

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

FOLLOW-UP ON SPECIAL REPORT ON FINANCIAL ADVISOR PAYMENTS

INTERNAL AUDIT REPORT 60012-01

February 15, 2012





The Council
City of Shreveport

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February 15, 2012

Councilman Sam Jenkins
Chairman, Shreveport City Council

Dear Councilman Jenkins:

Subject: IAR 600012-01 - Follow-Up on Special Report on Financial Advisor Payments

Attached please find the report mentioned above. Management's current status on implementation of recommendations is included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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**FOLLOW-UP ON
SPECIAL REPORT ON
FINANCIAL ADVISOR PAYMENTS
IAR 600012-01**

OBJECTIVES

We have completed a follow-up on the Special Report on Financial Advisor Payments. This work was completed as a result of a request from the Audit and Finance Committee of the City Council. The primary objective was to provide the Audit and Finance Committee with a status of implementation of recommendations previously made by the Internal Audit Office for the Special Report on Financial Advisor Payments dated December 8, 2011.

SCOPE AND METHODOLOGY

We conducted this follow-up audit in accordance with generally accepted government auditing standards, except that a peer review has not been performed, and included such test of procedures and controls as considered appropriate. 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. General follow-up procedures included:

- discussions with appropriate personnel;
- obtaining and reviewing documentation provided by management regarding the status of implementation of recommendations;
- assessing the progress of implementation.

The scope of the follow-up included obtaining a current status from management for the recommendations made in the report, along with any supporting documentation.

BACKGROUND

The City of Shreveport and Grigsby & Associates, a financial advisory services entity, have an agreement dated December 1, 2007. Under the agreement, the financial advisor provides financial advisory services related to bond issuance and other special services. Our previous work determined that the financial advisor had been paid approximately \$1.1 million since inception of the contract.

Our initial report also identified three primary issues regarding the payments made to the contractor that should be addressed by management. Those areas included: improving controls over contractor invoicing, billings, and payments; designating a project manager to provide administrative oversight of the contract; and simplifying and clarifying contract language regarding compensation.



At the Audit and Finance Committee meeting on December 13, 2011, the Committee directed the Internal Audit Office to follow-up on the status of recommendations made for the Special Report on Financial Advisor Payments and report to the Committee within 60 days. This report covers the result of that work.

SUMMARY OF RESULTS

We express appreciation to the Chief Administrative Officer for the prompt cooperation and assistance provided during this follow up. A summary of the implementation progress for the three issues follows. The recommendations from the initial report are presented, followed by the current status as presented by management, and finally, internal audit's assessment of the progress.

1. REVIEW OF CONTRACT PAYMENTS

Recommendation:

- ◆ The City should request the financial advisor provide itemized detail invoices to the Accounting Department with verifiable expenses and fees and the City should maintain all invoices.
- ◆ The term "bond transaction" should be clearly defined in the contract and fees should be calculated consistent with this definition.
- ◆ Invoices should always include detailed descriptions of services, including hours and rates.
- ◆ If discounts are provided, they should be clearly indicated on the invoice.
- ◆ In addition, applicable receipts and other appropriate documentation for out-of-pocket costs should be requested by the Administration. The out-of-pocket costs should not exceed \$10,000 per transaction. Also, the annual maximum payment of \$180,000 should not be exceeded.
- ◆ Management should reconcile the overpayments and underpayments.

Current Status (as presented by the Chief Administrative Officer): Management has communicated to the financial advisor the requirements for receipts and detailed listings going forward. Additionally management presented to Internal Audit a proposed draft "Amendment to the Agreement with the Financial Advisor" that has been forwarded to the financial advisor. The proposed draft amendment includes the following language addressing detailed invoices and billings:

"Consultant shall prepare and provide to City a detailed outline of the work or services to be performed hereunder, a chronology of the work, and if applicable to the engagement, a reasonable estimate of the billable hours required to perform the work or service prior to performance of any work or service hereunder."



Additionally, another section of the proposed draft amendment includes the following language:

"All invoices or other requests for payment shall be accompanied by original or certified copies of paid itemized invoices or receipts, canceled checks, payroll, time and attendance records, contractual documents, and such other information and/or documentation which may reasonably be requested by City from time to time throughout the term of this Agreement for services performed hereunder by Consultant."

The proposed draft amendment also contains the following language regarding clarifying the term bond transaction.

"For purposes of this Agreement, the term "bond transaction" as used in Exhibit "C" and elsewhere in this Agreement shall be defined as the total (aggregate) amount of bonds issued for each debt issuance transaction authorized by the Shreveport City Council, regardless of whether such transaction is taxable or tax-exempt, fixed rate, variable rate, negotiated or a competitive transaction or, divided among multiple propositions."

As to the reconciliation, it has been slowed a bit by the Finance Department doing all of the normal closeouts and "13th month" activity on the city's books. Management is proceeding based upon the City Attorney's opinion regarding the most recent bond sale as one transaction and a review of "core" and "special services" payment schedules of the contract as they review all invoices and payments. Management expects that process to be complete within the week and will provide Internal Audit with the final recap upon completion.

Internal Audit Assessment: In Progress. Management has drafted an amendment to the contract that includes revised language strengthening controls over invoicing, billings, and payments and has forwarded it to the contractor for review. The reconciliation of payments is in process.

2. RECORDKEEPING AND CONTRACT MONITORING/PROJECT MANAGER

Recommendation:

For future bond payments made to the financial advisor, management should develop a more efficient and effective system to track payments due and paid to the financial advisor. As stipulated in the contract with the financial advisor, management should assign a project manager the responsibility for reviewing, approving, and maintaining financial advisor invoices before payment is made by the third party trustee and the City. This system should also be used to track payments to other service providers such as attorneys, trustees, underwriters, etc. in order to trace overall bond costs to individual vendors.



Current Status (as presented by the Chief Administrative Officer): The Director of Finance has been designated the Project Manager for purposes of maintaining all records, reviewing and processing all invoices and reconciling any outstanding issues. The proposed draft amendment to the contract includes the following revised contract language:

Project Managers

“The following City official and representatives are designated as Project Managers for purposes of this Agreement:

- Mayor
- Chief Administrative Officer or his designee
- Finance Director or his designee

Any and all duties or responsibilities required or authorized to be performed hereunder by the Project Manager shall be performed by the Finance Director or his designee.”

Internal Audit Assessment: Complete. A project manager has been assigned.

3. CONTRACTUAL COMPENSATION ARRANGEMENTS

Recommendation:

As suggested by the MSRB (Municipal Securities Rulemaking Board), we recommend the financial advisor and city management discuss these potential conflict of interest issues to ensure that the City understands the conflicts associated with the various forms of compensation.

Additionally, the City should refine the compensation arrangements included in the contract with the financial advisor and determine the most cost-effective compensation arrangement for the City that will clarify and simplify billings by the financial advisor.

Current Status (as presented by the Chief Administrative Officer): Management has developed and forwarded to the financial advisor a draft proposed amendment to the contract that will address many of the unclear processes and procedures of the original contract. Included in that proposed contract reviewed by Internal Audit is revised contract language that states the following:

“Consultant and its employee(s) shall promptly observe and comply with applicable provisions of federal, state and local laws, rules and regulations which govern or apply to the services rendered by Consultant hereunder including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended.” **<NOTE>** The MSRB is responsible for overseeing compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Management stated they are assessing revisions to the previous compensation terms.



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February 10, 2012

Internal Audit Assessment: In Progress. A draft amendment to the contract provided to Internal Audit currently being reviewed by the contractor includes additional language regarding compliance with the Dodd-Frank Act. This law addresses the fiduciary duty of the contractor.

Prepared By:

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Approved By:

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