

Performance Audit 25-03: Code Enforcement Liens

October 2025

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Jeff Connor, J.D.





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

October 21, 2025

To: Mayor Kelly
City Councilmembers

RE: Code Enforcement Liens Audit (#25-03)

Dear Mayor Kelly and City Councilmembers:

The attached report contains the results of our Code Enforcement liens audit. Based on our findings, we determined the City's Code Enforcement lien process substantially complies with applicable law, regulations, policies and procedures. However, our audit identified opportunities to strengthen internal controls, improve operational efficiency, and minimize the risk of noncompliance with governing regulations.

To address the opportunities for improvement, we recommended updates to existing policies and procedures and other operational safeguards to maximize internal control effectiveness.

We would like to thank the City's Code Enforcement Division, the Office of the City Attorney and the Office of City Treasurer for their courtesy, cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Kevin Roig, Chief of Staff
Mande Green, Chief Operating Officer
Weston Porter, Chief Finance Officer
Jerramy Wood, Administrator Public Works
Phil Noblett, City Attorney
Jarrod Brock, City Treasurer
Roberta Long, Assistant City Treasurer
Donna Casteel, Manager Code Enforcement
Jim Arnette, Tennessee Local Government Audit

TABLE OF CONTENTS

AUDIT PURPOSE.....	2
BACKGROUND	2
Financial Information.....	3
FINDINGS AND RECOMMENDATIONS.....	3
Maintaining operational compliance.....	3
Improving the City's lien collection process.....	4
Strengthening internal controls	5
APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS.....	7
APPENDIX B: PRIORITY LEVEL DEFINITIONS	8

AUDIT PURPOSE

This audit was performed in accordance with the Office of Internal Audit's 2025 Audit Agenda. The objectives of the audit were to examine the City's Code Enforcement lien process to determine compliance with applicable law, regulations, policies and procedures and to identify opportunities to strengthen Code Enforcement efforts.

BACKGROUND

Chattanooga's City Charter Section 2.7 authorizes the City to enact regulations to protect the general health and safety of residents and to prevent and remove (abate) public nuisances.¹ To ensure compliance with these regulations, the City's Code Enforcement Division enforces property maintenance requirements and promotes compliance with housing, vehicle, litter, overgrowth and other nuisance ordinances.²



When a property owner fails to remedy a declared nuisance, T.C.A. § 6-54-113 allows the City to abate the nuisance and collect the cost of the abatement from the property owner.³ The City can place a lien on the abated property and collect the costs of abatement at the same time and in the same manner as property taxes are collected.⁴

¹ Such nuisances include the overgrowth of trees, vines, grass, underbrush or the accumulation of debris, trash, litter, or garbage, or any combination of the preceding elements, so as to endanger the health, safety or welfare of other citizens or to encourage the infestation of rats and other harmful animals.

² City Code Sec. 21-31 vest the authority for the administration of City Code Chapter 21 (Property Maintenance) with the Code Enforcement Division.

³ See also City Code Sec. 21-137 (Abatement by City and Lien for Costs).

⁴ If a residential property is owner-occupied, the City must wait until the cumulative charges for remediation equal or exceed five hundred dollars (\$500) before placing a lien on the property.

Additionally, T.C.A. § 13-21-101, *et seq.*, allows the City to repair, close or demolish private structures which are unfit for human occupation or use due to dilapidation, defects, fire hazards, unsafe or unsanitary conditions, or otherwise dangerous to the public health, safety and morals.⁵ Under this statute, the City is required to appoint a public officer who is responsible for determining whether the structure is suitable for occupation or use.⁶ If the public officer deems the structure unfit after providing the owner notice and an opportunity for a hearing, the public officer will issue an order requiring the owner to repair or demolish the structure. If the property owner fails to comply, the public officer can order the structure to be repaired or demolished by the City at the owner's expense. The cost of repair or demolition becomes a lien on the property in favor of the City.⁷

Financial Information

	FY2023	FY2024	FY2025
<i>Debris Removal/Cleanup</i>	\$494,311	\$260,220	\$368,929
<i>Demolition Services</i>	\$461,796	\$446,492	\$310,337
<i>Lumber & Wood Products</i>	\$59,835	\$33,175	\$43,364
<i>Total Costs of Abatements</i>	\$1,015,942	\$739,887	\$722,632

Source: Oracle

FINDINGS AND RECOMMENDATIONS

Maintaining operational compliance

Operational compliance is how well an organization follows the rules, regulations and standards set forth by regulatory authorities. At its core, operational compliance means aligning business practices with applicable laws, regulations and industry standards.

To assess operational compliance, we examined a statistical sample of fifty-six (56) Code Enforcement abatements initiated and completed during the audit period to determine if the Code Enforcement Division complied with applicable law, regulations, policies and procedures. In every case we reviewed, the Code Enforcement Division followed standard operating procedures and appropriately documented all property inspections and abatements.⁸

⁵ See also City Code Sec. 21-84 (Repair or Demolition of Unsafe Structures).

⁶ See also City Code Sec. 21-102 (Appointment of Public Officer).

⁷ See also City Code Sec. 21-62 (Municipal Lien for Costs; Collection of Liens)

⁸ We noted during our interviews with Code Enforcement Division personnel that internet speeds at the City's Midtown Annex are extremely slow which makes it very difficult to electronically process inspection paperwork. Code Enforcement Division management agreed that upgrading the WIFI system and internet speeds would increase departmental productivity.

However, our audit testing disclosed one (1) residential property abated during the audit period with no record of a corresponding lien filed with the Hamilton County Register of Deeds.⁹

Recommendation 1: We recommend Code Enforcement Division management review abatement and lien records on an annual basis to ensure that all liens on abated properties have been perfected by filing the lien with the Hamilton County Register of Deeds.¹⁰ We also recommend the Code Enforcement Division incorporate the management review in its current policies and procedures.

Auditee Response: *We agree with the audit finding and recommendation.*

Estimated Implementation Date: December 1, 2025

Priority Level: 2

Improving the City's lien collection process

In Tennessee, a municipality can file a civil lawsuit against a property owner to obtain a debt judgment for the costs of abating a nuisance. However, the most common method for a municipality to recover abatement costs is to simply place a lien on the property and add the abatement costs to the property tax bill. The municipality can then collect the abatement costs using the same process authorized for property tax collections.¹¹

We compared the 2024 City property tax bills for abated properties with Code Enforcement liens filed with the Register of Deeds between July and October 2024 (prior to the issuance of the October 2024 property tax bills) to determine if the abatement costs were collected at the same time and in the same manner as property taxes in accordance with Tennessee law and the City Code. We identified eight (8) Code Enforcement liens filed between July and October 2024 (100 percent of the total reviewed) where the City neither collected the lien amount owed nor added the abatement costs to the 2024 property tax bill.

⁹ We also identified one (1) other property abated during the audit period with no record of a lien. However, because the abatement occurred immediately prior to a transfer of ownership, we determined the Code Enforcement Division decision to forego filing a lien (made in consultation with the Office of the City Attorney) complied with standard abatement procedures.

¹⁰ In Tennessee, a Code Enforcement lien is perfected by filing a notice with the Register of Deeds in the county where the property is located.

¹¹ Alternatively, T.C.A. § 6-54-113 (c) (1) allows municipalities to bill the costs to owner and include the costs on the property tax notice. If this remedy is used, the amount billed does NOT constitute a valid lien or accrue penalties or interest for late payment.

Recommendation 2: We recommend the Office of City Treasurer implement an automated process for adding uncollected Code Enforcement liens and abatement costs to the annual property tax bills.

Auditee Response: *We agree with the audit finding and recommendations. The Office of the City Treasurer is currently working with the OpenGov vendor to develop an automated solution for entering lien information into the OpenGov system.*

Priority Level: 2

Recommendation 3: We also recommend the Office of City Treasurer implement an automated process to notify the Code Enforcement Division when liens have been satisfied or collected.

Auditee Response: *We agree with the audit finding and recommendations. The Office of the City Treasurer is currently working with the OpenGov vendor to develop an automated report to notify the Code Enforcement Division when liens have been satisfied.*

Estimated Implementation Date: January 1, 2025

Priority Level: 2

Strengthening internal controls

Tennessee law requires municipal governments to establish and maintain effective internal controls.¹² Internal controls ensure our City maintains efficient operations, complies with laws and regulations, and prevents fraud, errors, and mismanagement. To ensure compliance with internal control requirements, the City developed and implemented an internal control manual based on guidance issued by the United States Government Accountability Office and the Tennessee Comptroller. The City's internal control manual requires each City department to develop and maintain effective internal controls through policies and procedures that provide reasonable assurance that each department's objectives will be achieved.

To strengthen internal controls and operational efficiency, the Office of the City Attorney (OCA), which assists the Code Enforcement Division administer liens and lien releases, should update its policies and procedures for processing municipal liens to reflect changes in the Code Enforcement lien process. OCA's current procedures are outdated and have not been updated since 2012.

¹² See T.C.A. § 9-18-102 (a)

Recommendation 4: We recommend OCA update its policies and procedures for municipal liens to align with current processes.

Auditee Response: *We agree with the audit finding and recommendation.*

Estimated Implementation Date: January 1, 2025

Priority Level: 2

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and our assessment of risk, this audit covers the City's Code Enforcement lien process from July 1, 2024 through June 30, 2025. When appropriate, we expanded the scope to meet our audit objectives. We obtained source documentation from official records maintained by the City's Code Enforcement Division, the Office of the City Attorney, and the Office of the Treasurer. Original records and digital copies used as evidence were verified through physical examination.

We examined evidence on a test basis and applied other audit procedures to meet our audit objectives. The procedures included:

- Reviewing applicable laws and regulations governing Code Enforcement liens;
- Reviewing internal controls, policies, procedures and performance standards;
- Conducting a risk assessment to identify high-risk activities and potential fraud risks;
- Interviewing key personnel; and
- Examining official records and reports.

The sample size and selection of the Code Enforcement abatements and liens we examined were statistically generated using a desired confidence level of 95 percent, expected error rate of 5 percent, and a desired precision of 5 percent. We used statistical sampling to infer the conclusions of test work performed on the sample to the population from which it was drawn and obtained estimates of sampling error. When appropriate, we used judgmental sampling to improve the efficiency of the audit.

To achieve the audit objectives, we relied on computer-generated data stored electronically in the CityView, OpenGov and Oracle systems. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments, we concluded the data was sufficiently reliable to achieve the audit objectives.

We conducted this performance audit from April 2025 to September 2025 in accordance with generally accepted government auditing standards. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: PRIORITY LEVEL DEFINITIONS

Priority 1: Critical control weakness exists that exposes the Auditee to a high degree of risk. Noncompliance with federal, state or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the Auditee to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.

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