) for any edited cell.

During fieldwork, the ASD, Code Enforcement and Technology Services discussed segregating incompatible job duties and/or implementing automated monitoring or preventative controls. With Code Enforcement's small office staff, it is not feasible to segregate all incompatible job duties, therefore, the group focused on automated controls. Not enough time has passed to implement the automated monitoring and preventative controls discussed during these communications, but Technology Services has begun to work with Code Enforcement to meet the Department's specific technology needs.

Recommendation 3: Consideration should be given to following through on implementing automated preventative controls and/or monitoring controls. Preventative controls can be as simple as automated supervisor override rights. Monitoring controls on the other hand will require: a need to know what changed, when it was changed, who changed it, and why it was changed. Periodically, management should review (monitor) this audit trail for training issues, fraud, or abuse.

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Management's Response: Code Enforcement will continue to follow through with automated controls. *(Response provided by Frank McDowell.)*

F. RECONCILIATION AND BANK DEPOSITS

- 1) The bank deposit preparation process appears to be inefficient. There are many steps in this process that are performed manually that could be performed more efficiently through automation. During fieldwork, the ASD, Code Enforcement and Technology Services discussed automating and enhancing the bank deposit preparation process. Technology Services has begun to work with Code Enforcement to automate the manual steps and forms through enhancements to the LION database.

Recommendation 4: Consideration should be given to streamlining the bank deposit preparation process by automating the manual steps and forms in this process. These enhancements may require Technology Services to meet user specific needs.

Management's Response: Also with this item we are working with the programmers in Technology Services to automate this process and will have it online as soon as possible. *(Response provided by Frank McDowell.)*

- 2) There is a concern with the manual receipt issuance process and corresponding monitoring control. When Code Enforcement forwards its daily work to the Finance Department for processing, Finance records any issued receipts in a log. The ASD found that one cashier's manual receipts were not issued in sequential order and there was excessive lag-time from cash receipt to bank deposit.

Recommendation 5: Good business practices dictate that funds should be deposited daily, or at the very least, weekly and receipts should be written in sequential order. Management should closely monitor daily work and bank deposits to ensure timeliness.

Discrepancies identified by the Finance Department during the desk-audit process should be communicated to the appropriate level of management and followed up on until the concern is alleviated.

Management's Response: Diligently working toward making deposits weekly. Although we are not there yet, we look forward to automation changes that will speed the overall process and allow us to make this goal and significantly decrease time between deposits. *(Response provided by Frank McDowell.)*

The Finance Department concurs. Regarding follow up of discrepancies identified, our office will enhance communication to ensure appropriate staff/management is notified and issues are addressed through conclusion. *(Response provided by Amy Gillis.)*

THE COUNTY ATTORNEY'S OFFICE'S ROLE

Some of the 57 cases in the test sample (discussed on pages 5 & 6) overlapped with the County Attorney's Office's role in the Special Master program. Based upon testing, there appears to be adequate compliance with those aspects of Code of Ordinances, Chapter 2, Article III, Code Enforcement, Section 2-54 reviewed.

During interviews and observations, the ASD identified several areas in which the LION database could be utilized to decrease manual processes and enhance efficiency and effectiveness. A few examples are as follows:

- The County Attorney's Office records citations/tickets onto a list in the Special Master's Citation Code Book. This book is used as a quick reference guide to ensure follow through on any open items. The information maintained on this log could be reported from the LION database.
- Case photos could be maintained electronically.
- Disposition sheets prepared manually during a Special Master Hearing, and recorded in LION at a later date, could potentially be prepared in real time in the LION database (during the hearing) which would enhance efficiency.

During fieldwork, the ASD, the County Attorney's Office, and Technology Services discussed automating and enhancing the above mentioned manual processing steps and forms. During these communications, other user specific needs and manual processes that are cumbersome and inefficient or ineffective were also identified. Technology Services has begun to work with the County Attorney's Office to identify specific needs and to implement changes.

Recommendation 6: Using the cost benefit approach, consideration should be given to working with Technology Services to fine tune the LION databases' capabilities to meet user specific needs.

Management's Response: I concur with the recommendation. This office is working closely with Technology Services to implement the suggested changes. (*Response provided by Garth Coller.*)

GLOBAL PERSPECTIVE OF THE LION DATABASE

It appears that the LION database was designed to meet the immediate needs of the Special Master program when the program was in its infancy. Now that the program has matured, there appears to be a need to fine tune LION to enhance efficiency and effectiveness and to also provide for a better internal control environment. During fieldwork, the ASD, Code Enforcement, the County Attorney's Office, and Technology Services discussed user specific needs and identified features in LION and/or manual processes that are cumbersome and inefficient or ineffective. Based upon these communications, it appears that Technology Services has a good understanding of what automated enhancements would best serve its users. Not enough time has passed to implement all of the automated enhancements but Technology Services has already begun to make some changes.

Recommendation 7: Consideration should be given to following through on the commitment to enhance the LION database to meet user specific needs and to fully utilizing LION's capabilities. Keeping in mind that the costs should not outweigh the benefits received.

Management's Response: I concur with the recommendation. Some of the suggestions have been implemented. It has been determined that the remaining changes will be beneficial and will be implemented providing the funding is available. *(Response provided by Garth Coller.)*