

A Best Practices Assessment of the

NEW ORLEANS REDEVELOPMENT AUTHORITY

Issued July 3, 2013



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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

July 3, 2013

Mr. Jeff Hebert, Executive Director
New Orleans Redevelopment Authority
1409 Oretha Haley Blvd.
New Orleans, Louisiana 70113

Dear Mr. Hebert:

My Recovery Assistance staff have completed a best practices assessment of the New Orleans Redevelopment Authority (NORA). This letter is to inform you of the results and provide you with our recommendations. This assessment was conducted for July 2010 through April 2013 and was substantially less in scope than an audit.

The findings and recommendations presented in this report are intended to provide you with advice in implementing good business practices and ensure NORA's compliance with the Louisiana Constitution and state laws. The findings and recommendations are grouped and presented within the following areas:

- Written Policies and Procedures
- Ethics
- Internal Audit
- Payroll and Attendance Records
- Records Retention and Disposition Policy
- Information Technology/Systems

If you have any questions or need further assistance, contact my Recovery Assistance Services Director, John Morehead, at (225) 339-3800.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

NORA 2013

BACKGROUND

The New Orleans Redevelopment Authority (NORA) is a public body created pursuant to Louisiana Revised Statute 33:4720.55 and resolution of the New Orleans City Council. NORA is governed by an independent 10-member board of commissioners.

NORA has certain powers necessary to carry out the purposes and provisions of R.S. 33:4720.55, including without limitation: redevelopment, renewal, rehabilitation, housing development, conservation, urban beautification, and comprehensive programs for the development of entire city areas or neighborhoods.

NORA's objective is to assist in the removal and redevelopment of residential and commercial blighted properties by returning those properties to productive use. NORA's most notable blight removal programs are:

- Land parcel disposition program (i.e., Louisiana Land Trust and Lot Next Door);
- Community Development Block Grant entitlements;
- Commercial Corridor Lending and Business Investment; and
- Neighborhood Stabilization Phase 2.

We reviewed key components of NORA's organization to determine if best practices developed by the Louisiana Legislative Auditor were used. The following components make up the scope of our review:

- Written Policies and Procedures
- Ethics
- Internal Monitoring
- Internal Audit
- Budgeting
- Financial Statements
- Bank Reconciliations
- Investments
- Accounts Receivable
- Special Funds

- Separation of Duties
- Contracting for Services
- Payroll and Attendance Records
- Records Retention and Disposition Policy
- Information Technology/Systems

Our assessment revealed areas within the Written Policies and Procedures, Ethics, Internal Audit, Payroll and Attendance Records, Records Retention and Disposition Policy, and Information Technology/Systems components that can be improved.

FINDINGS AND RECOMMENDATIONS

Written Policies and Procedures

Written policies and procedures are necessary to establish a clear understanding of what should be done, how it should be done, who should do it, and when it should be done. Written policies and procedures also aid in the continuity of operation and help ensure the procedures meet management's expectations. Through our assessment, we noted the following:

Personnel Policy and Manual - NORA has a written personnel policy, the Employee GuideBook; however, it was last updated in December 2009. Such a handbook is a key control that guides management and staff in personnel matters, helps prevent improper employee behavior, and provides clear, fair, and consistent standards that protect the best interests of NORA.

It is important for an organization to regularly update its policies and procedures. Policies and procedures provide instructions to carry out the organization's objectives and provide methods for compliance with constantly changing federal and state regulations. With outdated instructions, an organization may work in an ineffective and inefficient way and could become noncompliant with government regulations.

Recommendation 1: NORA management should annually review, update, and adopt the Employee GuideBook to ensure that it agrees with current policies, regulations, and expectations.

Management's Response: Management concurred with the recommendation. See Appendix A, page 10.

Ethics Policy - NORA does not have a written ethics policy. A written ethics policy is an informative tool to promote ethics and integrity within the workplace. It is intended to be a central guide and reference for management and employees to base their values and principles. It can also be used to emphasize ethics and to improve how management and staff deal with ethical issues and questions on a daily basis. In addition, it is meant to complement standards, not to be a substitute for them.

A written ethics policy should, among other things, include the following areas:

- Financial conflicts and impartiality;
- Gifts and payments;
- Use of government positions and resources;
- Outside employment and activities;
- Post-government employment; and
- Board of Ethics training requirements.

Recommendation 2: NORA management should develop an official written ethics policy. NORA management should also require annual signed certifications from each employee and board member attesting to his/her understanding of and compliance with the ethics policy.

Management's Response: Management concurred with the recommendation. See Appendix A, page 10.

Internal Audit

An internal audit function is an important control feature to ensure that proper controls are in place to safeguard, manage, and account for assets and ensure compliance with applicable state and federal laws. Through our assessment, we noted the following:

Audit Charter - NORA's Finance Committee and senior management have not developed an audit charter which includes specific functions and responsibilities of the internal audit department. The audit charter should include the following:

- Clearly describe to whom the internal auditor reports to functionally and administratively and describe this process in sufficient detail so all parties will know exactly what is expected. To provide for the independence of the internal auditing department, the internal auditor should report administratively to the executive director and have direct communication with the audit committee.
- Provide that the audit committee must concur with the appointment or removal of the internal auditor (independence is enhanced when this is in place). The audit committee policy statement should include this provision.
- Include specific performance measures for the internal auditing department that will be reported at least annually to the executive director and the audit committee. The audit committee policy statement should include that they will evaluate the performance measures of the internal auditing department annually.
- Provide that the internal auditor submits a periodic activity report to the audit committee. The activity report should include significant audit findings and recommendations, any substantial changes from the approved audit plan, and other information of interest to the audit committee.
- Provide that the internal auditor schedule the nature, timing, and extent of follow-up procedures as part of developing the audit department's audit plan.
- Describe the specific support to be provided to the independent post auditors.

- Require that the internal auditor attend all audit committee meetings. In addition, some meetings should be scheduled without management present. The absence of management provides the internal auditor the opportunity to discuss audit matters in a forum unaffected by pressures from management.
- Include a provision that the audit charter be reviewed by the internal auditor on an annual basis for any significant changes in policies and current audit practices.

Internal Audit Plan Approval - NORA implemented its 2012 internal audit plan; however, it was not approved by the Audit Committee or in this case the Finance Committee who acted as the Audit Committee until April 8, 2013. An internal audit plan is an overall strategy of the internal audit function throughout the year. The scope of the internal auditor's audit work should include all operations where there is a risk of financial exposure, potential for loss, and major changes in operations, programs, systems, and controls. Approval from the audit committee will help ensure all areas of risk have been identified and included in the plan. Also, since audit strategies change from year-to-year, an audit plan should be developed and approved annually.

Recommendation 3: NORA's Finance Committee or audit committee should develop an audit charter that includes, at minimum, the items mentioned above.

Recommendation 4: NORA's Finance Committee or audit committee should annually review the internal audit plan to ensure it covers all risk of financial exposure or potential for loss. The Finance Committee or audit committee should also approve the plan in a timely manner.

Management's Response: Management concurred with the recommendations. See Appendix A, page 11.

Payroll and Attendance Records

Payroll is one of the largest expenditures; therefore, it is important that controls over payroll are in place and working properly. Through our assessment, we noted the following:

Payroll Preparation and Timekeeping - NORA's Department of Finance policies and procedures require time sheets to be signed by the employee and approved by his or her supervisor. However, our review of a sample of 242 employee time sheets revealed the following:

- Three time sheets did not contain either an employee signature or an approval signature.
- One time sheet did not contain an approval signature.
- Fifteen time sheets did not contain an employee signature but were approved by a supervisor.

Recommendation 5: NORA management should strengthen controls over payroll and enforce its own policy to ensure that employee time sheets are signed by the employee and reviewed and approved by the employee's immediate supervisor. When an immediate supervisor cannot review and approve time sheets within the current pay period, another supervisor should review and approve them. The immediate supervisor should review the time sheets as soon as practical to verify accuracy. Any adjustments should be made during the subsequent pay period.

Management's Response: Management concurred with the recommendation. See Appendix A, page 12.

Allocation of Leave to Federal and State Grants - Office of Management and Budget (OMB) Circular A-87 states, in part, that "the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if:

- they are provided under established written leave policies;
- the costs are equitably allocated to all related activities, including federal awards; and
- the accounting basis selected for costing each type of leave is consistently followed by the governmental unit."

During our assessment of NORA's controls, we noted that sick and annual leave was not consistently allocated to grants. NORA provided a leave allocation spreadsheet; however, it did not systematically allocate employee leave to the various grants that each employee worked on.

Recommendation 6: NORA management should develop a system that equitably and consistently allocates leave time to the various federal grants it receives funding from. That system must conform to the requirements outlined in OMB Circular A-87. In addition, NORA management should develop policies and procedures to ensure that its implementation is monitored.

Recommendation 7: NORA management should verify that previous leave allocations were applied correctly. If misallocation of leave is detected, NORA should retroactively make the corrections.

Management's Response: Management concurred with the recommendations. See Appendix A, page 12.

Record Keeping

Records Retention and Disposition Policy - R.S. 44:36 requires public bodies to exercise diligence and care in preserving public records. A records retention schedule is an important part of an organization's document management policies. The schedule safeguards critical information and it identifies which documents are temporary or permanent. However, NORA has not prepared a records retention schedule.

Recommendation 8: NORA management should develop a records retention schedule. Management should ensure that records are retained in accordance with the schedule.

Management's Response: Management concurred with the recommendation. See Appendix A, page 12.

Information Technology/Systems

Information Systems: Physical and Logical Security - According to NORA management, the agency does not have the resources to develop and maintain its own network, so it has partnered with the City of New Orleans to house its network.

NORA management did not enter into a memorandum of understanding with the City of New Orleans delineating the responsibilities of each party.

Recommendation 9: NORA management should enter into a memorandum of understanding with the City of New Orleans that clearly delineates NORA's and the City's responsibility for systems (hardware, software, accesses, network configuration, locations and physical access, backup and recovery, etc.).

Management's Response: Management concurred with the recommendation. See Appendix A, page 13.

Appendix A

Management's Response



JEFFREY P. HEBERT
Executive Director

June 20, 2013

VIA ELECTRONIC MAIL & FIRST CLASS MAIL

Mr. John L. Morehead, CPA
Director of Recovery Assistant and Assistant Legislative Auditor
Office of the Louisiana Legislative Auditor
1600 North Third Street
P. O. Box 9397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Morehead:

The New Orleans Redevelopment Authority (NORA) has received and reviewed the draft of the Recovery Assistance Services report on the Best Practices Review for the period July 1, 2010 through April 30, 2013. NORA's responses to the findings and recommendations are as follows:

Written Policies and Procedures

Personnel Policy and Manual

Recommendation 1:

NORA management should annually review, update, and adopt the Employee GuideBook to ensure that it agrees with current policies, regulations, and expectations.

Management's Response:

NORA will annually review and update its Employee GuideBook to ensure that it is consistent with its current policies, regulations, and expectations. NORA will submit the Employee GuideBook to its Board of Commissioners for adoption.

Ethics Policy

Recommendation 2:

NORA management should develop an official written ethics policy. NORA management should also require annual signed certifications from each employee and board member attesting to his/her understanding of and compliance with the ethics policy.

Management's Response:

NORA concurs with the recommendation. NORA's existing Human Resources Policies and Procedures mandate that each employee complete at least one (1) hour of training on ethics and professionalism.

NORA's current practice is that its employees complete the Louisiana Code of Governmental Ethics training and provide the requisite certification confirming their completion of the training. NORA will ensure that its Human Resources Policies and Procedures include a written ethics policy consistent with the Louisiana Code of Governmental Ethics. It will further require annual signed certifications from each employee and board member attesting to his/her understanding of and compliance with the ethics policy. NORA will submit the official written ethics policy to its Board of Commissioners for adoption.

Internal Audit

Audit Charter

Recommendation 3:

NORA's Finance Committee should develop an audit charter that includes, at minimum, the items mentioned above.

Management's Response:

The internal audit charter has since been approved by the Board at the June 10, 2013 meeting.

Internal Audit Plan Approval

Recommendation 4:

NORA's Finance Committee should review the internal audit plan to ensure it covers all operations where there is risk of financial exposure or potential for loss. The Finance Committee should also approve the plan in a timely manner.

Management's Response:

The internal audit plan is reviewed by representatives of both management and NORA's Finance Committee prior to implementation and approval. NORA will ensure that the internal audit plan is approved in a timely manner.

Payroll and Attendance Records

Payroll Preparation and Timekeeping

Recommendation 5:

NORA management should strengthen controls over payroll and enforce its own policy to ensure that employee time sheets are signed by the employee and reviewed and approved by the employees' immediate supervisor. When an immediate supervisor cannot review and approve time sheets within the current pay period another supervisor should review and approve them. The immediate supervisor should review the time sheets as soon as practical to verify accuracy. Any adjustments should be made during the subsequent pay period.

Management's Response:

NORA's management continues to review timecards for proper authorization. Any adjustments required will be made prior to the subsequent pay period

Allocation of Leave to Federal and State Grants

Recommendation 6:

NORA management should develop a system that equitably and consistently allocates leave time to the various Federal Grants they receive funding from. That system must conform to the requirements outlined in OMB Circular A-87. Additionally, NORA management should develop policies and procedures to ensure that its implementation is monitored.

Management's Response:

NORA currently allocates employee leave to all programs through the payroll timecard system based on the program hours worked within the pay period.

All submissions for reimbursement are further reviewed for accuracy by NORA management and Grantor.

NORA will develop policies and procedures as necessary to ensure proper leave time allocation.

Recommendation 7: NORA management should verify if previous leave allocation was applied correctly. If misallocation of leave is detected, NORA should retroactively make the corrections.

Management's Response: All draw submissions for reimbursement are reviewed for accuracy by NORA management and the Grantor. Any improper allocations which have been reviewed and detected will be adjusted accordingly.

Record Keeping

Records Retention and Disposition Policy

Recommendation 8:

NORA management should develop a records retention schedule. Management should ensure that records are retained in accordance with the schedule.

Management's Response:

NORA receives the majority of its funding through grants and awards from federal, state, local and private sources. There is usually a records retention requirement for each award made to NORA by the funding source. NORA generally follows the records retention requirement prescribed by the funding source or regulatory authority. NORA concurs with the recommendation and will develop and implement a records retention schedule.

Mr. John L. Morehead, CPA
June 20, 2013
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Information Technology/Systems

Information Systems: Physical and Logical Security

Recommendation 9:

NORA management should enter into a memorandum of understanding with the City of New Orleans that clearly delineates NORA's and the City's responsibility for systems (hardware, software, accesses, network configuration, locations and physical access, backup and recovery, etc.).

Management's Response:

NORA concurs with the recommendation and is working to solidify an agreement with the City of New Orleans' Department of Information Technology & Innovation.

We appreciate the opportunity to work with the staff of the Office of the Legislative Auditor and the comments received during the audit. We look forward to the benefits to be gained from the implementation of the recommendations.

If any additional information is needed, please do not hesitate to contact me at jphebert@nola.gov or (504) 658-4400 or Reneé Johnson, Internal Auditor at rjohnson@nola.gov or (504) 658-4408.

Best Regards,



Jeffrey P. Hebert
Executive Director

JPH/RLJ/nmm

cc: Brenda M. Breaux
Michelle Calachino
Reneé Johnson