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TENNESSEE

December 9, 2016

Mr. Robert Knecht, Director
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Director Knecht:

We have completed our special investigation pertaining to three separate incidents for which questionable or unauthorized activity resulted in potential conflict of interest (COI) situations. The incidents were reported to us by Neighborhood Improvement management (Deputy Director and/or Administrator) and involved allegations indicating that the Code Enforcement employees involved in the incidents used their positions for personal benefit or gain. Consequently, all incidents were referred to Police Inspectional Services Bureau (ISB) to handle the criminal and/or administrative investigation.

The primary objective of this investigation was to determine whether there were adequate internal controls to mitigate risks associated with identifying, understanding and managing COI situations. Our secondary objective was to identify and evaluate potential COI pertaining to Code Enforcement employees and their employment ventures outside City government. The scope was limited to the Code Enforcement department and applicable records (secondary employment forms, etc.) for the period March 27, 2015 to May 31, 2016.

To accomplish our objectives, we interviewed pertinent personnel, reviewed relevant policies, procedures and internal controls, and performed select transaction testing. We also conducted a COI survey to gather and evaluate information related to any potential conflicts of interest. The results of our investigation are noted in the following pages and should provide management with an assessment of internal controls for Code Enforcement operations.

CONCLUSION

We concluded that internal controls for identifying and managing COI situations pertaining to Code Enforcement employees need improvement. There is no clearly defined process for identifying, understanding, or managing COI situations resulting from the employee's personal, business or family-owned property interests. Additionally, survey results revealed undisclosed COI situations that could influence or appear to influence Code Enforcement employees' judgment in the performance of their job duties and responsibilities. These situations, if not properly managed, could damage the City's reputation and undermine public confidence in the integrity of Code Enforcement operations. Our conclusion is based upon the following:

BACKGROUND

Conflicts of interest exist in many forms and can include transactions that directly or indirectly benefit an employee or an employee’s family, relationships that may influence an employee in the performance of his/her job responsibilities, or an employee using his/her position within the organization for personal gain, to name a few. A particular COI is neither good nor bad, but its presence can create perceptions about a person’s objectivity and independence. Although it is not reasonable to completely eliminate the risks of COI, they can be effectively managed with adequate controls for identifying and managing them when they arise.

The Code Enforcement department is primarily responsible for the administration and enforcement of applicable City Ordinances, which include the storage of inoperable or abandoned vehicles on public and private property; minimum housing standards for existing dwellings; and abandoned commercial structures. Potential code violations, including customer complaints, are documented via service request and tracked in the databases used to manage Code Enforcement activities. Consequently, Code Enforcement employees, (i.e., Code Inspectors, etc.) are expected to carry out their responsibilities with integrity and objective judgment and are therefore, more likely to be exposed to potential COI.

We were notified of the following three COI situations. When considered individually at the time of occurrence, they did not warrant audit investigative activity, due to the allegations of unlawful activity. As a result, we promptly referred them to Police ISB for further criminal and/or administrative investigation. However, when considered in combination, with the reporting of the last incident, we determined that these COI situations lacked sufficient management oversight. The following table provides a summary of the COI situations.

Table 1 – Summary of COI Situations

Date Allegation Reported	Allegation or Fraudulent Activity	Audit Activity	Results
March 27, 2015	Employee had a demolition contractor remove salvageable materials (metal pipes, poles, etc.) from homes prior to demolition.	None	Referred to Police ISB. Unsubstantiated.
December 21, 2015	Employee deleted/adjusted property violations assessed against the employee’s property by a subordinate employee.	None	Referred to Police ISB. *Substantiated.
May 9, 2016	Employee arrested for burglary of vacant property within employee’s assigned monitoring area.	None	Referred to Police ISB. *Substantiated.

** Both incidents were also handled administratively by Human Resources Office of Equity, Diversion and Inclusion. As a result, both individuals are no longer City employees.*

Summary of Investigation

We obtained and reviewed relevant policies and procedures to evaluate controls over COI situations. Our evaluation of controls also included interviews with pertinent personnel. We administered a COI survey to all Code Enforcement employees to gather and evaluate information related to any potential COI that could influence or bias the employees with respect to the execution of their job duties and responsibilities. Division management (Deputy Director and Administrator) also participated in the survey. We noted the following:

- We did not find written policies and procedures regarding the handling of COI situations or to outline the practices and principles for all employees to follow in the performance of their departmental duties. Division management informed us that they were in the process of drafting comprehensive written policies and procedures for Code Enforcement operations. Additionally, Division management provided evidence of written procedures implemented to partially address the unsubstantiated COI situation that resulted in a fraud report (see Table 1 for specific details).
 - Final completion, implementation and communication of written policies and procedures pertaining to Code Enforcement operations should fully resolve the unsubstantiated COI situation and aid in the detection and prevention of similar situations.
- Code Enforcement employees are not required to disclose their personal, business or family-owned property interests, which could create actual or potential COI situations. Without disclosure requirements, Division management cannot adequately identify, prevent or effectively manage COI situations that may exist.
 - City Policy PM 62-01 requires employees to notify management of any outside employment or business ventures. However, management of COI situations is currently limited to the employee's written request and approval for secondary employment.
- There is no clearly defined process in place for Division management to identify and manage actual or potential COI when they arise, including but not limited to:
 - documenting Division management's understanding of actual or potential COI situations disclosed by Code Enforcement employees (aside from Secondary Employment disclosure);
 - preventing COI situations that may result from Code Inspectors and the inspections of their personal, business or family-owned properties;
 - managing COI situations that may result from Code Inspectors and the inspections of personal, business, or family-owned properties of their fellow co-workers (including their managers and supervisors).
 - ❖ For one COI situation disclosed to Division management, we found no written evidence to document actions taken to resolve the situation (i.e., Division management's understanding of the associated risks, methods and decisions taken to manage and monitor the COI situation).

COI Survey Results

The COI survey response rate was 88% (51 of 58). Seven employees did not participate; five were on administrative or sick leave at the time of the survey. The following table provides a summary of the disclosures obtained from our survey results.

Table 2 – Summary of COI Survey Disclosures

DISCLOSURE TYPE	NUMBER OF EMPLOYEES
Property ownership (other than primary residence)	10
Property ownership of immediate family	9
Rental property ownership	2
Companies owned by employee or immediate family	4
Employment that involved supervision, management, maintenance or operations of a rental property	1
TOTAL	26

- We traced all property addresses (primary residence and COI disclosures) to the assigned monitoring areas for all Code Inspectors and found that none of the properties were located in their assigned monitoring areas. Therefore, we noted no COI for them.
 - We also compared Code Enforcement vendor information (i.e., names, addresses, etc.) to Code Enforcement employee information, including information disclosed in the surveys, to identify potential COI. None of the vendor information matched the employee information, so we noted no COI.
- For the business ventures disclosed in the COI surveys (i.e., rental property ownership and employee owned companies), we did not find written notification to the Division Director as required by City policy *PM 62-01, Conflict of Interest/Employment in Second Job*. However, we found written notification and approval for secondary employment which was requested by eight employees in 2014.

NOTE: Auditors sought an informal opinion from the City’s Law Division regarding annual disclosure requirements for Code Enforcement employees, since their personal, business and family-owned property interests could unduly influence their judgment.

Opportunities for Improvement

- There is no method in place for Division management to monitor and review service requests for property citations issued to Code Enforcement employees' personal, business or immediate family. Therefore, Division management cannot ensure those service requests are handled properly or identify and investigate questionable activity (i.e., unauthorized resolution code changes).
 - The COI situation regarding the property deletion/adjustment primarily existed due to a lack of safeguards in place for Division management's review, approval and monitoring of resolution code adjustments.
 - ❖ System controls prevent the deletion of service requests. However, individuals with elevated system privileges (managers and supervisors), as well as the inspector or field crew assigned to the service request can downgrade the severity of the service request by adjusting the resolution codes which could automatically close the service request. Consequently, the system's audit trail is enabled and captures pertinent information to identify the user that made the adjustments as well as the changes that were made.
- Typically, customer service calls/complaints which are routed through the 311 Call Center are forwarded to Code Inspectors for further investigation. However, without proper controls in place to mitigate the risk of them investigating their own personal properties, management cannot ensure the service calls or investigations are being handled properly.
- We noted that Division management initiated a project with IS to enhance the service request management system to improve existing Geographic Information Systems (GIS) functionality and integrate system workflows. Division management should consider utilizing the GIS functionality to enhance the ability to effectively and efficiently monitor inspection zones for purposes of identifying and monitoring actual or potential COI situations.

RECOMMENDATIONS

We believe that adequate measures taken to address deficiencies noted herein should assist with the establishment and implementation of an effective internal control system in accordance with Tennessee Code Annotated, Section 9-18-102(a). Therefore, we recommend that Division management:

- Establish written policies and procedures for handling COI situations and to outline the practices and principles for all employees to follow in performance of their departmental duties. In addition, the policies and procedures should be communicated to all employees.
- Require Code Enforcement employees to provide annual disclosures of their personal, business and family-owned property interests.
- Develop a process for identifying and managing actual or potential COI situations, including but not limited to:

- documenting Division management’s understanding of actual or potential COI situations disclosed by Code Enforcement employees (aside from Secondary Employment disclosure);
 - preventing COI situations that may result from Code Inspectors and the inspections of their personal, business or family owned properties;
 - managing COI situations that may result from Code Inspectors and the inspections of personal, business, or family owned properties of their fellow co-workers (including their managers and supervisors).
- Establish a process for monitoring and reviewing service requests to identify property citations issued to Code Enforcement employees’ personal, business or immediate family. Additionally, the monitoring process should be documented as part of the written policies and procedures. Questionable activity should be investigated and monitoring activity should be adequately documented to provide evidence of monitoring (dates, activity reviewed, and monitoring results).
 - Establish a process for ensuring customer service calls that are forwarded to the Code Inspectors are properly resolved in accordance with City Ordinances and departmental policies and procedures. Periodically, Division management should monitor and review a sample of service requests to ensure compliance.
 - Collaborate with IS to discuss the feasibility of utilizing GIS functionality to enhance Division management’s ability to monitor inspection zones and identify COI situations (i.e. mapping of personal, business or family owned properties within the assigned inspection zones).

The work performed in this investigation does not constitute an audit under Government Auditing Standards. We appreciate the cooperation of the management and staff of Code Enforcement, Neighborhood Improvement, MPD, IS, HR, and Law Divisions during our investigation. Please do not hesitate to call me at (901) 636-6241 if you have any questions or need additional assistance.

Sincerely,



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Audit Manager

APPROVED:



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