

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

SPECIAL REPORT OF SHREVEPORT REDEVELOPMENT AGENCY (SRA)

SPECIAL REPORT 600007-08

December 19, 2007



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Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: SR 600007-08- Audit of Shreveport Redevelopment Agency (SRA)

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

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
SPECIAL REPORT OF SHREVEPORT REDEVELOPMENT AGENCY (SRA)
SR 600007-08

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 Internal Audit Office was contacted by the current SRA Chairman to review the SRA, especially determining the adequacy of procedures in place and the relationships with other City entities.

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 determined based on the possible results for the entity if the recommendation is not implemented.

<i>Risk Levels</i>	<i>Recommendations</i>
<p style="text-align: center;">High Risk</p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity’s mission not being met; Adverse publicity.</p>	No recommendations are applicable.
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	Formalize and adopt policies and procedures (Finding 1)
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<ul style="list-style-type: none"> * Require the requesting agencies provide up-to-date financial statements and other necessary documentation (Finding 2). * Develop a reporting process (Finding 3) * Request a non-refundable deposit (Finding 4) * Reevaluate the expropriation of properties to be land-banked and designate a safety stock level (Finding 5) * Keep a detailed spreadsheet listing of the status of the properties (Finding 6)

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**SPECIAL REPORT OF
SHREVEPORT REDEVELOPMENT AGENCY (SRA)
SR600007-08**

OBJECTIVE

The objective of this special report is to review the operations of Shreveport Redevelopment Agency (SRA) and offer recommendations for improving procedures.

SCOPE AND METHODOLOGY

Our special report was performed in accordance with applicable generally accepted governmental auditing standards, as defined in Section A. 40 of the Internal Audit Office Operating Instructions Manual. Audit procedures included: (1) discussions with the SRA Coordinator, the City's Property Management Specialist, and the City's Community Development Director and (2) review of documentation.

BACKGROUND

The current SRA Chairman requested that Internal Audit review the SRA, especially determining the adequacy of procedures in place and the relationships with other City entities.

INTRODUCTION

The SRA became an active entity in 2000. The SRA is a separate, legal entity from the City, although the SRA board is composed of all seven City Council members.

The SRA objective is to acquire vacant, adjudicated properties, through the expropriation process, and return them to productive use. Under the SRA program, the City identified nine designated neighborhoods to be the focus. Those nine neighborhoods are Queensborough, Allendale, Ledbetter Heights, Lakeside, Stoner Hill, Ingleside, Mooretown, Martin Luther King Drive, and Cedar Grove. Through the program, requesting agencies buy expropriated properties from the City and rehabilitate the properties. Utilizing the expropriation process allows the requesting agencies to obtain clear title to the purchased properties.

The organization's budget has been \$75,000 per year and increased to approximately \$274,100 for the 2007 fiscal year, because the SRA has considered purchase of additional properties to "land bank". The budget is for out-of-pocket program costs such as appraisal fees, title search costs, attorney fees, court costs, property costs, etc. Most of the funds are revolving, i.e., any costs incurred by the City to acquire the properties should be replenished when the requesting agencies purchase the properties from the City.

OBSERVATIONS AND RECOMMENDATIONS

These observations and recommendations were noted during our examination:

1. Policies and Procedures

Criteria: A policies and procedures manual can improve operations by providing uniformity in practices, establishing clear lines of responsibility, enhancing accountability, and lessening the threat to continuity posed by turnover.

Condition: An official policies and procedures manual was not available for the SRA and the agency did not have a current organizational chart. Although some procedures were available, they have not been officially adopted or formalized by the SRA.

Effect:

- Operations may not be in accordance with mission, goals, and objectives.
- Existing laws and regulations may be violated.

Cause: The planning and tasks for the SRA were distributed among at least three departments, so responsibility for developing one comprehensive set of procedures had not been coordinated or defined.

Recommendation: We recommend that the SRA formalizes and adopts policies and procedures for the SRA including, but not limited to, eligibility criteria, application process, evaluation process for viability of plans submitted, expropriation process, sale process, and monitoring and follow-up process. The responsibilities of SRA staff, Department of Operational Service's Property Management System staff, Community Development staff, and the SRA board and chairman should also be defined. The policies should also include a current organization chart.

Management Response: We have the following comments:

While the SRA has not adopted a policy and procedure manual, the SRA and its staff have consistently followed policies and procedures as required by law, including the Parish Redevelopment Law (R.S. 33:4625), and Louisiana's Open Meetings and Public Records Laws. And, the staff is having continuous discussions with the City Attorney concerning the impact of Article 1 Section 4 of the Louisiana Constitution (as amended by Article 851 of 2006) on the program. We have also consistently followed policies and procedures found in the Shreveport Comprehensive Revitalization Strategies Report (the JQUAD Report adopted by Resolution No. 307 of 1999) and by the City of Shreveport's procedures for budgeting and the payment of bills. Those procedures are found in Attachment A.

Additionally, because the sale (as opposed to a donation) of an expropriated adjudicated property by the SRA to a non-governmental entity is a great benefit to the City and the redevelopment area, we do not believe that project evaluation is needed unless there is competition for the property. And, while a follow-up process may be desirable to judge the full impact of the sale of a property, the SRA will not have a practical way to force the completion of the proposed project if the purchaser of the property fails to complete the project. There is not a demand for most of the properties, and the SRA will not want to take the property back into its inventory.

2. Capacity/Eligibility Documentation

Criteria: When requesting to purchase land, all requesting agencies complete a Property Management System's Property Information for Expropriation Application Form. This form requires all requesting agencies provide supporting financial documents, such as grant or other funding commitments, and the last two years' financial statements. This information is necessary to determine the financial ability of requesting agencies to provide the service of neighborhood renewal.

Condition: We reviewed six recent files maintained by SRA staff and noted that none of the requesting agencies had supplied financial information, as requested on the Property Management System's Property Information for Expropriation Application Form.

Effect:

- Requesting agencies may be financially unable to carry out program objectives.
- Program goals and objectives may not be met.

Cause: Non-enforcement of program criteria.

Recommendation: We recommend that the SRA requires the requesting agencies provide up-to-date financial statements and other necessary documentation to determine the capacity of the requesting agencies to meet program objectives. SRA staff should work with Community Development staff in developing a process for adequately evaluating this information.

Management Response: See the second paragraph of the Management Response to number 1 above.

3. Accomplishments of Goals and Objectives/Monitoring and Follow-up

Criteria: Program results for any activities should be reported and evaluated to determine if the goals and objectives are being met.

Condition: There has been no follow-up after the properties were sold to requesting agencies. As a result, the SRA did not have a status report of what has happened to the properties after they were sold to requesting agencies. The primary objective of the SRA is to revive economic conditions of the nine designated neighborhoods, but because of the lack of current updates, we do not know if the objective is being met or not.

Effect: Program goals and objectives may not be met.

Cause: Responsibility for this objective was not considered when planning the program.

Recommendation: We recommend that the SRA develops a reporting process and requires the requesting agencies that purchase the properties to submit standard, annual reports of results to the SRA of what has been done with the properties. SRA staff (with assistance from Community Development staff) should also perform follow-up reviews. The organization needs to know if those properties are being used in the elimination of the slum and blighted conditions that currently exist in the nine designated neighborhoods.

Management Response: While we agree that a report would be instructive, we emphasize the following points:

(a) The purchaser pays full value (the appraised value plus cost) for the SRA property and maintains the property, which benefits the redevelopment area and the City; and,

(b) The properties are generally not in demand, and the SRA does not want the property back.

Therefore, why burden a purchaser with additional regulations unless the purchaser receives a governmental subsidy to develop the project.

4. Sale of Unclaimed Properties/Deposits

Criteria: Adequate policies and procedures should be implemented by the SRA to ensure that program objectives are being met.

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Condition: Current procedures followed are that properties are expropriated after a request is made from the requesting agencies that would like to purchase the expropriated properties from the City. Based on a report we received from the SRA Coordinator, only 33% of expropriated properties were sold to requesting agencies. The remaining properties were not sold because the requesting agencies have not followed-through on their requests to purchase the land. The report showed:

- Of the 87 properties expropriated:
 - 29 properties sold to 11 requesting agencies
 - 10 properties with sale pending
 - 48 properties in inventory

Effect:

- Program goals and objectives not met.
- Funding depleted because costs are incurred by the SRA, but not replenished because no sales have occurred.

Cause: Inadequate evaluation of financial abilities of requesting agencies to purchase land or rehabilitate property (see finding #2 above). The requesting agencies have no incentive for ensuring purchases are completed.

Recommendation: To help eliminate the non-serious requestor(s) and allow the SRA to focus on the more serious requesting agencies, we recommend that the SRA requests a non-refundable deposit up-front from the requesting agencies. The deposit will recoup the initial costs of title searches and appraisal fees performed by the SRA for the land, even if the purchase is not completed. The deposit will be refunded only if the property is sold to someone else other than the depositor (i.e., the SRA accepts another bid for the property).

For those properties that remain in inventory, we recommend the SRA develops an exit strategy to sell those properties. For example, the SRA should consider contracting with a third-party, on a commission-only basis, to sell (and possibly manage) these properties.

Management Response: We agree with this recommendation.

5. Expropriation Procedures/ Land-banking Procedures

Criteria: A recent interpretation of Article 1, Section 4 of the Louisiana Constitution by the City Attorney and outside attorney allows expropriation of properties by the SRA “only when the use or disuse of the property is a threat to public health or safety.” This interpretation appears to restrict the use of expropriation powers by the SRA.

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Condition: From Resolution Number 002 of 2007, the SRA proposes to expropriate seventy eight (78) parcels of adjudicated property in the Allendale area and make them a part of the Allendale/Phoenix project to be “land-banked” for future redevelopment purposes. We believe that in light of the recent interpretation of Article 1, Section 4 of the Louisiana Constitution, there has not been adequate consideration of whether these properties to be “land-banked” are a threat to public health or safety.

Effect: Potential violation of state law.

Cause: This is a recent interpretation of state law.

Recommendation: We recommend that the SRA:

- Reevaluates the expropriation of these properties to be land-banked (and all future properties that will be expropriated) to consider if the properties meet the conditions stipulated in Article 1, Section 4 of the Louisiana Constitution. If the properties pass the criteria, the SRA would need to develop policies and procedures for land-banking, which includes an exit strategy (why the properties are needed and for what purpose they will be sold) for these properties.
- Designates a safety stock level of land-banking properties and only gets more adjudicated properties if the land-banking safety stock level is below the acceptable limit. The agency would need to sell the properties in its inventory stock before it could expropriate more properties.

Management Response: We do not oppose this recommendation.

6. Reporting and Record-keeping

Criteria: Reporting on the results of activities should be provided in an accurate, timely, and efficient manner to the SRA board.

Condition: Although a summary report is maintained of the total number of properties expropriated, sold, and available, there was no detailed report listing these properties by address, geo code number, etc. This detailed information is needed to be able to easily track and identify the status of the properties.

Effect: Inefficiency in reconciling, tracking, and reviewing the status of properties.

Cause: No reporting of this information has been developed.

Recommendation: We recommend that the SRA staff keeps a detailed spreadsheet listing of the status of the properties: those being expropriated, sold, sale-pending, and available. This detailed listing should include the address and

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geo code number for each piece of property. By maintaining the data in an easy to retrieve electronic format, it would be easier to reconcile, interpret, and analyze the data and prepare the summary reports.

Management Response: We agree with this recommendation.

Prepared by:

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c: Mayor
CAO
City Attorney
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