



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE DEPARTMENT OF ENGINEERING & ENVIRONMENTAL SERVICES, PROPERTY MANAGEMENT DIVISION - ADJUDICATED PROPERTY PROCESS

INTERNAL AUDIT OFFICE

505 Travis St.
Suite 450
Shreveport, LA 71101
www.shreveportla.gov
Office: 318-673-7900
Fraud Hotline: 318-222-5698

INTERNAL AUDIT REPORT (IAR) 100018-06

December 31, 2018



Leanis L. Steward
City Internal Auditor

Report Highlights	Page(s)
• The City has an estimated negative balance of about \$14,664 from the auction contractor due to properties being canceled by management.	7
• Files reviewed were inconsistent and incomplete for the City Program and the One Dollar Program.	12
• Implement continuous monitoring for the One Dollar Program.	13



The Council
City of Shreveport

Leanis L. Steward, CPA, CIA
City Internal Auditor
P.O. Box 31109
Shreveport, LA 71130-1109

E-Mail Address:
Leanis.Steward@shreveportla.gov
Phone: 318.673.7900
Fax: 318.673.7911

December 31, 2018

Councilman Jerry Bowman Jr.
Chairman, Shreveport City Council

Dear Councilman Bowman Jr.:

Subject: IAR 100018-06 – Audit of the Department of Engineering & Environmental Services,
Property Management Division – Adjudicated Property Process

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

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

dw

EXECUTIVE SUMMARY

AUDIT OF THE DEPARTMENT OF ENGINEERING & ENVIRONMENTAL SERVICES, PROPERTY MANAGEMENT DIVISION – ADJUDICATED PROPERTY PROCESS

INTERNAL AUDIT REPORT (IAR) 100018-06

Why We Did This Audit

We have completed an audit of the Property Management Division. This audit was conducted as one of our regularly scheduled audits included in the Annual Audit Plan developed by the City Internal Auditor. Our objectives were to determine if the adjudicated process complies with Property Management's policies and procedures, agreements, and state regulations. And, to determine the adequacy of the procedures and controls used to maintain records, and monitor, and advertise adjudicated property.

What We Recommended

To improve efficiency and effectiveness we recommend that Property Management:

- Provide oversight of the CivicSource Program.
- Update the Intergovernmental Agreement with Caddo Parish to include payment terms.
- Management updates their policies and procedures.
- Automate files and data.
- Implement a continuous monitoring program.
- Increase awareness of the adjudicated programs by advertising.

Performance Audit: Engineering & Environmental Services, Property Management Division-Adjudicated Property Process

What We Found

One of Property Management responsibilities is to sell adjudicated properties. There are approximately 6,000 properties adjudicated to the City of Shreveport. Revenue generated from the sale of adjudicated properties in 2017 was approximately \$95,000 after property taxes were applied. We found that methods of disposing of adjudicated property are adequate; however, the Property Management Division could improve its processes and procedures. Throughout the audit, we have identified the following concerns:

- **Oversight of property auction contractor CivicSource could be improved.**
- **Payments received from Caddo Parish to the City of Shreveport under the Intergovernmental Agreement are sporadic.**
- **Written policies and procedures should reflect Property Management operations.**
- **Property sale records were incomplete and some files were not located.**
- **The One Dollar Program is not monitored to determine the impact.**
- **Lack of advertising of the adjudicated programs.**

INDEX

Executive Summary	1
Index	2
Introduction	3
Recommendation Evaluation Risk Criteria	4
Scope and Methodology.....	5
Findings and Recommendations.....	6
CivicSource Agreement.....	7
Intergovernmental Agreement between the City and Caddo Parish.....	10
Policies and Procedures.....	11
Record Keeping.....	12
Monitoring the One Dollar Program.....	13
Advertising Adjudicated Property	14
Appendix A: One Dollar Program General Overview	16
Appendix B: City Program General Overview	17
Appendix C: Analysis of the One Dollar Program	18

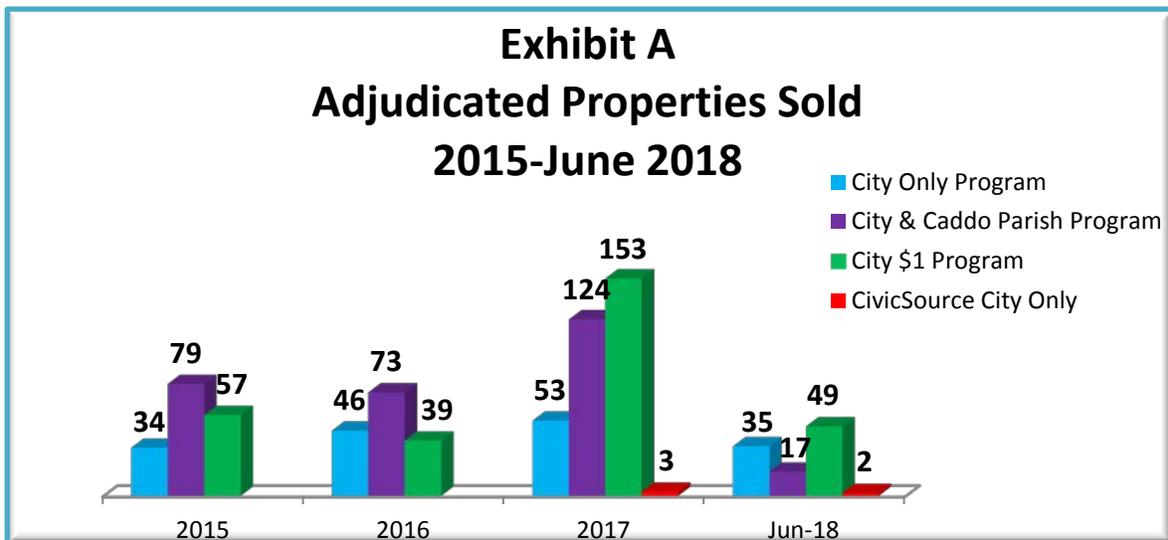


Introduction

Property Management was established in 2000 and they are responsible for monitoring and regulating the City of Shreveport’s interest in real property, and the functions of the division are as follows: property acquisition, annexations, closures & abandonment, surplus property, and adjudicated property. For this audit, we focused on adjudicated property.¹ Properties are adjudicated when they are offered at the annual tax sale for non-payment of taxes and have not sold at the annual tax sale. Additionally, there are approximately 6,000 properties adjudicated to the City of Shreveport. Adjudicated property can be used for City purposes or it can be sold to the public in the following ways:

1. **Adjoining landowner Dollar program:** Adjudicated property can be purchased for \$1 if the adjoining landowner has maintained the property for a period of one year and has an approved application from Property Management. [See Appendix A](#)
2. **Adjudicated property bid programs:**
 - **City Program:** Bidding on an adjudicated property through the City Program and an applicant submitting an application and fee of \$300. [See Appendix B](#)
 - **City & Caddo Parish Program:** Property adjudicated to both Caddo Parish and the City of Shreveport is sold through the Caddo Parish Adjudicated Program.
 - **CivicSource Program:** A third-party that sells adjudicated property for the City.

The properties sold by year and program are displayed in ²[Exhibit A](#)



The objectives of this audit were to determine the following:

- If the adjudicated process complies with Property Management’s policies and procedures, agreements, and state regulations.
- To determine the adequacy of the procedures and controls used to maintain records, and monitor, and advertise adjudicated property.

¹ Source: City of Shreveport Property Management’s webpage

² Source: Property Management



Recommendation Evaluation Risk Criteria

This report contains six findings with twelve recommendations. The chart below summarizes our evaluation of risk for the recommendations outlined in the report. Each recommendation was assessed a high, medium, or low risk level based on a qualitative assessment of exposure and/or corrective action priority.

Risk Levels	Recommendations
<p style="text-align: center;">High Risk</p> <p>Represents a significant level of risk exposure to city assets, public safety, or achievement of objectives or mission. Corrective action should have the highest priority.</p>	<p>None</p>
<p style="text-align: center;">Medium Risk</p> <p>Represents a moderate level of risk exposure to the city from extensive operating inefficiencies or high-level non-compliance issues. Corrective action should occur expeditiously.</p>	<ul style="list-style-type: none"> ➤ Management oversight is needed for the CivicSource Program. (Management should avoid cancellations of properties and fees associated with it. Also, request a descriptive narrative for invoices, and to determine if CivicSource’s fees can be waived for properties that are sold through the City One Dollar Program). <u>(Finding: CivicSource Agreement)</u> ➤ Update the Intergovernmental Agreement to include a payment term schedule. <u>(Finding: Intergovernmental Agreement between the City and Caddo Parish)</u>
<p style="text-align: center;">Low Risk</p> <p>Represents a minimal level of risk exposure to the city from inefficiencies or low-level non-compliance issues. Corrective action should occur as appropriate.</p>	<ul style="list-style-type: none"> ➤ Update policies and procedures to reflect management’s action. <u>(Finding: Policies and Procedures)</u> ➤ Automating files, implementing a centralized database, and ensuring files are complete and consistent. <u>(Finding: Record Keeping)</u> ➤ Implement a continuous monitoring program and key performance measure for the One Dollar Program. <u>(Finding: Monitoring the One Dollar Program)</u> ➤ Focus on growth and adjudicated property program awareness by increasing advertising. <u>(Finding: Advertising Adjudicated Property)</u>



Scope and Methodology

The scope of this audit was limited to the Property Management Division's Adjudicated Process. The period reviewed was January 2015 – July 2018. To answer our objectives, we reviewed relevant internal controls and developed audit procedures that included but were not limited to the following:

- Interviewing Property Management Division staff to get an understanding of the process
- Testing compliance with established policies and procedures
- Reviewing and performing test work on files and any other applicable documentation
- Reviewing City Ordinances, regulations
- Evaluating compliance with the Intergovernmental and CivicSource agreements
- Testing a sample of properties sold by the City, Parish, and CivicSource to determine:
 - If appropriate levels of approvals were obtained
 - Relevant documents are included in the files for completeness
 - Regulations were followed

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 findings, conclusions, and recommendations based on our audit objectives.

The Internal Audit Office expresses appreciation to the management and personnel of the Engineering & Environmental Services, Property Management Division for their cooperation and assistance provided during the audit.





FINDINGS AND RECOMMENDATIONS



Objective: Determine if the Adjudicated process complies with Property Management's policies and procedures, agreements, and state regulations

CivicSource Agreement

The Property Management Division utilizes a third-party to sell adjudicated property. The Agreement for professional services, which includes the City of Shreveport, Caddo Parish, and CivicSource, was entered into December 2016. CivicSource is authorized to act on behalf of the City and is allowed to choose property that has been adjudicated over 5 years (with the approval of Property Management) to sell on their website.

CivicSource began selling adjudicated properties for the City of Shreveport in 2017. Before a property is listed, CivicSource notifies Property Management; if there are no written responses from Property Management after thirty days, CivicSource will proceed with the sale of the adjudicated property. [In our review of the CivicSource Agreement the costs to the City are:](#) " **c)**...As a result of removing a property from a sale for reasons of Governing Authority oversight or otherwise and that, in the event that Governing Authority waives the collection of the costs, **Governing Authority shall pay the amount of such costs to Contractor**; and **d)** In the event a property fails to sell after at least two auctions, **Governing Authority shall pay the amount of such costs to Contractor from proceeds generated from the sale of a different property.**"

We received an Adjudicated Property Distribution Report from CivicSource. The report lists the sale date, auction number, parcel number, status, sale price, CivicSource's cost, client balance, and carry-over balance from previous reports.

We identified the following:

- The status may list canceled, not sold, redeemed, or sold, but with no descriptive narrative.
- If a status is canceled, the cost incurred for cancelling the property is unknown, such as title update, property inspection, advertisement, etc.
- The City has an estimated negative balance of \$14,664, due to properties being canceled by Property Management. Once a property is canceled, depending on where CivicSource is in the process, such as advertisement, preliminary property verification research, or etc., it's a charge to the City. Also, a negative balance will be taken from proceeds of future sales credit to CivicSource. Therefore, the City will not see revenue until that negative balance is resolved.

Additionally, the City received an invoice from CivicSource for properties on the One Dollar Program that totaled \$18,500; fees consist primarily for the preliminary verification process for properties. According to Property Management and CivicSource, these properties were canceled by the City because they were on the One Dollar Program. Because there is no way to predict if a property will be sold through the One Dollar Program, Property Management cannot recover the fees because revenue generated is \$1. There is no application fee paid for the One Dollar Program (*Sec. 26-301. - Sale of interest in adjudicated property to adjoining landowner (3) the sale price for such sales shall be \$1.00 and other good and valuable consideration.*) Furthermore, after randomly selecting



IAR 100018-06 December 3, 2018

some properties from the invoice, we believe some of those properties listed were actually sold through the City Program.

At the time of our audit, there was no monitoring of the CivicSource Program such as requesting reports or invoices. Although reports were mailed to the City, they were being sent to an incorrect address and management was not aware. Monitoring the program will help determine if CivicSource is needed as another avenue to sell adjudicated property for the City of Shreveport.

Recommendation 1: We recommend increasing oversight to avoid having properties canceled. Property Management should verify that the property can be sold by CivicSource by thoroughly reviewing the property to confirm if the property is being processed by the City (is on a payment plan or application for the One Dollar Program) within the 30 day window before any (or further) costs are incurred. Management should respond to CivicSource in writing that a property can be listed.

Recommendation 2: Management contact CivicSource and request a descriptive narrative be included for the various statuses listed on the Adjudicated Property Distribution Report and also provide a detail of the cost.

Recommendation 3: Once a property is listed by CivicSource, if Property Management does remove the property, management should look at ways to recoup fees.

Recommendation 4: Management review the invoice to determine what properties sold through the One Dollar Program and what properties sold through the City Program, and determine why properties sold through the City Program are listed on the One Dollar Program invoice. We also recommend management contact CivicSource to determine if CivicSource fees can be waived for properties that are sold through the City One Dollar Program since the City cannot recoup those costs.

Recommendation 5: Management should provide continuous monitoring of the CivicSource program and yearly cost/benefit analysis.

Management Response:

Recommendation 1: We agree that increased oversight is necessary. We have instituted a system whereby all properties being sold through the City Program or the One Dollar Program are given to CivicSource in writing prior to initiating the City sale. We will continue to do this. Coordination between the City's Revenue Division and Property Management will be instituted to ensure that no property on a payment plan can be sold.

Recommendation 2: We agree, and will make the request to have a descriptive narrative be included for the various statuses listed on the Adjudicated Property Distribution Report, and to also provide a detail of the cost.



IAR 100018-06
December 3, 2018

Recommendation 3: We agree. We have already instituted a process whereby we contact CivicSource prior to selling a property through the City's Program to see if there are any CivicSource costs associated with the proposed City sale, and we recover those costs from the successful bidder prior to giving them the bid package. We will continue to do this, and provide those results in a report.

Recommendation 4: We agree to make the recommended reviews on the CivicSource invoice and determine why properties that were sold through the City Program are listed on the One Dollar Program Invoice. We will also contact CivicSource to see if properties that are sold through the One Dollar Program can be waived.

Recommendation 5: We agree to the continuous monitoring recommendation of the CivicSource Program and will develop a cost/benefit analysis of that program on an annual basis.

Due Date: 6 to 12 Months





Intergovernmental Agreement between the City and Caddo Parish

During our audit, we reviewed the Intergovernmental Agreement between the City of Shreveport and Caddo Parish and we identified that the agreement does not include a payment schedule. Properties are sold throughout the year through the City and Caddo Parish Programs. For example, we found that Caddo Parish sold properties between January through March 2018, and the City did not receive a payment until August 2018. See other examples in the chart below of properties sold and payment received:

Properties Sold in Month & Year:	Payment Received by City from Caddo Parish - Total Dollar Amount
March, May, Aug., Sept., Oct. 2015	Nov. 2015 - \$5,890.20
Apr. - Jun. 2016	Nov. 2016 - \$3,992.13
Apr. - Jun. 2017	Aug. 2017 - \$9,422.10
Jan. - Mar. 2018	Aug. 2018 - \$2,061.85

Without a payment schedule, it can cause a delay of payments to the City or sporadic payments paid to the City. To reduce the risk of receiving delayed payments or irregular payments we recommend the following:

Recommendation 6: Update the Intergovernmental Agreement to include a payment term schedule, such as payments should be received quarterly for properties sold.

Management Response: We agree that a payment schedule should be established. We suggest that a formal request be made to the Parish of Caddo, Public Works Department requiring that payments be made to the City of Shreveport at the least on a calendar quarter basis. We will also attempt to get an update to the Agreement between Caddo Parish and the City of Shreveport.

Due Date: Less Than 6 Months



Policies and Procedures

In reviewing Property Management's policies and procedures for adjudicated properties the policies do not include the process or disposal of property through a third-party, such as current third-party CivicSource, who sells properties for the City Property Management Division.

Also, the procedures for the One Dollar Program state: "City of Shreveport's Property Management Section will prepare a resolution for the City Council to declare the property as surplus. Council approval is required before proceeding with the sale." City Council approval is no longer needed to declare a property as surplus according to City Ordinance 45 of 2016 that eliminated this requirement.

In addition Property Management's policy and procedure for the City Program states, "Applicant to complete application form. (Application Fee \$300.00 CERTIFIED FUNDS ONLY, payable to the City of Shreveport; \$200 represents a **non-refundable** application fee - \$100 represents an advanced advertising fee)." In practice, if an applicant is not the winning bidder he/she was refunded the \$300, and the winning bidder would pay the application fee.

To ensure compliance with the Property Management policies and procedures, the following is recommended:

Recommendation 7: Management updates their policies and procedures to reflect their actions and disseminate the policies to their employees, including a written acknowledgment an employee can sign.

Management Response: We agree that policies and procedures should be updated to reflect the actions. This will include updating all of the ways adjudicated properties are sold by the City. Once the updates are completed, the new policies and procedures will be disseminated to employees, and employees will be given a written acknowledgment to be signed.

Due Date: 6 to 12 Months



Objective: Determine the adequacy of the procedures and controls used to maintain records, monitor, and advertise adjudicated property

Record Keeping

Good record keeping is important because it helps enhance efficiency and productivity and promotes better decision making by management.

The Property Management Division could improve its records management process by automating their files or creating a centralized database of all the property sold. There is not a central database/system to track transactions of each property sold.

We also found that the files reviewed were inconsistent and incomplete for the City Program and the One Dollar Program. Required signature was not present and documentation was not consistent in files. For example, the second page of an application was not signed by the applicant or a document included in file A was not included in file B. We also discovered 2015 files for the One Dollar Program were misplaced/missing, so those records could not be reviewed. To increase efficiency, we recommend the following:

Recommendation 8: Create and maintain an inventory of all property sold including key information such as price, sold by which program, Geo ID, address, etc. in a spreadsheet/database to improve record management system. We also, recommend storing files electronically.

Recommendation 9: Review files for completeness to ensure those files comply with procedures and incorporate a checklist to help guide new employees and current employees.

Management Response:

Recommendation 8: We currently keep inventories of properties sold through all of our programs, but all inventories are not combined in one report. We will create a combined inventory of all properties sold through all programs with key information included on each individual property and include all of these properties in one report. We will also work toward getting our files stored electronically.

Recommendation 9: We will review all active files and verify that they comply with procedures. We currently have a checklist for the regular City Program, and we use the status sheet as a checklist for the One Dollar Program. We will create a formal checklist for the One Dollar Program.

Due Date: 6 to 12 Months



Monitoring the One Dollar Program

Key performance measures are the continuous checking and revealing of program achievements, to assist in advancing toward pre-established objectives.

Properties sold through the One Dollar Program are not monitored for key performance indicators or set criteria to help measure against. As an outcome, there are minimal results to determine the impact of the One Dollar Program. Without key performance indicators, the City cannot be sure if the One Dollar Program is effective or the intended results are achieved. Monitoring the One Dollar Program will help identify the benefits of the program, support future decisions, and improve transparency.

Recommendation 10: Implement a continuous monitoring program and key criteria to measure the performance and evaluate the results of the One Dollar Program.

Possible performance measures:

- Citizen's participation rate based on applications submitted
- Savings vs. cost to maintain the adjudicated properties
- Prior year vs. current year sales numbers of adjudicated properties

Recommendation 11: Include the adjudicated process programs into the budget to recap the accomplishments and goals.

Management Response:

Recommendation 10: We agree that properties sold through the One Dollar Program are not currently being monitored for key performance indicators nor are measuring criteria set. We will attempt to implement a process by which we can measure the effectiveness of the One Dollar Program. This process should include the performance measures listed above.

Recommendation 11: We agree that the Adjudicated Property Program process should be included into the budget to reflect goals and accomplishments. We will see this gets done.

Due Date: 6 to 12 Months



Advertising Adjudicated Properties

Advertising adjudicated properties will help with program growth and make citizens aware of the adjudicated process. In 2015, one of Property Management strategic activities was to advertise adjudicated properties through their various programs. For example, if application submissions are low for a given property within the City Program, Property Management places ads in The Times newspaper of an upcoming auction; however, we found:

- The One Dollar Program is listed on the [City of Shreveport Website, Property Management page](#), but there is no other method of promoting the One Dollar Program.
- CivicSource is not listed on Property Management webpage as another source that sells adjudicated property.

Recommendation 12: To focus on growth and program awareness, we recommend increasing promotion of the One Dollar Adjudicated Program via flyers, yard signage, City Council meetings, social media, or news media outlets, and also include CivicSource on Property Management's Adjudicated webpage (similar to the listing of the Caddo Program).

Management Response: We agree that increased promotion of the One Dollar Adjudicated Property Program should be accomplished. We also agree that including CivicSource on the Property Management Adjudicated Property webpage should be done. We will create methods by which to increase awareness of the One Dollar Program and work with the City's IT Department to update the webpage.

Due Date: 6 to 12 Months





Prepared by:

A handwritten signature in blue ink, appearing to read "Nadia Dunams".

Nadia Dunams, CIA
Associate Auditor

Approved by:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

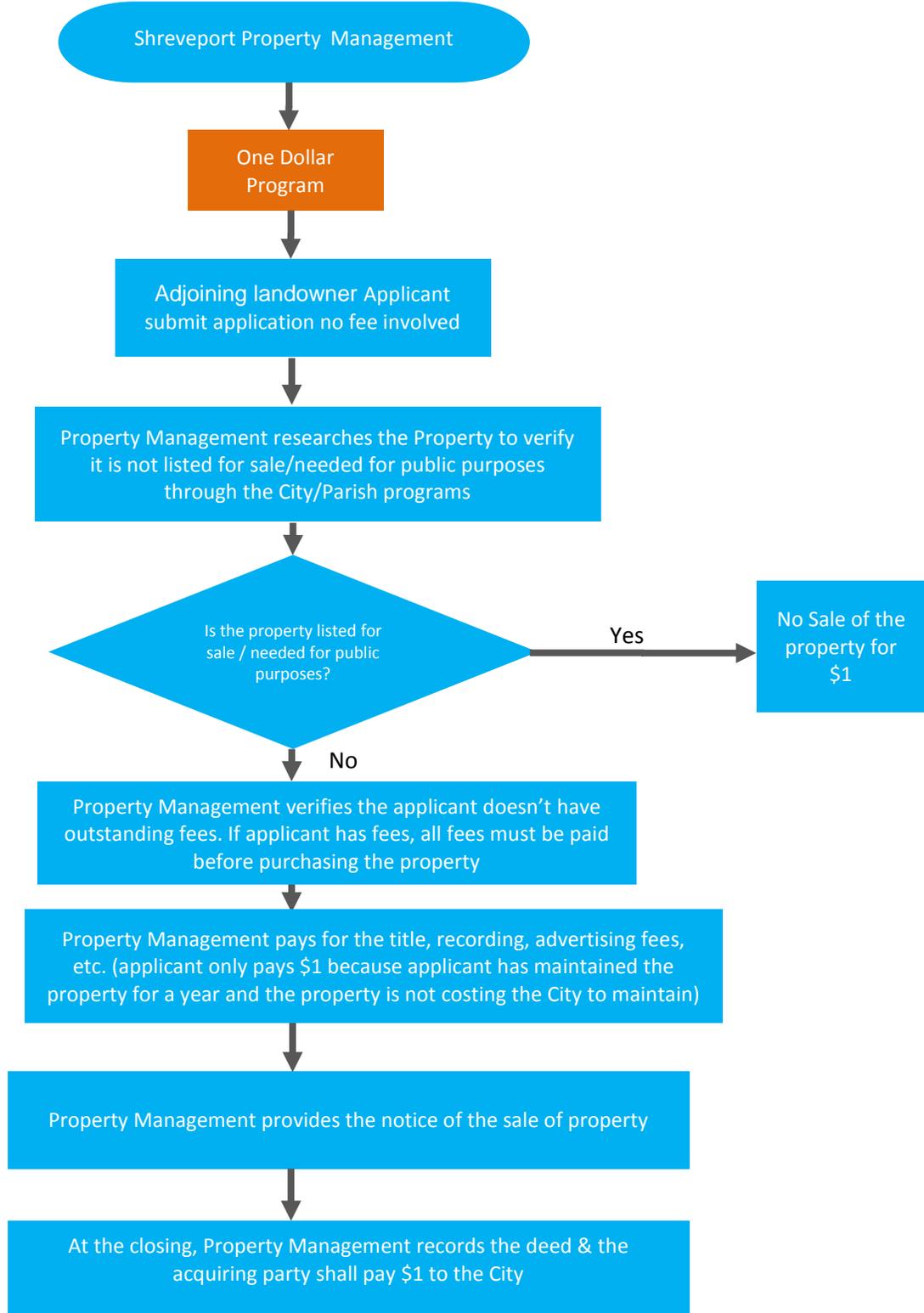
Leanis L. Steward, CPA, CIA
City Internal Auditor

nd:dw

- c: City Council
- Clerk of Council
- Mayor
- Chief Administrative Officer
- Carr Riggs and Ingram
- City Attorney
- Director of Engineering

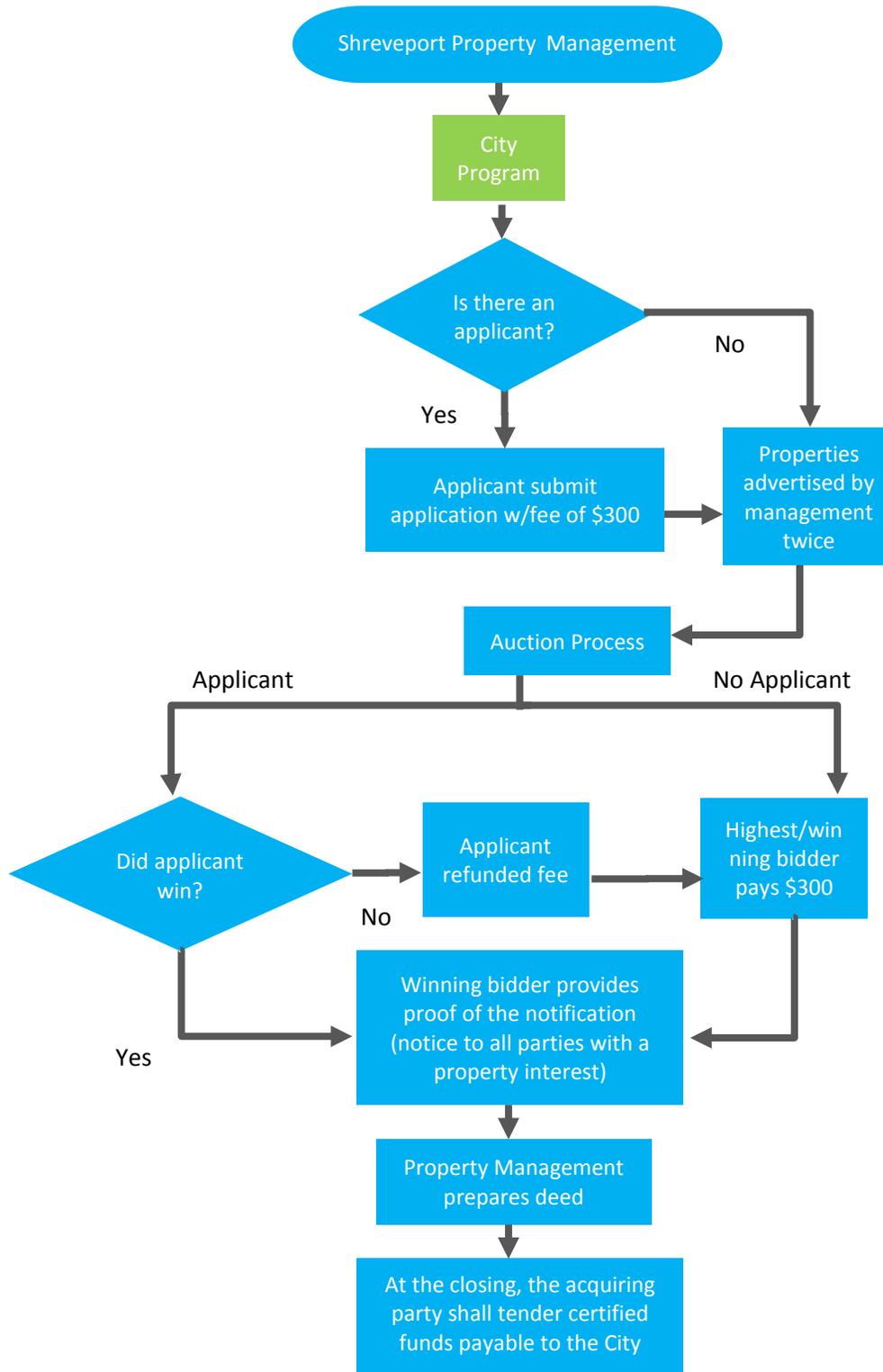


Appendix A: One Dollar Program General Overview





Appendix B: City Program General Overview



Note: If the property is needed for City purposes Property Management will not sell the property



Appendix C: Analysis of the One Dollar Program

The analysis of the One Dollar Program was requested from a member of the City Council. The analysis is based on properties sold January 1, 2015 – June 2018 that returned to the City tax rolls. The chart below provides an estimated snapshot of the cost-savings to the City for the One Dollar Program³.

\$1 Program					
Properties Sold by Year	Properties sold	Weed Abatement est. \$120	Spraying est. \$50 - \$100	Total savings	2018 Average tax collections for properties added back to the tax rolls (\$24)
2015	57	\$6,840	\$2,850 - \$5,700	\$9,690 - \$12,540	\$1,368
2016	39	\$4,680	\$1,950 - \$3,900	\$6,630 - \$8,580	\$936
2017	153	\$18,360	\$7,650 - \$15,300	\$26,010 - \$33,660	\$3,672
Jun-2018	49	\$5,880	\$2,450 - \$4,900	\$8,330 - \$10,780	\$1,176
Total	298	\$35,760	\$14,900 - \$29,800	\$50,660 - \$65,560	\$7,152.00

Note: The chart shows the minimum amount based on a lot that cost an average of \$60 to maintain twice a year, but the range can fluctuate based on multiple variables such as the height, weather, square footage, spraying, the seasons, frequency of maintaining the property.

The costs to the City for the One Dollar Program are:

City Fees for the \$1 Program	
Recording Fees	\$105 per property
Title Report	\$185 per property
Advertising in newspaper (notice)	\$100 for multiple properties est.
Letters sent out (notices)	\$15 per property est.

Note: The applicant only pays \$1 for the property because it is understood the applicant maintains the property for an entire year and it is no cost to the City.

³ The total properties sold were provided by Property Management; the costs to maintain the properties were provided by Property Standards; the average tax collections were collected by sampling and obtaining information from the Caddo Parish Assessor's website.