

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE SHREVEPORT HOME MORTGAGE AUTHORITY

INTERNAL AUDIT REPORT 210413-05

December 31, 2013





The Council
City of Shreveport

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December 31, 2013

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Joe Shyne:

Subject: IAR 210413-05 - Audit of the Shreveport Home Mortgage Authority

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

Sincerely,


Leanis L. Steward, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
AUDIT OF THE
SHREVEPORT HOME MORTGAGE AUTHORITY
INTERNAL AUDIT REPORT (IAR) 210413-05**

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 Home Mortgage Authority (SHMA) was created pursuant to a Trust Indenture dated October 14, 1978, in accordance with the Louisiana Public Trust Law LSA-R. S. 9:2341 et seq., (formerly La. R. S. 9:2-A). The authority is empowered to issue bonds for the improvement of housing for low and moderate-income families and individuals in the City of Shreveport. SHMA began operations on September 14, 1979, and has since been involved in eight separate bond issues. The City appoints all five members to the Board of Trustees.

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. This report contains three findings with three recommendations.

<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>	<ul style="list-style-type: none"> ▪ Immediately appoint five new board members for SHMA Board of Trustees. <i>(Finding 1)</i> ▪ SHMA Board of Trustees and City representative determine best use excess available cash. <i>(Finding 2)</i> ▪ The City should appoint a designee contact to periodically correspond with SHMA regarding the future direction of the organization. <i>(Finding 3)</i>
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	NONE
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	NONE

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AUDIT OF THE SHREVEPORT HOME MORTGAGE AUTHORITY INTERNAL AUDIT REPORT (IAR) 210413-05

OBJECTIVES

We have completed an audit of the Shreveport Home Mortgage Authority. The objectives of the audit were to:

- Ensure compliance with program guidelines.
- Review reporting to determine if objectives were being met, measured, and adequately monitored.
- Determine effective and efficient operations of the entity.
- Determine adherence to applicable laws and regulations.
- Review for proper accounting.

SCOPE AND METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards, except that a peer review has not been performed, and included such tests of procedures and controls as considered appropriate. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives. General audit procedures included, but were not limited to the following:

- Interviewing/discussions with appropriate personnel.
- Testing compliance with established or stated policies and procedures.
- Reviewing applicable operations and ongoing activities.
- Reviewing and/or performing test work on files, records, reports, and any other applicable documentation.

BACKGROUND

The Shreveport Home Mortgage Authority (SHMA) was created pursuant to a Trust Indenture dated October 14, 1978, in accordance with the Louisiana Public Trust Law LSA-R. S. 9:2341 et seq., (formerly La. R. S. 9:2-A). The authority is empowered to issue bonds for the improvement of housing for low and moderate-income families and individuals in the City of Shreveport. The City of Shreveport is, therefore, its beneficiary. SHMA began operations on September 14, 1979, and has since been involved in eight separate bond issues. The City appoints all five members to the Board of Directors.

SHMA's purpose has been to make more opportunities available for home ownership, particularly for the low to moderate-income families. The entity has substantially met its objectives/purpose – to offer affordable home loans to persons who might not otherwise qualify or be able to afford the going interest rates at the time of its inception. The rates at the time were approximately 18-20%, but SHMA was able to offer much lower rate (i.e. 10-13%). Nevertheless, as time progressed the ability for most persons to obtain housing loans became less expensive and/or cumbersome with interest rates declining to as low as 3-4%; therefore, the usefulness of SHMA became less apparent. The entity has not issued any bonds since 2004. The only current activity of the entity is receiving loan payments



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(through servicers) and investment of funds. Only two revenue bond funds remain open at this time. They total approximately \$6,000,000.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

This audit was originally opened during a period of time when this entity was functional. Many of the findings/issues that had been noted have been rectified and/or are no longer applicable. Some of those issues that the entity's Board instituted during this audit were as follows:

- Hiring a bookkeeper to handle its day-to-day operations, as necessary.
- Hiring an accountant to complete its financial statements.

Internal audit would like to extend its appreciation for the assistance, courtesy, and cooperation extended to us by the Board members and its staff during this audit. Overall, we found that the entity was operating effectively and efficiently and that the internal control environment was adequate. We have, nevertheless, offered several suggestions and recommendations that may assist the entity. They are as follows:

- The administration should immediately appoint five new board members to serve on the Shreveport Home Mortgage Authority.
- SHMA Board of Trustees and the City of Shreveport determine how to transfer and best use the excess available funds to serve its citizens.
- The City should appoint a designee contact who would be responsible for communicating with the SHMA Board of Trustees on a periodic basis regarding SHMA's future direction.

1. SHMA Board of Trustees

Criteria: The Shreveport Home Mortgage Authority was created pursuant to a Trust Indenture dated October 14, 1978, in accordance with the Louisiana Public Trust Law LSA-R. S. 9:2341 et seq., (formerly La. R. S. 9:2-A). It allowed for five trustees to be appointed by the City for a term of five years. Additionally, at the conclusion of its Board meeting on August 14, 2012, the Shreveport Home Mortgage Authority had originally scheduled a Board Meeting for November 12, 2012, to provide another formal update of the status of its dissolution of operations.

Condition: The same five board members have served since at least 2000. Since that time, two members are deceased and the other three remain – having served for at least 13 years consecutively. Additionally, the meeting scheduled for November of 2012 was not held and has not yet been rescheduled. The board has not met in over 12 months to discuss the status of the entity.



Auditor's Note(s):

- Internal auditors and City of Shreveport administrative personnel (i.e. CAO, City Attorney) met with SHMA representatives (i.e. Board Chairman, accountant, bond counsel, fund account adviser) on August 28, 2013, and September 6, 2013, to discuss the status of the entity.
- Furthermore, Act 747 of 2012 passed by the Louisiana Legislature now states that notices of public meetings be published on a website. If an entity does not have a website, then the public body that oversees that entity would be encouraged to post the notices. The public body for SHMA is the City of Shreveport. *(However, adherence to this requirement should not preclude displaying notices via the applicable physical sites within Government Plaza.)*

Effect:

- Board member fatigue.
- Inability to address new objectives.

Cause:

- This appears to have been a testament to the dedication of the board members to fully accomplish the objectives and mission of the program.
- Inconsistent communication between SHMA and City of Shreveport regarding board vacancies.

Recommendation: We recommend that the administration immediately appoint five new board members to serve on the Shreveport Home Mortgage Authority – particularly since it is in a period of restructuring.

Management Plan of Action: This finding is consistent with the results of a meeting held with current board members and the Mayor is in the process of finding eligible board members interested in serving. In the interim, contact will be maintained with current board members to ensure continuity with the Authority.

Timetable: 1st quarter 2014

2. Excess Available Cash

Criteria: Section IV(6) of the Trust Indenture states that the "Trustees may...transfer any or all of the funds of the Trust which are not pledged to the payment of any Bonds or other evidences of Indebtedness of the Trustees to the Beneficiary for any lawful public purpose of the Beneficiary." Also, the 1988 Comprehensive Annual Financial Report of the City of Shreveport verifies that Shreveport Home Mortgage Authority distributed from its operating account \$2,710,000 to the City of Shreveport at that time.



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Condition: The SHMA financials as of July 31, 2013, provided by the SHMA accountant show that the entity has an excess cash balance of over \$2.6 million. Since these monies are not tied to any debt, some or all of these funds can potentially be transferred to the City of Shreveport as beneficiary of the trust, similar to the process followed in 1988.

Effect:

- Excess funds not being fully utilized for the benefit of citizens.

Cause:

- No consistent contact and communication between SHMA and City of Shreveport.
- SHMA had been actively working to dissolve the entity, but has not been able to close due to open bond funds.

Recommendation: SHMA Board of Trustees and the City of Shreveport determine how to best use the excess available funds to serve the citizens. If all legal stipulations are satisfied, consideration should be given to transferring some or all of the \$2.6 million in excess funds to the City of Shreveport as has been done in the past.

Management Plan of Action: We have had prior discussion with board members and legal advisor on this issue. It appears the funding is available to the City of Shreveport for its use. The City Attorney, in conjunction with Authority Legal Advisor, are working to determine the appropriate manner of transferring these funds to the City of Shreveport.

Timetable: 1st Quarter 2014

3. Contact Personnel

Criteria: Contractual parties and business relationships should establish a formal support and communication system for ease and adequacy of business transactions.

Condition: Consistent contact persons had not been specifically designated at the City of Shreveport and SHMA to discuss SHMA operations and the proper absorption procedures as they may relate to the City of Shreveport. Although the SHMA board had been actively working to dissolve the entity for a period of time, the City of Shreveport Administration, who had not been fully aware of the impending dissolution, expressed a desire for the entity to remain operational by restructuring the entity's operations.

Effect:

- City administration/personnel not properly and/or timely informed about the dissolution plans or status.

Cause: Inconsistent communication between SHMA Board and City of Shreveport.

Recommendation: We recommend that the City and SHMA appoint designee contacts who would be responsible for communicating with each other on a periodic basis regarding



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SHMA's future direction, including understanding any plans/goals for future restructuring of the entity or potential dissolution of the entity.

Management Plan of Action: The CAO will be responsible for maintaining contact with the SHMA.

Timetable: Immediate.

Prepared by:

Tammy Z. Moore
Staff Auditor III

Approved by:

Leanis L. Steward, CPA, CIA
City Internal Auditor

tzm:nd

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor
Shreveport Home Mortgage Authority Board
Shreveport Home Mortgage Authority Counsel