

**CITY OF NEW ORLEANS
OFFICE OF INSPECTOR GENERAL**

FISCAL YEAR 2010



AUDIT and INSPECTION PLANS

LEONARD C. ODOM
INSPECTOR GENERAL

525 St. Charles Avenue, New Orleans, LA 70130-3409

Published: August 25, 2009



Office of Inspector General
City of New Orleans
525 Saint Charles Avenue
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August 25, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, LA 70112

Arnie Fielkow, Council President
City Hall, Room 2W40
1300 Perdido Street
New Orleans, LA 70112

Jacquelyn Brechtel Clarkson, Council Vice-President
City Hall, Room 2W50
1300 Perdido Street
New Orleans, LA 70112

Brenda Hatfield, Ph.D., Chief Administrative Officer
City Hall, Room 9E06
1300 Perdido Street
New Orleans, LA 70112

Fr. Kevin Wildes, S.J., Ph.D.
Chair, New Orleans Ethics Review Board
6363 St. Charles Avenue
New Orleans, LA 70118

Re: Office of Inspector general Fiscal Year 2010 Audit and Inspection Plans

Dear Mayor Nagin, Councilmember Fielkow, Councilmember Clarkson, Dr. Hatfield and Fr. Wildes:

This letter transmits the Office of Inspector General's (OIG) *Fiscal Year 2010 Audit and Inspection Plans* (Plans). For your convenience, we have incorporated our strategy for inspections into the Plan.

August 25, 2009

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The Plans contain audits and inspections that are discretionary, required by law, or identified by District leaders, managers, and other stakeholders. Specifically, our Plans provide for conducting reviews that are designed to assess the results of various budgeted programs, which includes the economy and efficiency of actions taken to attain those results. The Plans include the OIG initiatives for audit and inspection coverage that will focus on areas that present risks to maintaining the City's fiscal integrity and continued financial strength.

In formulating the Plans, we identified agencies and programs considered material in terms of service delivery and fiscal impact. Additionally, we considered risk factors, which include the following:

- A. material internal control weakness;
- B. potential fraud, other criminal acts, or improper practices;
- C. substantial violations of program directives or poor management practices that could seriously affect program accomplishment;
- D. major inefficiencies in the use of resources or management of operations; and
- E. significant program performance issues.

The OIG will play a role in assisting City Management in addressing areas of risk.

The reality of having limited resources and unknown priorities arising from unexpected issues throughout the year will determine how many audits or inspections we may initiate and complete. City managers may use this Plan to bring actions to improve operational efficiencies before our audits or inspections.

If you have any questions or desire additional information, please contact Leonard C. Odom, Inspector General, at (504) 681-3200.

Sincerely,



Leonard C. Odom
Inspector General

Enclosure
LCO/bb

**CITY OF NEW ORLEANS
OFFICE OF INSPECTOR GENERAL**



**AUDIT and REVIEW
ANNUAL AUDIT PLAN
2009 - 2010**

Neely Moody

**First Assistant Inspector General
For Audit and Review**

Eileen Andrus

Deputy of Audit and Review

525 St. Charles Avenue, New Orleans, LA 70130-3409

Published: August 25, 2009

INTRODUCTION: In an effort to sharpen the focus of our audits/reviews, the New Orleans Office of Inspector General (NOLA OIG) continuously assesses those programs and activities that pose the greatest risk to the City and its component entities. The vast majority of our activities is discretionary and often addresses concerns of elected officials, activity personnel and members of the community. City officials and other stakeholders have emphasized their continuing commitment to avoid risks that could trigger revenue shortfalls, increased budget deficits, misuse of funds, and management inefficiencies.

This Plan includes the NOLA OIG's initiative for audit/ review coverage that will focus on areas that present the highest risks to maintaining the City's fiscal integrity and continued financial strength. In assessing these risks, our audit/review plan has been designed to concentrate on four strategic themes that will govern our operations and assist us in achieving our mandated mission. These themes are:

- I. Revenue Enhancement
- II. Spending and Efficient Use of Resources
- III. Public Safety
- IV. High Performing Government

Our plan is ambitious and shaped in part by the concerns raised by the City's leadership, concerned citizens and our own internal risk analysis. Accordingly, our Plan has incorporated suggestions from the Mayor's office. (See Exhibits A and B). The listing of a particular audit or review in this plan does not necessarily mean that problems exist or guarantees that a review or audit will be undertaken. Limited resources and unknown priorities arising from exigencies throughout the year often determine which audits or reviews can ultimately be initiated in any fiscal year. Additionally, this plan is designed to address audit/review areas that transcend a given fiscal year until identified risks facing the City are mitigated. It should be emphasized that the fiscal year ending 2010 will be the first year that the Audit and Review Section of the NOLA OIG will be fully staffed for the entire year. 2010 also "marks" the first year that follow-up on previous audits/reviews are incorporated into our audit/review plan. For this reason the following plan is segregated into three main areas:

- I. Planned 2010 Audit/Review Engagements.
- II. Audits/Reviews in Progress.
- III. Follow-up on Prior Year's Corrective Action Plans on completed audits/reviews.

In an effort to provide an understanding of our audit/review process a brief summary of the audit/review process is outlined below. This summary is included to allow for a further explanation of the status designations provided in the plan.

Each item in the plan will be categorized into one of the following areas:

THE AUDIT/REVIEW PROCESS

An established sequence of events occurs for every audit/review conducted. These steps include Planning, Fieldwork, Reporting and Follow-up. Each of these areas is outlined in more detail below:

PLANNING:

Preliminary Research

Prior to preparing the arrangement letter, research is conducted to discover what types of reports, studies and or audits/reviews have previously been done on the activity outlined in the audit/review plan. This step assists us in preventing the duplication of effort between the NOLA OIG and other services previously contracted by the City.

Arrangement Letter

Prior to the start of fieldwork in the audit/review process we send the head of the activity a letter announcing the audit/review. The letter includes the title of the audit/review effort and a project number as assigned by the NOLA OIG's Audit and Review Section. This letter also describes the objectives, scope and planned start date. The letter further explains that an entrance conference will be held prior to the start of any fieldwork to inform appropriate management officials about the audit. Working space requirements may also be indicated along with specific information needs to be prepared by the activity.

Entrance Conference

At the beginning of each audit/review, an informal entrance conference is held with management officials whose activity is being audited/reviewed. It is at this entrance conference that the auditors explain the purpose of the audit/review, the objectives, the scope, the audit/review methodologies and the reporting process. During this entrance conference, we also encourage management officials to bring to the attention of the audit/review team members any concerns, ideas or special circumstances concerning the matters to be audited or reviewed.

FIELDWORK:

Audit fieldwork begins with the survey phase. In the survey phase, information is obtained on the program and the activity or function. Initial tests are developed which coincide with our audit/review objectives to discern any vulnerable areas on which we need to focus our audit/review efforts. After we complete the survey work, we will determine whether there is sufficient basis for additional audit/review work.

Once such a determination is made, we perform a second phase of fieldwork which is the audit/review execution phase. During this phase extensive reviews of records and documentation are undertaken and detailed tests are performed to determine whether programs and systems are functioning as intended. The auditors will also begin to develop their findings and recommendations as a result of information gathered during the second phase. Audit/review fieldwork often requires the cooperation of activity personnel to answer questions and to provide access to original records, documentation and files. We make every attempt to limit requests for information to the level necessary to complete the audit/review.

REPORTING:

Communication of Results to Activity Personnel

Management is kept informed of any deficiencies and/or weaknesses we identify during the course of our audit/review. Activity personnel are alerted to issues that need to be immediately brought to their attention.

Activity personnel may also receive audit memoranda such as a Management Alert Report (MAR) or discussion drafts which both need the activity personnel's immediate attention or action prior to the final audit/review release. This memorandum serves to 1) provide the activity personnel with the opportunity to voice concerns and provide additional information; 2) reduce misunderstandings and inaccuracies; and 3) allow agencies to correct problems as they are identified.

Another discussion draft that may be issued is a Management Implication Report (MIR). This report may be issued during or at the completion of an audit/review. In contrast to the MAR, which is directed at a certain activity, the MIR outlines a problem that affects several activities and/or departments.

Both the MIR and the MAR are issued in addition the audit/review report.

Exit Conference

An exit conference is conducted with activity personnel to summarize issues previously brought to management's attention; as well as, the findings and recommendations we may have developed. During this conference, deficiencies and corrective actions are discussed. Management is encouraged to take immediate corrective action.

Corrective actions taken prior to the draft release date of the report are included in the report.

REPORTING (continued):

Draft Audit Reports

After considering any comment and concerns raised at the exit conference, we prepare a draft of the report for comment and review by the activity personnel. This report is sent to activity personnel responsible for ensuring implementation of the corrective actions. Usually, we request the activity personnel to respond in writing to a draft report within 30 work days of its issuance. The reply should include the actions taken and planned, target dates for any uncompleted actions, and the reasons for any disagreements with the findings or recommendations presented in the draft.

Final Report

After carefully analyzing management's response to the draft report, we incorporate management's response into the body of the report and include the full text of the reply in an appendix to the report. We will also send copies of the final report to the activity personnel, the Mayor, the Council President, the Council Vice-President, the Chief Administrative Officer, and the Ethics Review Board. Final reports are also published on the OIG website located at www.nolaog.org.

Resolution Process

Prior to issuing the final report inclusive of management comments, the OIG will make every reasonable effort to resolve a disagreement with activity personnel responsible for acting on report recommendations. If an agreement is not attainable, the final report will be issued and activity personnel will be given another opportunity to comment on the final report. If comments to the final report indicate a continuing disagreement with the report's findings or recommendations, the issue will be resolved at the Inspector General level in conjunction with the Mayor, City Council President, or Independent Agency Director.

FOLLOW-UP:

Audit Follow-up

Once a report is finalized, the Audit and Review Section is responsible for subsequent monitoring of the progress being made on the corrective action plan as provided by the activity personnel. This step in the process is a necessary step to "hold" activity personnel accountable for the corrective actions submitted in the final report.

2010 AUDIT AND REVIEW PLAN

I. PLANNED AUDITS/REVIEW ENGAGEMENTS

OIG-A&R REVENUE ENHANCEMENT

Performance Audit of Hotel/Motel Taxes Status: 2010

Objectives: This audit will evaluate the propriety and completeness of amounts paid to the City for hotel and motel taxes.

Justification and Background: The City assesses a tax of 4% of gross rentals less allowable deductions for each hotel/motel room rented within the City limits. An additional charge is assessed for monthly occupancy which ranges from \$1.00 to \$.50 per sleeping room per night. The amount assessed depends on the capacity of the facility. The City has expressed concerns that the amounts being remitted are understated.

Review of Sanitation Fees as Collected by the Sewer and Water Board

Status: 2010

Objectives: This audit will evaluate the propriety and completeness of amounts remitted to the City by the Sewer and Water Board and the accuracy of the billings to Sanitation customers.

OIG-A&R REVENUE ENHANCEMENT (*continued*)

Review of Sanitation Fees as Collected by the Sewer and Water Board
(*continued*) **Status: 2010**

Justification and Background: Sanitation and curbside recycling composes \$ 17 million in annual service charges for the City as outlined in the 2009 budget. During our Sanitation Audit we noted that the amounts being assessed by the Sewer and Water Board were not being reconciled to a listing of actual Sanitation customers. As the City's collection agent for sanitation fees, the Sewer and Water Board bills and collects sanitation fees for the City; however, there is no verification of the accuracy of the number of customers being billed.

Performance Audit of Municipal Court Fees (2005-2009) Status: 2010

Objectives: This audit will evaluate the propriety and completeness of amounts paid to the City by the Municipal Court System. The audit will focus on completeness and accuracy of the amounts remitted and will explore additional revenue sources.

Justification and Background: The City receives Municipal Court fines and costs in the amount of \$ 1.2 million annually. The City has expressed concerns as to the accuracy of these amounts.

OIG-A&R SPENDING AND EFFICIENT USE OF RESOURCES

Review of the City's Master Payroll List as Compared to the Active Payroll Register – (2005-2009) Status: 2010

Objectives: This review is designed to review the accuracy of the active payroll files as compared to the master list of employees and explore any anomalies noted in our comparisons by utilizing data extraction and analysis software. This continuous audit will be conducted each quarter throughout 2010.

Justification and Background: The City's 2009 budget reveals a workforce of approximately 5200 employees. The impact of errors in this area of the City's accounting system could be staggering to the City's total personal services expenditures which were budgeted at 277.9 million in 2009.

OIG-A&R SPENDING AND EFFICIENT USE OF RESOURCES (*continued*):

Performance Audit of the Criminal Sherriff's Inmate Charges Status: 2010

Objectives: This audit will determine the accuracy and propriety of inmate charges paid by the City to the Criminal Sherriff; compare the City's inmate charges with those of other City's of similar size; determine booking responsibilities; and evaluate the possibility of transfers to the NOPD.

Justification and Background: The Criminal Sherriff's office currently charges the City a flat fee of \$ 22.39 per inmate per day for municipal prisoners. In addition to this flat fee the City is also required to pay Court Fees which are "capped" at \$ 2,442,975 and medical fees "capped" at \$ 3,200,000. In 2009 this expenditure was originally budgeted for \$ 22,766,566. The City is seeking a more efficient and cost effective manner to house prisoners than the current method.

OIG-A&R SUPPORT SERVICES:

Investment Compliance Audit of the Firemen's Pension Fund

Status: 2010

Objectives: Perform a compliance audit of the Firemen's Pension Fund to determine proper management of investments in accordance with the Board's policies. We will also review the types of investments entered into over the past four years to determine if the risks taken were necessary and approved by the Board.

Justification and Background: The City's Firemen's Pension Fund has experienced substantial losses in the past few years as a result of investing in "risky" investment vehicles. This audit will review the investment policy of the Fund and compare that policy to State law and the board's intent.

OIG-A&R PUBLIC SAFETY

Review of Special Operations Division (SOD) Building Purchase and Security

Status: 2010

Objectives: Review of the purchase of the SOD building and existing controls in place to safeguard ammunition and explosives located near the Wal-Mart parking lot on Tchoupitoulas.

Justification and Background: The building currently being utilized by the NOPD SOD was purchased for \$ 5.5 million dollars after Katrina. There have been a reported additional \$3.3 million spent to rehabilitate this building.

We also noted during our Vehicle Fleet audit that there are weak controls over the items located in the SOD and the nature of the items on the building may pose public safety issues if not properly safeguarded. I

II. IN-PROGRESS AUDIT/REVIEW ENGAGEMENTS

Performance and Compliance Audit of Major Sanitation Contracts

Status: Fieldwork Stage

Objectives: The objective of this performance and compliance audit is to evaluate the City's approval and monitoring process of three contracts entered into by the City. The three contracts were entered into with SDT Waste and Debris Services, L.L.C.; Richards Disposal, Inc.; and Metro Disposal, Inc. Compliance with the terms of the contract will also be reviewed during this audit.

III. FOLLOW-UP ON 2008-2009 CORRECTIVE ACTION PLANS

These audits/reviews were completed during 2009 and will require "follow-up" and review of the activity's progress as outlined in their respective corrective action plans.

Follow-up on A&R-20080004 Interim Report on the Management and Administrative Vehicle Fleet Review; 2009001 NOPD Vehicle Fleet Performance Review; 20090002 Aviation Board's Performance Review; 20090004 The Cost and Management of Passenger Type Vehicles of the Orleans Parish Criminal Sheriff's Office Performance Review; A&R 20090005 Civil Sheriff Vehicle Fleet Performance Review; and MIR-09-A&R-001 Management of the Administrative Vehicle Fleet Performance Review.

Due to the systemic nature of the vehicle fleet reviews, the Public Works Administrative Performance Review (A&R 2009007) and District Attorney's Performance Review (2009 Plan) will be conducted in conjunction with the follow-up of the above mentioned completed reviews.

Follow-up on A&R-20090006 Audit of Sanitation Administration.

City of New Orleans Office of the Inspector General

Inspections and Evaluations

INTRODUCTION: The City of New Orleans Office of Inspector General has responsibilities that have a different focus from audit and investigations. This additional work, conducted by the Inspections and Evaluations (I&E), includes inspecting, evaluating, reviewing, studying, and/or analyzing government operations and programs for the purposes of providing information for decision-making and of making recommendations to improve programs, policies, and procedures. I& E will provide City management with objective, thorough, and timely inspections and evaluations and recommendations in well written reports. The objectives of the reports include providing a source of factual and analytical information, improving government accountability, and promoting the interests of the taxpayers of the City of New Orleans. The inspections and evaluations will be conducted in accordance with the Principles and Standards for Offices of Inspector General (Green Book).

City of New Orleans

Office of the Inspector General

Annual Inspections and Evaluations (I&E) Plan 2010

OIG-I&E

Status: 2010

Evaluation of the City's use of bond proceeds

Objective: The inspection objective is to review and evaluate the use of bond proceeds to fund the operating budget and to review how the bonds are used for public works projects, capital projects and other needed infrastructure.

Justification and Background: The City sells bonds, but doesn't use the proceeds on specific projects for many years. The City invests the bond money and then deposits the interest in the Operating Budget, essentially living on borrowed money and increasing the City's debt burden. The City had \$15 million in interest income in the 2008 Operating Budget. The value of the bond proceeds declines over time due to inflation and the City has less money to invest in infrastructure.

OIG-I&E

Status: 2010

Capital Budget – Asset Management for City Buildings

Objective: To conduct a review of the City's current budget policies and practices and to develop recommendations based upon recognized and accepted best practices for improving the effectiveness of the budget process. A review of the City's current budget process will be presented.

Justification and Background: Section 3-117 of the Charter provides for a City of New Orleans Capital Program and Capital Budget for all permanent physical improvements. This project is defined through a series of meetings with Capital Projects and Property Management to define issues with deferred maintenance of buildings and present general best practices recommendations for computer technology and budgeting for a maintenance program. This work will be done in conjunction with the new City Plan and the City Planning Commission. This project will also answer some questions about ORDA funding for capital projects.

OIG-I&E

Status: 2010

Title Soft-Second Mortgage

Program Objective: This objective of this inspection is to review and evaluate the City's soft-second mortgage program.

Justification and Background: This apparently successful program was discontinued mid-stream after funds were reallocated. Potential homeowners might have been left in a precarious position. This project is sufficiently limited to be manageable and it deals with the City's recovery programs.

FOLLOW-UP ON 2008-2009 CORRECTIVE ACTION PLANS

OIG-I&E

Status: Pending

Re-Inspection Professional Services Contracts

Objective: The re-inspection objective is to verify the implementation of recommendations of the initial review (OIG I&E 09003).

Background: This would extend the professional services contract procurement review into the realm of contract management. We would review contract management procedures, billings, payments, contract amendments, cost containment, inspections of completed work, and related for major professional services contracts awarded by the City and the City Council.

OIG-I&E

Status: Pending

Inspection of Installation of Crime Surveillance Cameras

Objective: The re-inspection objective is to verify implementation of recommendations and actions taken by the City in response to our initial inspection report (OIG No. 09-001), issued March 3, 2009.

Background: The OIG re-inspection process includes follow-up with the City on findings and recommendations. This includes a review of current working cameras and a scheduled visit to a District police station for a spot check to verify exactly how many cameras are working. We also will get a copy of the contract and

invoices for repairs and find out how much the City has spent to repair and maintain the cameras since the report came out.

OIG-I&E

Status: Pending

Inspection of the City Budget Process

Objective: The re-inspection objective would be to critically review the proposed 2011 City Budget for compliance with findings recommendations in our initial inspection report (OIG I&E 09002), issued in the fall of 2009.

CITY OF NEW ORLEANS
OFFICE OF INSPECTOR GENERAL
525 St. Charles Avenue
New Orleans, La 70130-3409
504-681-3200



July 23, 2009

The Honorable C. Ray Nagin
Mayor, City of New Orleans
1300 Perdido Street
New Orleans, LA 70112

Dr. Brenda G. Hatfield
Chief Administrative Officer
1300 Perdido Street
New Orleans, LA 70112

The Honorable Arnie Fielkow
President, New Orleans City Council
1300 Perdido Street
New Orleans, LA 70112

The Honorable Jacquelyn Brechtel Clarkson
Vice President, New Orleans City Council
1300 Perdido Street
New Orleans, LA 70112

Re: Office of Inspector General Fiscal Year 2010 Audit and Inspection Plans

Dear Mayor Nagin, Dr. Hatfield, President Fielkow and Vice President Clarkson:

The Office of Inspector General is developing the Audit Plan and the Inspection Plans for Fiscal Year 2010. As part of the plan development, we are requesting that you identify areas for audit or for inspections to be considered for the 2010 Plan. We respectfully request your recommendations by Friday, August 14, 2009. A brief description or a short reason for nominating a particular program will be helpful.

Please do not hesitate to contact me if you have any questions.

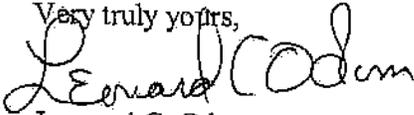
Very truly yours,

Leonard C. Odom
Interim Inspector General

Exhibit "A"

CITY OF NEW ORLEANS

C. RAY NAGIN
MAYOR

BRENDA G. HATFIELD, Ph.D.
CHIEF ADMINISTRATIVE OFFICER

August 7, 2009

Mr. Leonard Odom
Interim Inspector General
Office of the Inspector General
525 St. Charles Avenue
New Orleans, LA 70130-3409

Dear Mr. Odom:

Thank you for requesting the City administration's recommendations for audits or inspections to be considered for the 2010 Plans of the Office of the Inspector General. After consultation with Mayor Nagin and administrative staff, the following are recommended:

1. Hotel/Motel Taxes – Audit as recommended by former IG Robert Cerasoli
2. Criminal Sherriff's Inmate Charges
 - Comprehensive audit of inmate charges to the City
 - Comparative inmate charges with other jurisdictions in the region
 - Assessment of booking responsibilities, including consideration of transfer to the New Orleans Police Department in an effort to garner savings, time and accountability
3. Municipal Court Fees – Audit of funds paid to the City and recommendations for additional revenue
4. Clerk of Court \$1.6M Escrow Funds – Audit transfer to the City

Please contact me if you have any questions or wish to meet and discuss further.

Sincerely,



Brenda G. Hatfield, Ph.D.
Chief Administrative Officer

xc: Mayor C. Ray Nagin



A copy of this report has been made available for public inspection at the Office of Inspector General for the City of New Orleans and is posted on the Office of Inspector General's website at www.nolaog.org. Reference should be made to 2010 Audit and Inspection Plans. If you need any assistance relative to this report, please contact Leonard C. Odom, Inspector General for the City of New Orleans at (504) 681-3200.

REPORT FRAUD, WASTE, AND ABUSE

To report alleged fraud, waste, abuse, or mismanagement relative to City programs or operations, use one of the following methods:

- Complete complaint form on web site at www.nolaog.org
- Write to Office of Inspector General for the City of New Orleans, 525 St. Charles Avenue, New Orleans, LA 70130-3409
- Call the Office of Inspector General for the City of New Orleans at (504) 681-3200