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REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

LIMITED SCOPE PERFORMANCE AUDIT OF INADEQUATE CONTROLS OVER THE CITY OF SHREVEPORT'S WEED ABATEMENT PROGRAM OPERATIONS

INTERNAL AUDIT REPORT (IAR) 650015-08

December 31, 2015

Report Highlights

Page

- Database used by the Property Standards Department is not the correct database to determine City property ownership status Page 2
- Appendix 1 provides a System of Recommended Controls for use by the Department Page 5



The Council
City of Shreveport

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December 31, 2015

Councilman Willie Bradford
Chairman, Shreveport City Council
P. O. Box 31109
Shreveport, LA 71130-1109

Dear Councilman Bradford:

Subject: IAR 650015-08 – Limited Scope Performance Audit of Inadequate Controls
over the City of Shreveport's Weed Abatement Program Operations

Attached please find the above-referenced report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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LIMITED SCOPE PERFORMANCE AUDIT OF INADEQUATE CONTROLS OVER THE CITY OF SHREVEPORT'S WEED ABATEMENT PROGRAM OPERATIONS INTERNAL AUDIT REPORT (IAR) 650015-08

Introduction

The Internal Audit Office has completed a limited scope performance audit of certain operations conducted by the Property Standards Department (PSD) in its execution of the Weed Abatement Program. We received allegations that there were improprieties and complaints that there were other irregularities in the operation of the Department's Weed Abatement Program. Among them was an allegation that the department was cutting the grass/weeds on certain properties owned indirectly by the Department Director without charge. These allegations are under investigation by the Shreveport Police Department and the District Attorney's Office. The Department Director has been placed on administrative leave without pay.

Our objectives were to review relevant internal controls surrounding the weed abatement process and the database utilized by the Department in identifying and categorizing the properties found to be in violation of property standards for the City; and to ascertain the accuracy of the allegations related to properties owned indirectly by the Department Director.

The methodology used included:

- Examining controls surrounding the weed abatement process.
- Reviewing work orders and contractor invoices and other relevant documents and records.
- Interviewing departmental employees of Property Standards, Information Technology, Revenue Compliance, and Purchasing.
- Reviewing departmental budget and related information.

Our limited scope performance audit was conducted 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 the evidence obtained provides a reasonable basis for our findings, conclusions and recommendations, based on our limited scope performance audit objectives.

Background

Property Standards is responsible for identifying lots that need to be cut, ensuring that those lots are cut, approving payment of the grass cutting contractors, and billing property owners. The lots cut are overgrown with weeds, brush and tall grass, requiring regular attention in order to maintain the City's standards.

To help in the discussion of grass cutting, the difference between non-adjudicated and adjudicated property is illustrated:



- ♦ What are the types of property tax?
 - ~ Property has both parish property tax and city property tax.
- ♦ What is adjudicated property?
 - ~ City adjudicated is when the city property tax is not paid.
 - ~ Likewise, parish adjudicated occurs when the parish property tax is not paid.
- ♦ How is non-adjudicated property treated?
 - ~ City non-adjudicated means that the property tax has been paid
 - ~ The City puts a lien on the property for unpaid violations (grass cutting, demolition, securing, etc).

<u>City Non-Adjudicated Property</u>	<u>City Adjudicated Property</u>
♦ The property owners have paid their City property tax and previous City violations (such as grass cutting, demolition, securing).	♦ City property tax and violations previously attached to the property have not been paid by owners.
♦ Owners are billed by PSD for violations.	♦ Owners are not billed by PSD for violations.
♦ If the violation bill is not paid, the City puts a lien on the property for unpaid violations.	♦ New liens are not attached to a City adjudicated property.

Owners of lots that are non-adjudicated to the City are notified when their properties are in violation and given an opportunity to bring their properties into compliance. If the owners do not comply within a ten day period following notification, the City issues a work order to one of its weed abatement contractors to cut and clean the non-compliant property. The property owners are then billed for the cost of the work plus an administrative fee.

Findings

- There are inadequate controls in place to ensure that properties are properly identified as City adjudicated and City non-adjudicated.
 - ➔ The database utilized to ascertain the status of the properties is not the correct database to use, because it shows the Parish adjudicated status, which is not always the same as the City adjudicated status.
 - ➔ The computer system (software) utilized to control the process of inspection, notification, contracting and invoicing is outdated and vendor support of the system ended more than two years ago.



- The weed abatement process is cumbersome by nature, and difficult to control and manage.
 - ↳ It is expensive, as evidenced by a 2015 departmental budget of \$3,562,600, including \$1,369,000 for third party contractors.
 - ↳ There are 20 contractors involved in the weed abatement process and managing these contractors, their work orders, invoices and payment approval consume the time and effort of at least six full time administrative employees and sixteen property standards field inspectors and two supervising inspectors.
 - ↳ Documentation reviewed shows the properties owned indirectly by the Department Director were cut without charge.

Recommendations

- Controls should be implemented to ensure that properties in violation are properly identified and treated as adjudicated or non-adjudicated as appropriate.
 - ↳ The controls must ensure that work is performed timely and billed to owners upon completion. (A typical cut costs between \$50 and \$150 and is billed to the owner at that cost plus a \$150 administrative fee.)
 - ↳ The controls should include notifications to Revenue Compliance as work is billed to owners.
 - ↳ The detailed system of recommended controls developed by the Internal Audit Office, and presented as Appendix 1 to this report, and the work flow process documented in Appendix 2 as part of this limited scope performance audit be utilized as a beginning point for modifying and improving the process to support and enforce the controls developed and implemented as part of this recommendation.
- The City should evaluate the potential monetary savings that accrue from bringing the work presently done by contractors in house. SPAR already utilizes in house crews of groundskeepers to maintain medians, certain City properties and parks. Property Standards already has at least one in house crew, and thus some limited experience in managing its own crew as opposed to managing third party contractors. This evaluation might also look into consolidating similar crews from other departments to more effectively utilize and manage these resources.



Suggested Timetable

The absence of adequate controls is serious; therefore, we believe that these recommendations should be pursued and implemented on a priority basis.

Management Response

After studying the report as presented, I can find no reason to disagree with its findings. The division will begin to assess its current situation and act on the recommendations included in the report as soon as is feasible.

Prepared by:

Handwritten signature of April M. Jordan in blue ink.

April M. Jordan, CFE, CLEA
Staff Auditor II

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S. Ben Hebert, CPA, CFE, CISA, CMA
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Staff Auditor III

Approved by:

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Leanis L. Steward, CPA, CIA
City Internal Auditor

aj:bh:nd

- c: Mayor
Chief Administrative Officer
City Council
Clerk of Council
Interim, Director of Public Works
Carr, Riggs & Ingram

Appendix 1: System of Recommended Controls

1. Initiating Grass Cutting for Adjudicated/Non-Adjudicated Lots		
Present Procedure	Control Issues	Recommendation
<p>The inspector:</p> <ul style="list-style-type: none"> ♦ Prepares a list of violations of properties that need to be cut. ♦ Prints two plats (maps) of the properties from the City's GIS system. ♦ Marks the lots to cut; assigns difficulty grade (light, medium, heavy). ♦ Sorts the plats between adjudicated and non-adjudicated properties based on the information provided by the GIS system. ♦ Enters only the non-adjudicated properties as violations into the Codes Enforcements computer system. ♦ Gives both plat copies to PSD Administrator. 	<ul style="list-style-type: none"> × Duplicate copies of the plats consume unnecessary time and materials (paper and ink) for the inspector to mark the lots and grades on the second copy of the plats. × The GIS system indicates only the parish adjudicated status of lots. It does not indicate if the property is adjudicated or not to the City. 	<ul style="list-style-type: none"> a. The inspector pulls only one copy of each plat to be given to PSD Administrator. The list of violations (s)he prepares on his/her rounds should be retained and utilized as the control over the offending lots and the time they were placed in the cue for processing and assignment by administration. b. PSD Administrator verifies the accuracy of the City adjudicated/non-adjudicated status of all lots marked on the plats against the City's Property Tax file.
2. Issuing Contractor Work Orders		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ PSD Administrator initiates a certified letter notifying non-adjudicated property owners that they have 10 days to cut the grass. <ul style="list-style-type: none"> ~ Violations are flagged in the computer to send a notification letter. ~ Letters are printed/mailed by the City. ♦ Non-adjudicated property owners have 10 days to cut their lot. <ul style="list-style-type: none"> ~ If owner cuts grass, violation is closed. ~ Otherwise, assigned to contractor to cut. ♦ PSD Administrator groups properties by location and assigns to contractors. <ul style="list-style-type: none"> ~ Assignments made on rotational basis. ~ Contractor receives the plats as the work orders. ~ Second copy of the plats is retained in administration. 	<ul style="list-style-type: none"> × The only record of the work assigned is maintained on a single line of a log of work assigned to contractors by date and number of lots assigned. There is no other control over work issued to contractors than the duplicate plat copies retained by administration. × The work assigned to contractors has not been priced, so neither PSD administration nor contractor knows the value of the "work order" assigned. 	<ul style="list-style-type: none"> a. Work Order system calculates the cost to cut. Each lot should have: Geo number, Council district, address, inspector, grade, cut size, City adjudicated status. b. A unique work order number is generated from a Work Order system. The contractor should sign/date a copy of the work order. The contractor should walk away with two copies of the work order, and the plats on the work order. c. Reports are generated showing work orders: entered but not assigned, assigned and outstanding, and completed in the current period. The reports provide management information necessary to control the flow of work and the value of work orders completed and outstanding.

Appendix 1: System of Recommended Controls

3. Pricing for Contractor Work Orders		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ Contractor cuts lots, takes before and after pictures (time/date stamped), prepares affidavit of work performed, and prepares an invoice showing lots cuts but with no pricing information. ♦ Contractor turns in pictures, affidavit, invoice and plats to PSD Administration. PSD Administration notifies inspector of completed work. ♦ Inspector reviews paper work, visits sites cut as necessary, and approves the packet for payment. 	<ul style="list-style-type: none"> × There is no indication that the plats turned in by the contractor match the plat copies retained by Administration. There is no check that the plats in control of the contractor have not been altered. × The value of the work order is still unknown, and the contractor does not know the value of the work actually completed. The contractor generally does not know how much the invoice is worth until the check is issued. 	<ul style="list-style-type: none"> a. Contractors submit the computer generated work order and a priced invoice. Inspector review/approve work order and invoice. b. The lots on work order system are updated to show cut by contractor or by the owner and update any other changes necessary, such as a change in grass height. <ul style="list-style-type: none"> ~ Administration compare the contractors invoice to the work completed. ~ All “Work Completed” work orders would be approved by a second PSD administrative person
4. Completing Contractors Work Orders		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ PSD Administration manually calculates lot cut by multiplying the square footage by the grade value. The total is written on the plat. ♦ This person also prepares an Excel© spreadsheet listing the lots cut, contractor, inspector, adjudicated status, and amount due. (Auditor’s Note: The person doing the calculation often also determines the square footage.) The person prepares an adding machine tape of the manual calculations which is compared to the spreadsheet. ♦ A second administrative person reviews the spreadsheet, adding machine tape and plats and approves for payment. The contractors invoice is forwarded to Finance, Accounts Payable for payment. 	<ul style="list-style-type: none"> × The value of each lot cut is calculated manually, often including even the calculation of the square footage cut. The manual calculations for determining the totals are not documented, nor checked by a second person. × The spread sheet listings are often short cut when multiple lots in the same block are cut; i.e., “14 lots in the 1900 block of Anna... \$890.00.” This practice makes tracing a payment back to the specific lot almost impossible. × Creating the spreadsheet is essentially using the computer as a very expensive adding machine, creating a false sense of security that the amount approved for payment has been verified as accurate. 	<ul style="list-style-type: none"> a. A copy of the approved “Work Completed” document along with the approved contractor invoice should then be forwarded to Accounts Payable for processing and payment. b. The supporting packet, including a copy of the contractor invoice and Work Completed document should be filed pending its scanning into the computer. <ul style="list-style-type: none"> ~ The filed and scanned documents should be retrievable, at a minimum, by the contractor name, date cut, inspector, lot address and Geo number, City adjudication status, and council district.

Appendix 1: System of Recommended Controls

5. Billing and Collection Process		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ At the same time with forwarding the approved contractor invoices to Accounts Payable, the administrative personnel flag the non-adjudicated properties and enter the amount paid to the contractor for each non-adjudicated lot to the Violation record. ♦ Information Technology, uses a computer program that calculates and generates the invoices to property owners whose property was cut, which are forwarded to the mail room for processing. ♦ The mail room stuffs and stamps the mail and places it into the mail system. The accounts created are given to the Revenue Compliance Division of Finance for follow up and collection. 	<ul style="list-style-type: none"> × The billing is initiated by PSD Administrative personnel, and there is no independent control over the issuance of a billing. × City adjudicated properties are not charged for grass cutting: <ul style="list-style-type: none"> ~ The cost to cut the lot is not billed to the property owner. ~ A lien is not attached to the property for the grass cutting. × No charge is billed to property owners that eventually did cut their grass, even though the City has put in time and effort to notify the property owner of the violation. 	<ul style="list-style-type: none"> a. Lots (adjudicated and non-adjudicated) that are in violation should have been entered as a violation into the computer system. <ul style="list-style-type: none"> ~ Each violation should have indicated that the grass was cut by owner or cut by contractor. ~ A bill should automatically generate for those lots that were cut by contractor. ~ A fee should automatically be charged to those lots that were cut by owner. b. Revenue Compliance should initiate a lien for unpaid bills against the property (adjudicated and non-adjudicated) and ensure that it is recorded at the Court House. Consideration might also be given to the use of a third party collector to increase the collection rate.
6. Permits Plus User Access		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ Currently all administrative staff have the same update and edit rights in the Permits Plus application. ♦ Therefore, at any time before a violation reaches the billing stage, anyone having access can cancel, close or void the violation. 	<ul style="list-style-type: none"> × Employees have access to circumvent the violation billing process by closing, canceling, or voiding a violation whenever they choose. 	<ul style="list-style-type: none"> a. Employees should only have access to Permits Plus functions that are required for them to perform tasks associated with their role.

Appendix 1: System of Recommended Controls

(Auditor's Note: Recommendations 7 through 10 require that Property Standards coordinate with the City Purchasing Department. The Purchasing Department prepares the proposal packet, sends it out to potential weed abatement contractors, reviews the proposals prepared by contractors, and awards the contracts.)

7. Weed Abatement Pre-Proposal Conference

Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ In January 2015 the first annual mandatory pre-bid conference was held for potential weed abatement contractors. Property Standards administration and City's Purchasing Department staff were in charge of monitoring attendance at the conference held at the SPAR Maintenance Facility. A contractor sign-in sheet was placed on a table; however, no one sat at the table to monitor contractors as they came in and signed. 	<ul style="list-style-type: none"> ×With no one monitoring the sign-in sheets, contractors are able to sign other contractors' names that may or may not be present at the time of signing. This allows contractors to show up after the required time or not show up at all, resulting in an unfair advantage for these contractors. 	<ul style="list-style-type: none"> a. Purchasing Department personnel sit at the sign-in table and monitor the sign-in sheet to ensure that each person signs in for themselves and no one else.

8. Waiver of Worker's Compensation Insurance

Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ Contractors who do not purchase their own Worker's Compensation Insurance sign a waiver of Worker's Compensation Insurance per L.A.R.S. 23:1035....(a) a President, Vice President, Secretary, or Treasurer of the corporation who owns more than 10% of the corporation, (b) a partner of the partnership employing the partner, (c) a member of the L.L.C. who owns at least 10% membership interest, or (d) a Sole Proprietor of a sole proprietorship and are excluded from Worker's Compensation coverage waive any and all claims against the City of Shreveport for any worker's comp benefits. ♦ Subcontractors or other employees the contractor hires is not covered under the waiver. 	<ul style="list-style-type: none"> ×This puts the City at risk for subcontractors who did not waive the worker's compensation benefits to file claims against the City. There is no provision for employees, other than those described specifically in the Present Procedure, to waive their rights to worker's compensation benefits. 	<ul style="list-style-type: none"> a. City should also require Contractors to disclose the use of subcontractors and carry worker's compensation insurance coverage on their subcontractors or the subcontractors should provide copies of signed waivers to the City. b. City should also require contractors and their subcontractors who have no coverage for employees to provide a positive affirmation to City stating that they have no employees, but will report same and provide proof of worker's compensation for them if or when they do acquire employees.

Appendix 1: System of Recommended Controls

9. Proof of General Liability And Vehicle Insurance		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ Purchasing Department obtains copy of Contractors' proof of insurance certificates at the beginning of the contract, but does not ensure that the insurance is current during the contract. 	<ul style="list-style-type: none"> × The contractor may work after a lapse in insurance coverage. There is an increase to the City's liability risk when a contractor causes damage or harm during the course of executing a City contract while having no insurance. 	<ul style="list-style-type: none"> a. Purchasing maintain a schedule of Contractors' insurance expiration dates, allowing timely contact with contractors to obtain current certificates prior to the policies' lapse.
10. Contracting Process – Demolition		
Present Procedure	Control Issues	Recommendation
<ul style="list-style-type: none"> ♦ Demolition orders may not exceed \$9,999 in accordance with City purchasing policies without a formal bid process. For those orders greater than \$1,000 but less than \$10,000, informal quotes may be used, and a formal purchase order through the LOGOS financial accounting system is required. ♦ We were told that the Property Standards Department has a policy of requiring three informal (verbal, in person or by telephone) bids. We did not see any written policy to this effect. Our understanding is that the negotiated (informal bid) price is and all-inclusive price for the actual demolition and clean-up of the site. ♦ However, one demolition contractor had three instances of receiving a contract increase (work order) for property demolition: <ul style="list-style-type: none"> ~ Addition of "clean-up fees" in two cases and "mobilization fee" in the third case. ~ In one case, the original contract amount was \$9,900, which became \$10,600 when the after the fact "clean-up fee" was added. The other two instances remained well under the \$9,999 maximum after the addition of the fees. We did not find any documentation justifying the additional fees. 	<ul style="list-style-type: none"> × The addition of fees after the contract has been issued and signed gives the appearance that the original price may have been less than necessary to cover the cost of the work to be performed, and the addition of fees after the fact gave the contractor enough funds to at least cover all costs. × It also raises the potential for collusion and kickback. × Finally, it is an indicator that the all-inclusive price is subject to further negotiation even after the work has been performed. 	<ul style="list-style-type: none"> a. The Department reduce its policy in letting demolition work orders to writing, and prohibiting any modifications to the contract amount after the contract has been issued. b. The policy should mirror the Purchasing Department policy, and be updated from time to time to reflect changes in the Purchasing Department policy and procedures.

Appendix 2 Weed Abatement Process Flow

