



**A Report to the
Audit Committee**

Mayor
David Briley

Director
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Audit Committee Members

Charles Fraizer
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**Follow-Up on the Audit of Codes
and Building Safety Short Term
Rental Property Permit Issuance &
Renewal Process
(Report Issued August 30, 2017)**

January 4, 2019

**Metropolitan
Nashville
Office of
Internal Audit**

EXECUTIVE SUMMARY

January 4, 2019



Why We Did This Audit

This is a follow-up audit of the Department of Codes and Building Safety Short Term Rental report issued on August 30, 2017. This follow-up audit was included on the Annual Internal Audit Work Plan as requested by the Metropolitan Nashville Audit Committee.

What We Recommend

Management should complete the implementation of the five remaining audit recommendations still in-progress.

FOLLOW-UP AUDIT OF THE DEPARTMENT OF CODES AND BUILDING SAFETY SHORT TERM RENTAL PERMIT

BACKGROUND

The Office of Internal Audit conducted an audit of the Metropolitan Department of Codes and Building Safety Short Term Rental Process in 2017

The objectives of that audit were to determine if:

- Documentation required within the Metropolitan Nashville Code of Laws § 17.16.250.E related to the issuance of Short Term Rental Property permits were reviewed, verified, and approved prior to the issuance or renewal of a permit.
- Requirements related to Short Term Rental Property permits were communicated to permit applicants and permit holders.

The audit report included 12 recommendations for improving the issuance of Short Term Rental Property permits that were accepted by the management of the Metropolitan Department of Codes and Building Safety.

OBJECTIVES AND SCOPE

The objective and scope of this follow-up audit are to determine whether management's action plans for achieving the August 30, 2017, audit report recommendations have been completed as of September 7, 2018.

WHAT WE FOUND

Out of the 12 audit report recommendations, six recommendations have been implemented, four recommendations are still in process, and two recommendations are not able to be completed. The recommendations that are no longer applicable include:

- A.1 Procure services to assist in the identification of owner-occupied status.
- D.3 Modify the City Works "Date Expired" field to automatically populate upon the issuance or renewal of a permit and limit the ability to alter this field.

Implementation of the remaining four recommendations are in-progress and are scheduled to be completed by June 1, 2019. Details of the implementation status and updated due dates can be seen in **Appendix A**.

PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

Short Term Rental Property permits have been in operation within the Metropolitan Nashville area since April 2015. Operating such property requires the owner to obtain a permit from the Department of Codes and Building Safety and adhere to various requirements outlined by the Metropolitan Nashville Code of Laws § 17.16.250.E. The initial audit of the Short Term Rental Properties was requested by a member of the Metropolitan Nashville Council over concerns permits were not being issued in accordance with applicable law.

Out of the 12 audit report recommendations, six recommendations have been implemented, four recommendations are still in process, and two recommendations are not able to be completed. The recommendations that are no longer applicable include:

- A.1 Procure services to assist in the identification of owner-occupied status.
- D.3 Modify the City Works “Date Expired” field to automatically populate upon the issuance or renewal of a permit and limit the ability to alter this field.

Implementation of the remaining six recommendations are in-progress and are scheduled to be completed by June 1, 2019. Details of the implementation status and updated due dates can be seen in **Appendix A**.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit 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 observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Department of Codes and Building Safety, Information Technology Services and the Department of Finance.
- Reviewed and analyzed documentation presented by management as evidence of completion.

AUDIT TEAM

Ted, Ciuba , In-Charge Auditor

Bill Walker, CPA, CIA, Principal Auditor

Mark Swann, CPA, CIA, CISA, ACDA, Metropolitan Auditor

APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

Recommendations	Proposed Completion Date	Updated Completion Date	Status
<i>Recommendations for Management of Codes and Building Safety:</i>			
A.1 Procure the services from an entity that specializes in providing publicly available online information that could help provide assurance of owner-occupied status.	December 1, 2017	Not Applicable	<p>No Longer Applicable.</p> <p>The Department of Codes and Building Safety has contracted with Host Compliance to identify property owners operating Short Term Rentals Properties (STRP) without a proper STRP permit.</p> <p>Host Compliance does not, however, offer owner occupancy verification services, as would be most useful for identifying possible false Type I, “Owner Occupied” STRP rental permits. The Department of Codes and Building Safety will continue to look for ways to mitigate this risk.</p>
A.2 Work with the Metropolitan Nashville Council to clarify the definition of “owner-occupied” for Type I permit issuance.	March 1, 2018	February 2, 2018	<p>Closed – Verified.</p> <p>Ordinance 2017-608, Amendment 8, defines owner occupancy for Type I permits.</p>
B.1 Ensure that verification of all applicable taxes is obtained and reviewed prior to issuing or renewing Short Term Rental Permits.	December 1, 2017	June 1, 2019	<p>Status Update - Still in process.</p> <p>Management states that they verify applicable taxes have been paid prior to issuing or renewing permits.</p>
C.1 Establish a policy of adding a management level of review on the issuance/renewals of permits to ensure all applicable documentation has been obtained and reviewed.	December 1, 2017	January 1, 2019	<p>Status Update - Still in process.</p> <p>(1) Management currently reviews each STRP Renewal application to ensure the required documentation is reviewed and stored;</p> <p>(2) Management does not yet periodically test a percentage of Initial STRP applications to ensure required documentation is reviewed and stored.</p>

APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

<p>C.2 Create a field within the City Works computer system that provides evidence of review of applicable documentation for Short Term Rental Permit renewals.</p>	<p>December 1, 2017</p>	<p>April 1, 2019</p>	<p>Status Update - Still in process. Management is still in the process of implementing this recommendation.</p>
<p>D.1 Limit the number of staff with administrative rights to only those parties who have a business need for such rights and privileges.</p>	<p>December 1, 2017</p>		<p>Closed - Verified. Management of Codes and Building Safety worked with the Metropolitan Nashville Information Technology Services Department to ensure administrative rights only applied to those parties who needed such rights and privileges.</p>
<p>D.2 Develop a methodology to ascertain the number of properties owned by a specific owner.</p>	<p>December 1, 2017</p>		<p>Closed – Verified. Management of Codes and Building Safety stated that verification of owner-occupied status is challenging. There has not been a cost-effective way to ascertain the numbers of properties owned by a specific owner. Currently, verification of owner-occupied status is conducted by reviewing documentation during the application process. A process is in place whereby a citizen can notify Codes and Building Safety of potential owner-occupied status violations. These complaints are then investigated. Management advised they are continually searching for opportunities to mitigate this specific risk.</p>
<p>D.3 Modify the “Date Expired” field to populate upon the issuance or renewal of the permit automatically. Limit the ability to alter the data in this field to ensure the data is not being improperly manipulated.</p>	<p>December 1, 2017</p>	<p>Not Applicable</p>	<p>No Longer Applicable. The Metropolitan Information Technology Services Department advised the City Works system does not have the functionality to implement this recommendation.</p>

APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

<p>D.4 Explore technology solutions that facilitate online Short Term Rental Permit applications and renewals.</p>	<p>December 1, 2017</p>		<p>Closed – Verified.</p> <p>Management of Codes and Building Safety did a review and explored this recommendation. It was concluded that applicants are coming into their office significantly reduces potential issues and problems in initial processing applications. The possibility of utilizing online processing for renewal applications is still being pursued.</p>
<p>E.1 Work with the Metropolitan Nashville Clerk’s Records Management Division to establish a records disposition authorization schedule for Short Term Rental Permit documentation.</p>	<p>December 1, 2017</p>		<p>Closed - Verified</p>
<p>E.2 Ensure all applicable supporting documentation is being retained for a reasonable time.</p>	<p>December 1, 2017</p>		<p>Closed – Verified.</p> <p>Documentation retention has been improved since the initial report, as 17 of 20 permits tested, dating from May to August of 2018, had the majority of all required documentation retained within the document management system.</p> <p>Management of Codes and Building Safety has chosen not to retain documentation pertaining to proof of owner-occupancy status for Type I permits (driver’s license, bank statements, etc.). Management stated they conferred with the Metropolitan Legal Department and chose not to retain these documents due to sensitive, personal information being contained in such documentation. It should be noted that examiners are required to obtain and review such documentation before a Type I permit is issued. This review is documented in the City Works system.</p>

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<p>F.1 Develop written procedures for each critical process and task related to the permitting process and other core requirements. These procedures should be periodically reviewed and updated.</p>	<p>December 1, 2017</p>	<p>June 1, 2019</p>	<p>Status Update - Still in process. Management states they are currently in the process of drafting policies and procedures specific to short term rental application and renewal processes.</p>
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