

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

SPECIAL REPORT OF THE AIRPORT FOLLOW-UP ON SHREVEPORT AIRPORT AUTHORITY BOARD CONFLICT OF INTEREST

SPECIAL REPORT 906005-10

August 19, 2005



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Councilman James Green
Chairman, Shreveport City Council
P.O. Box 31109
Shreveport, LA 71130-1109

Dear Councilman Green:

Subject: SR 906005-10 - Special Report of the Airport: Follow-up on Shreveport Airport Authority Board Conflict of Interest

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Doug Sanders, CIA, CFE, CGFM
Acting City Internal Auditor

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**EXECUTIVE SUMMARY
SPECIAL REPORT OF THE AIRPORT
FOLLOW-UP ON SHREVEPORT AIRPORT AUTHORITY BOARD
CONFLICT OF INTEREST
SR 906005-10**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Shreveport Airport Authority operates the City’s two airports – Shreveport Regional and Downtown Municipal Airports. The Authority is represented by a five-person volunteer board which serves on rotating terms. The board members are appointed on a staggered basis by the Mayor of Shreveport and the Director of Airports reports to the Airport Authority. Further, the Authority employs about 70 full-time employees in administration, maintenance/operations, and airport security. It generates all of its operating funds through the fees charged to the various tenants and clients of the airport system. No local tax dollars are used to support the Airport Authority.

During our Audit and Finance Committee Meeting on July 12, 2005, we received a special request to follow-up on one of our findings from the “Audit of the Regional Airport – Administration, Operations/Maintenance Divisions” that we recently completed. The finding referred to was #3: Board of Directors Conflict of Interest Disclaimer/Employee Ethics.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were assigned by auditor judgment and determined based on the possible results for the entity if the recommendation is not implemented.

<i>Risk Levels</i>	<i>Recommendations</i>
<u>High Risk</u> Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity’s mission not being met; Adverse publicity.	<ul style="list-style-type: none"> * Board members obtain and sign conflict of interest statements/disclaimers. (Finding #1) * Inform applicable parties to discontinue conflict of interest transactions. (Finding #2)
<u>Medium Risk</u> Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	<ul style="list-style-type: none"> * Continuous monitoring for future conflict of interest relationships. (Finding #2)
<u>Low Risk</u> Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	~~~~~

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**SPECIAL REPORT OF THE AIRPORT
FOLLOW-UP ON SHREVEPORT AIRPORT AUTHORITY BOARD
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OBJECTIVES

We have completed a special report follow-up on the Shreveport Airport Authority Board Conflict of Interest Disclaimer Finding. This was a special request from the Audit and Finance Committee of the Shreveport City Council. Our objectives included the following:

- * Determine if Shreveport Airport Authority Board members sign any kind of conflict of interest statements.
- * Determine the status of the Board member's conflict of interest case as referenced in the aforementioned finding.

SCOPE AND METHODOLOGY

Our special report was performed in accordance with applicable generally accepted governmental auditing standards, as defined in Operating Instruction A.40 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to assessing the general controls surrounding the specific issues addressed. General audit procedures included, but were not limited to the following:

- * Discussions with appropriate personnel.
- * Testing compliance with established or stated policies and procedures.
- * Reviewing/performing test work on applicable documentation.

BACKGROUND

During our Audit and Finance Committee Meeting on July 12, 2005, we received a special request to follow-up on one of our findings from the "Audit of the Regional Airport – Administration, Operations/Maintenance Divisions" that we recently completed. The finding referred to was #3: Board of Directors Conflict of Interest Disclaimer/Employee Ethics.

The Shreveport Airport Authority operates the City's two airports – Shreveport Regional Airport and Downtown Municipal Airport. The Authority is represented by a five-person volunteer board which serves on rotating terms. The board members are appointed on a staggered basis by the Mayor of Shreveport and the Director of Airports reports to the Airport Authority. Further, the Authority employs about 70 full-time employees in administration, maintenance/operations, and airport security. It generates all of its operating funds through the fees charged to the various tenants and clients of the airport system. No local tax dollars are used to support the Airport Authority.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office would like to especially thank the Director of Airport's Secretary for her productive and expeditious assistance to us. We found that management is currently addressing the issues raised in this follow-up special request. We offer the following recommendations to assist in the process:

- * Obtain conflict of interest disclaimer statements and forward to its Board members to sign.
- * Inform affected parties to cease conflict of interest transactions.
- * Continuously monitor for future development of conflict of interest relationships.

1. Follow-up on Board Conflict of Interest Disclaimer

Criteria: To help ensure the appearance of impartiality and objectivity as well as the perception that business dealings and transactions of an organization are professional, fair, and ethical, Board members should be required to sign a conflict of interest disclaimer preventing them from engaging in any contract work, materials, or services related to the Airport.

Condition: During our follow-up, we specifically noted that the members of the Shreveport Airport Authority Board had not signed conflict of interest statements/disclaimers that would prevent Board members from engaging in or doing business with the Airport, which may be construed as a conflict of interest.

Effect:

- * Possible negative publicity.
- * Appearance of favoritism.
- * Laws and regulations may be violated.

Cause: Management may have not recognized the need for this type disclaimer. Also, Code of Ethics Statements had not been distributed (for persons appointed by the Mayor) from the City Attorney's office to the board members.

Recommendation: We recommend that management inform its Board of this requirement so that the members can obtain and sign conflict of interest statements/disclaimers.

Management Plan of Action/Timetable:

(Per memo dated August 8, 2005, to City Attorney)

In a recent audit conducted by the City's Internal Audit Division, Airport Administration was cited for not having conflict of interest disclaimers signed by the Airport Authority Board Members. The City Attorney's office in the past distributed Code of Ethics statements to persons appointed by the Mayor to any position of service for the City. We have discussed this matter with the Board Members and they have indicated that they do not remember signing such a document when appointed to the Board.

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The Internal Audit Division is requesting that Airport staff provide executed Code of Ethics statements to their office as a follow up to their finding.

Please provide me with the documents to which Internal Audit is referring, and I will have the Airport Authority Board members execute them at the next Board meeting.

2. Follow-up on Board Member's Conflict of Interest Case

Criteria: Section 1113B of the Louisiana Code of Governmental Ethics outlines prohibited contractual arrangements. It states that "other than a legislator, no appointed member of any board or commission, member of his immediate family, or legal entity in which he has a substantial economic interest shall bid on or enter into or be in any way interested in any contract, subcontract, or other transaction which is under the supervision or jurisdiction of the agency of such appointed member."

Condition: During our follow-up we determined the status of the Board member's conflict of interest case that was cited in our original audit. (This conflict of interest situation was not covered by Louisiana Revised Statute R. S. 1123 (20), which details specific exemptions afforded Airport Authority Board members when conducting business with the Airport.) On March 10, 2005, the Louisiana Board of Ethics, Opinion 2003-377, found that the Board member violated Section 1113B of the Code of Governmental Ethics by utilizing the services of the fixed based operator of the Shreveport Regional Airport to purchase fuel, repair and maintain, perform body work on, as well as assist with landing and parking a personal aircraft, among other services. This Board member also violated the Code by leasing a hangar from the fixed base operator.

Consequently, since the Shreveport Airport Authority (SAA) had an agreement with the fixed base operator to provide services for the Regional Airport at the time that the Board member served on the SAA, the Board member was prohibited from utilizing the services at the time.

Effect:

- * Negative publicity.
- * Appearance of favoritism.
- * Violation of laws and regulations.

Recommendation: Management should:

- a. Immediately inform the parties involved to discontinue conflict of interest transactions.
- b. Continuously monitor for conflict of interest relationships and transactions in the future.

Management Plan of Action/Timetable: Per management, refer to the City Attorney.

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Approved by:

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tzm:lp

c: Mayor
CAO
City Attorney
Clerk of Council
External Auditor
Director of Airports