

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER,
FINANCIAL STATEMENT FINDINGS and PASSENGER
FACILITY CHARGE PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2009

INTERNAL AUDIT REPORT 230211-02

June 30, 2011



June 30, 2011

Councilman Oliver Jenkins
Chairman, Shreveport City Council

Dear Councilman Jenkins:

Subject: IAR 230211-02 - Annual Follow-Up on the External Audit Management Letter,
Financial Statement Findings, and Passenger Facility Charge Program for the
Year Ended December 31, 2009

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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**ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER,
FINANCIAL STATEMENT FINDINGS AND PASSENGER FACILITY
CHARGE PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2009
INTERNAL AUDIT REPORT (IAR) 230211-02**

BACKGROUND

This report covers the results of our annual follow-up on the December 31, 2009, external audit reports including the:

- Management Letter;
- “Independent Accountants’ Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards” and “Independent Accountants’ Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards” and;
- “Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance and on the Passenger Facility Charge Revenues and Disbursements Schedule.”

During their audit of the City of Shreveport’s 2009 annual financial statements, the external auditors brought to management’s attention certain deficiencies, matters, and findings involving the internal control structure and its operations.

In their report and management letter dated August 31, 2010, the external auditors reported deficiencies, matters, and findings and management’s responses to these items.

OBJECTIVES

We have completed the annual follow-up on the external audit report and management letter. This follow-up was performed in accordance with the Internal Audit Office’s Operating Instruction A.210.

The follow-up objective was to determine the current status of management’s responses.

SCOPE AND METHODOLOGY

The scope of the follow-up included obtaining a current statement from management explaining the status of each reported response.



IAR 230211-02

June 30, 2011

The methodology of the follow-up included interviewing and requiring appropriate city employees to complete and sign a questionnaire that defined the status as follows:

- **COMPLETE** - Management's response was implemented.
- **PARTIALLY COMPLETE** - Management's response was partially implemented.
- **NO PROGRESS** - No action was taken regarding management's response.

The current status of each response is listed in the following index and the supporting details follow in the report.



INDEX

<u>TOPIC</u>	<u>STATUS</u>	<u>PAGE</u>
BACKGROUND	N/A	1
OBJECTIVES	N/A	1
SCOPE AND METHODOLOGY	N/A	1
INDEX	N/A	3
FINDINGS		
A. 2009 MANAGEMENT LETTER		4
<u>COMMUNITY DEVELOPMENT</u>		
1. Grants	Complete	4
2. Homeowner Rehabilitation Program	Complete	4
<u>FINANCE</u>		
3. Deficiencies	No Progress	10
4. Grants	Partially Complete	10
5. Online Banking Access	Complete	11
6. Claims Remaining Open for Extended Periods	Partially Complete	11
<u>INFORMATION TECHNOLOGY</u>		
7. Information Technology	No Progress	11
<u>SHREVEPORT PUBLIC ASSEMBLY AND RECREATION</u>		
8. Energy Efficiency Contract Compliance	No Progress	12
B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		13
<u>Finance</u>		
1. Financial Reporting	Partially Complete	13
C. PASSENGER FACILITY CHARGE PROGRAM		14
<u>FINANCE</u>		
1. Financial Reporting	Partially Complete	14



A. 2009 MANAGEMENT LETTER

COMMUNITY DEVELOPMENT

1. GRANTS

During testing of the Community Development Section 108 Loan Guarantees, we noted an instance where a federal debarment check was not performed on a vendor awarded a project. We recommend the City review the Excluded Parties List System before any contracts are awarded with federal grants to ensure no vendors have been suspended or debarred.

Management's Response – The finding has been reviewed by management. We concur with the finding. The Excluded Parties List (EPL) System is used in most cases; however, the debarment verification was not used or noted in this case. Corrected action has been taken, and the loan procedures will be updated to ensure the use of the EPL System and proper file documentation. The loan recipient in question has not been suspended or debarred from participating in HUD programs.

2010 STATUS (Reported by the Director of Community Development) – Complete.

2. HOMEOWNER REHABILITATION PROGRAM

The Caddo Parish Sheriff's Office investigated various contractors who provided home improvement under the City's Community Development Rehabilitation Assistance Programs and three employees who had oversight responsibilities for the work performed. As a result of the investigation, the following charges were made:

- James Alex, III (contractor) – Home improvement fraud and engaging in business of contracting without authority
- James Hayward Lester (contractor) – Home improvement fraud and filing false public records
- Santana Brown (contractor) – Home improvement fraud and engaging in business of contracting without authority
- Alphonso Bernard Williams (contractor) – Home improvement fraud, filing false public records and simple criminal damage to property (which is unrelated to Community Development)
- Ray Anthony Jones (employee) – Filing false public records
- Daniel Joseph Lacour (employee) – Filing false public records
- Jackie Deshannon Mandigo (employee) – Filing false public records

All defendants' cases are set to be heard on November 29, 2010 except for Mr. Williams which is scheduled for November 9, 2010.



After the investigation was completed, the employees were terminated. The contractors were suspended from participating in any Community Development program and the City withheld payment on any open contracts which has caused some of the contractors to sue the City. All cases have been referred to the City Attorney's office to pursue sanctions but since criminal charges are still pending, no additional suits have been filed to date.

As a result of the alleged home improvement fraud, the City spent \$22,485 of unrestricted funds on the properties in question.

U. S. Department of Housing and Urban Development has been to the City and reviewed policies and procedures and made recommendations. However, no sanctions have been placed on the City to date nor has any repayment of funds been requested.

The City needs to continue to look for ways to improve internal controls over its grant programs to ensure work is performed in accordance with grant requirements before payment is tendered.

Management's Response

There have been noted deficiencies in carrying out the *City's Homeowner Rehabilitation Program*. Therefore, the below mentioned actions have been implemented and included in the *Homeowners Rehabilitation Policy and Guidelines*. This Policy must be adhered to, and we must ensure that we are legal and compliant with federal, state and local regulations.

Staff Changes

There have been staff reorganizations to ensure more effective program delivery. The Bureau Chief of Housing and Business Development resigned in September of 2009. A new bureau chief has been hired with extensive management and housing experience. The bureau chief will be more focused on operations, with an emphasis on ensuring that the work is properly done in the field.

A housing field supervisor has been hired to expand the ability to monitor and supervise the inspectors in the field. The supervisor will relieve the inspectors from dealing with homeowner complaints, contractor issues, and other internal matters so that they can solely focus on managing the inspection process.

All previous inspectors have been terminated. We have hired two certified housing inspectors. We plan to hire an additional certified inspector by December 31, 2010 and a fourth inspector by the end of the first quarter in 2011. All inspectors must engage in continuous professional development training.



The reorganization will redefine the roles of staff. The refocusing of task is reflected in their job description change.

Technical Assistance and Training

The department has been working with the U.S. Department of Urban Development (HUD) and a HUD technical assistance advisor, Training Development & Associates (TDA) to strengthen its capacity, implementation procedures and controls to ensure that the housing repairs are completed in a satisfactory manner and conform to HUD standards. TDA is working with the department to develop an overall housing monitoring plan. We have established an ongoing maintenance and evaluation program as a result of their technical assistance.

Contractor Evaluation

A more formal system of evaluating the contractors has been implemented. The field supervisor has developed a more definitive form of evaluating the inspectors' performance in the field. The staff will routinely and consistently evaluate contractor performance and document whether contractors have performed work in accordance with the specifications and terms of the contractual agreement. To the extent that problems are identified, the supervisor will determine the corrective action. The contractor quality of work and other indicators will be used to determine whether contracts are not awarded to contractors or subcontractors with a previous history of providing unsatisfactory work. Continued poor workmanship will lead to suspension or debarment from participating in city-funded programs.

Our policies and procedures have been updated to include a Monitoring Fraud and Program Abuse Policy, and a conflict of interest and disclosure provisions added to the contractors' application. All contractors must sign a debarment and criminal conviction certification. There must be annual meetings for the contractors to produce contractor's license, insurance, and any other required documents. Contractor's licenses, environmental review approval letter, notice to proceed, and proof of permit must accompany the contract.

The contractor application has been revised to include language referencing felonies and investigations. We will check with the appropriate law enforcement authority to determine if there are any felony convictions. We also have a criminal conviction certification as noted above. In addition, HUD's debarment list is checked on each contractor.

Contractors new to the Homeowner-Occupied Rehabilitation Program will only be able to have one contract in progress at any time until they have successfully completed at least three (3) contracts. Successful completion of three contracts removes this restriction, and the contractor may have more than one rehabilitation project at any given time.



The department shall designate a contractor to be ineligible if it finds that the contractor has: (1). Committed one or more material violations of its obligations under a rehabilitation contract and has failed to cure all such violations promptly after 10 days written notice by the applicant or department; (2). Engaged in a pattern of delayed performance or failed to complete the work under a rehabilitation contract, and has received written notice of such delay; and, (3). Failed to communicate in a courteous, prompt and professional manner, and such failure continued after written notice by the applicant or the department.

When a contractor fails to comply with any of the standards set forth above, the department shall remove the contractor from the list of eligible contractors and shall designate the contractor to be ineligible. The applicant will not award any rehabilitation work to be paid for, in whole or in part.

Housing Policy and Procedure Updates and Changes

We reviewed evaluated and updated procedures and work plans for the Homeowner Rehabilitation Program. We have forms, contracts, and policies on all programs. We have updated the performance manual. This manual identifies the standards of how the work is to be performed.

Proper Documentation and File Maintenance

One person has been designated as the file maintenance coordinator. It is their primary duty to ensure that all applicant files are properly maintained in accordance with the housing standard operating policy and procedures and the governing regulations. We are now using 6-pronged multi-sectioned applicant files. Each section has a distinct category and set of documents. Management and any of appropriate person of interest should be able to review files in a sensible and standard manner with the information clearly arranged. This makes a review of the file more clear and organized. A file checklist is in each file to ensure that all relevant documentation is included. Additionally, we are ensuring that the checklist is more comprehensive and that a response is recorded for each item identified on the checklist. Duplicate and blank documents and irrelevant pictures have been removed from the files, and pictures will be dated and labeled as before and after. The unit manager will conduct a frequent review of the files, and the bureau chief or his/her designee will approve all files upon close out. Each will verify their review of the files.

Enforcement of Quality Control Procedures

Housing inspectors must perform progress inspections during the term of the contract and must insure that the contractor has provided and posted the proper permits from the building department. When a pay request is submitted, the inspector must identify all work that has been completed and the percentage of what is completed, prior to any approval for payment. The inspector must also qualify the workmanship of work performed as to whether it is performed per the specification and performance manual.



The contractor must supply the building department with a copy of the contract and work specification at the time he submits for permits. The building department's inspectors are contacted by the contractor to perform permit inspections. They must sign off on the permit card (Yellow Card) that the work conforms to one or all of the following; 2006 Internal Building Code, the 2005 National Electrical Codes, 2000 Plumbing Code, 2006 International Mechanical Code, and all local ordinances and regulations. The field supervisor will follow up on the inspectors and address and mediate complaints and grievances between homeowner and contractors.

In addition, the following procedures have been enhanced or implemented:

- There will be weekly inspector project update meetings on all active jobs. It will be monitored and updated on Excel Spread Sheet;
- All change orders, work write ups, and contractor pay requests/invoicing and plans must be reviewed and approved by the field supervisor;
- All complete project bid documents must be reviewed for accuracy and completeness by the field supervisor;
- The field supervisor will perform random inspections before, during and after work has been completed to insure quality control, accuracy and accountability.
- All jobs must flow through the field supervisor before being assigned to an inspector.
- All inspectors are required to obtain Home Inspection Certification Training, or a housing certification recognized in this industry;
- There will be mandatory Semi-Annual Contractor Meetings;
- There will be complete specification transparency with the Local Building Department. Contractors must post all permit cards and specification in a visible area on the job site; and,
- Any modifications, addendums or changes to any work specification must be noted in the file and approved by a supervisor.

A preconstruction walk-through is conducted on each project that includes the homeowner, contractor and inspector. In the past, homeowners initialed each specification item to confirm that the item was discussed with them. We have implemented a policy that requires minutes to be documented during each construction conference which shall be and signed by the homeowner, contractor and inspector. We have also developed a homeowner's manual that explains the program and details the homeowner's rights. Family members and/or friends are encouraged to participate in the preconstruction walk through and every aspect of the project to ensure that the homeowner understands all work to be performed and that all questions and concerns are addressed.

Contractor License

All contractors must be certified by the state of Louisiana as a Residential Building Contractor, or must have a minimum of a Home Improvement Contractor license by the State of Louisiana to participate in any of our housing programs. Currently contractor



license stature is verified annually to confirm licensing and renewal of licenses. The staff will check periodically to verify that a contractor is in good standing with Louisiana State Licensing Board. We also require that all contractors adhere to EPA guidelines, all individual contractors become Lead-Certified Renovators (RRP) and the contractors also apply for EPA Firm Certification by December 31, 2010.

We have established a working relationship with the local contact for the State Licensing Board to review and evaluate various contractor issues.

Better Communication with the Homeowner

We have implemented a complaint log that documents the date and nature of complaints and concerns by the homeowner. A staff person has been dedicated to maintaining the complaint log and assessing the nature of the complaint. The field supervisor will ensure that each complaint is properly investigated. Also, a job evaluation has been revised to be completed by the homeowner after the completion of work. The department's website will also have mechanisms for complaints and a customer service survey.

Permitting

Building and Permits inspector must approve all work that requires a permit prior to payment. Contractors must call for inspections before final payments are authorized. The inspection crew will be working closely with Building and Permits to ensure better communication and a stronger working relationship.

2010 STATUS (Reported by the Director of Community Development) – Complete.

All staff changes have been completed and a more formal system of evaluating the contractors has been implemented. Our policies and procedures have been updated and we have designated a file maintenance coordinator.

Our inspectors are required to perform progress inspections during the term of the contract and all contractors must be certified by the state of Louisiana as a Residential Building Contractor, or must have a minimum of a Home Improvement Contractor License by the State of Louisiana to participate in any housing projects by this department.

Finally, we have implemented a complaint log and Building and Permits inspections must approve all work that requires a permit prior to payment.



FINANCE

3. DEFICIENCIES

During our routine audit tests, we noted that three people perform substantially all payroll functions. Although this concentration of responsibilities may be efficient, it lacks strong internal controls to safeguard the payroll function. Payroll is a likely area for numerous errors and possible irregularities to occur due to the number of calculations involved. Better segregation of duties will enhance controls to detect any such errors and irregularities and provide for much greater safeguarding of assets. Management should evaluate the costs versus the benefits of further segregating these duties or adding monitoring or other compensating controls.

Management's response – We agree that segregation of duties enhances controls, but we feel that the cost of additional personnel to achieve this is not justified due to the controls in place through the payroll system and those imposed by management. Additional personnel would be needed since only two of the three payroll employees can complete a payroll and one of them must complete the payroll when the other one is out.

2010 STATUS (Reported by the Director of Finance) – No Progress. We still agree that while additional personnel would provide additional delegation of duties the cost of adding that personnel would not justify the cost.

4. GRANTS

During our testing of the Capitalization Grants for Drinking Water State Revolving Funds, we noted the City was required to follow state-imposed procurement regulations as well as additional procurement guidelines required by the Louisiana Department of Health and Hospitals (the state agency that passed the funds to the City). The additional guidelines included adding an Equal Opportunity in Employment clause in the invitation for bids, which was not followed. We recommend that the City's procurement office ascertain whether or not there are any additional state-imposed procurement requirements on a project that is funded with federal dollars being passed through the State of Louisiana.

Management's response – The funding source for the project did not include the Louisiana Department of Health and Hospitals funding when it was originally bid. The funding source was changed at a later date, which caused the non-compliance. We will ensure that future bids contain all compliance requirements.

2010 STATUS (Reported by the Director of Finance) – Partially Complete. The purchasing department has been working to make sure that all necessary documentation and guidelines are included in future bid documentation.



5. ONLINE BANKING ACCESS

During our routine audit tests, we noted that four former employees had access to view electronic data interchange account activity. We recommend that access to online banking be reviewed periodically to ensure that viewing rights are provided only to current employees who need access to perform their job function.

Management's Response – Periodic reviews of personnel with access to online banking will be done to ensure that only appropriate personnel have access.

2010 STATUS (Reported by the Director of Finance) – Complete. All persons not requiring online access to banking have been deleted and it will be checked each time we receive notification that an employee has left the City.

6. CLAIMS REMAINING OPEN FOR EXTENDED PERIODS

During our review of the actuary's report on estimated outstanding liabilities, we noted that the general liability had open claims dating back to 1993 and the auto liability had old outstanding claims as well. The City should periodically review the list of open claims to determine whether there is any unusual activity in its claims management practices and whether action needs to be taken to get the matters resolved. Active monitoring of the claims could potentially reduce the City's recorded liability.

Management's response – The City will continue to monitor open claims in an effort to reduce its recorded liability.

2010 STATUS (Reported by the Director of Finance) – Partially Complete. Management agrees that older claims do exist on our outstanding list and we will continue to work on these claims to reduce their number.

INFORMATION TECHNOLOGY

7. INFORMATION TECHNOLOGY

During our review of the City's information technology (IT) department and its policies and procedures, we noted that in the next few years a high percentage of key IT staff will be available for retirement. The current technology in place can make finding qualified applicants with the appropriate skill sets difficult. New staff will need the guidance and instruction of current staff to aid in the transition.

Management's response – The IT department has been discussing the retirement issue amongst themselves and with senior management for quite some time, trying to figure out how to make this happen with as little impact on the City as possible. One of the ways that the department knows to lessen the impact would be to hire/promote staff



now so that the department could get them trained before any of the senior personnel leave/retire. It would take changes in the budget process and the position roster to allow for this.

First, the salaries need to be adjusted to a level that allows the City to be competitive in the open market for professional IT employees. Then, IT would need some additional positions either created or added. If this were done now, or as soon as possible, it would give the department time to recruit additional staff and allow the current staff to train the new hires. Then, as employees start retiring, the department would delete the old/vacant positions and/or figure out what the correct manning level should be to handle the workload at that point. The existing staffing level is too low now to handle the workload that the department currently has. The department has been losing positions steadily since the late 1990s to meet target budgets and yet the workload level has steadily increased.

Another option that has been discussed would be to look at outsourcing some support issues and keep some functions in-house.

2010 STATUS (Reported by the Data Services Administrator) – No Progress. In 2010, two senior level personnel retired. One was replaced from within. The other position will not be refilled at the same level/position. I. T. will replace the open position with another, lower paid position. I. T. Operations Manager will be replaced with an administrative position to help with all the administrative duties which should help free up time for a few of the senior managers to do their normal work. The other position – Systems Integration Manager was filled by a Senior Programmer/Analyst inside of I. T. and then this position was filled from outside the City. This position is now working with the personnel in the LAN (Local Area Network) area to help with the work load in their area.

SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)

8. ENERGY EFFICIENCY CONTRACT COMPLIANCE

The Office of the Legislative Auditor alerted the City that a possible violation of the Louisiana public bid law might have occurred concerning an energy efficiency contract between the City and its energy efficiency contractor because the contract included a "stipulated savings" clause without any measurable and verifiable guarantee of savings. While the initial contract between the City and the contractor was signed and was effective prior to the law adding an amendment for the "stipulated savings" clause to include measurable and verifiable guarantees of savings, noncompliance of the law has yet to be officially determined. Contract revisions are in process between the City and the contractor to revise the "stipulated savings" clause. We recommend these revisions to the contract, if any, be performed as soon as possible to ascertain that the contract follows all Louisiana public bid law requirements.



Management's response – The original energy efficiency contract law did not contain a requirement for independent third-party verification of proposals for energy savings or for subsequent annual measurements and review of the savings. Since the inception of the contract, the contractor has monitored the amount of energy savings as outlined in the contract and submitted quarterly and annual reports to the City. After reviewing the recommendations contained in the Legislative Auditor's summary for energy efficiency contracts (revised January 5, 2010) and other information, beginning in 2010, the contractor has agreed to amend the current contract to include monitoring and review of all guaranteed savings, which information can be subject to verification by an independent third party. The City endeavors to comply in all respects with the requirements of state law relative to execution and operation of energy efficiency contracts.

2010 STATUS – (Reported by the City Attorney and Director of SPAR) – No Progress.

The original energy efficiency contract has not been amended to add language regarding monitoring and third party verification of guaranteed savings. The City will resume discussions with the contractor regarding possible amendments to the 2004 contract to incorporate current requirements of state law. An update will be provided within the next ninety (90) days on the progress of the discussions.

It is important to note that despite the absence of independent third party verification language in the current agreement, energy savings are currently being monitored by the contractor and, in accordance with requirements of current law, the City has been compensated when energy savings are not met.

B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINANCE

1. FINANCIAL REPORTING

Item: 09-01

Criteria or Specific Requirement: The annual audited financial statements of the City are required to be completed and submitted to the Louisiana Legislative Auditor within six months of the City's year-end or June 30, 2010.

Condition Found: The audited financial statements were not completed by June 30, 2010.



Effect: Noncompliance with state law regarding financial reporting.

Cause: Complete information was not available in a timely manner to allow the preparation and audit of the financial statements within the time period required.

Recommendation: We recommend the City take the appropriate steps to ensure all financial information is prepared timely to allow the City to meet the legal deadline for financial reporting.

Management's Response: Management concurs with the finding and recommendation. Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

2010 STATUS (Reported by the Director of Finance) – Partially Complete.

Management agrees the financial statements need to be completed in a timely manner and every effort will be made to accomplish this in 2011.

C. PASSENGER FACILITY CHARGE PROGRAM

FINANCE

1. FINANCIAL REPORTING

Item: 09-01

Criteria or Specific Requirement: The annual audited financial statements of the City are required to be completed and submitted to the Louisiana Legislative Auditor within six months of the City's year-end or June 30, 2010.

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Cause: Complete information was not available in a timely manner to allow the preparation and audit of the financial statements within the time period required.

Recommendation: We recommend the City take the appropriate steps to ensure all financial information is prepared timely to allow the City to meet the legal deadline for financial reporting.



IAR 230211-02
June 30, 2011

Management's Response: Management concurs with the finding and recommendation. Management will request information needed from outside sources well in advance of year-end and provide them with target dates for completion.

2010 STATUS (Reported by the Director of Finance) – Partially Complete.

Management agrees the financial statements need to be completed in a timely manner and every effort will be made to accomplish this in 2011.

Prepared By:

Tamika Ford
Staff Auditor

Approved By:

Leanis L. Steward, CIA, CPA
City Internal Auditor

TF:lp

c: Mayor
CAO
City Attorney
City Council
Clerk of Council
External Auditor
Director of Finance
Director of Community Development
Data Services Administrator
Director of SPAR