

**ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 1999
INTERNAL AUDIT REPORT (IAR) 220200-05**

BACKGROUND

This report covers the results of our annual follow-up on the December 31, 1999, external audit management letter.

During their audit of the City of Shreveport's 1999 annual financial statements, the external auditors brought to management's attention certain weaknesses involving the internal control structure and its operations that they considered to be reportable conditions according to standards of the American Institute of Certified Public Accountants.

In a management letter dated March 27, 2000, the external auditors reported weaknesses and management's responses to those weaknesses.

OBJECTIVES

We have completed the annual follow-up on the external audit management letter. This follow-up was performed in accordance with the Internal Audit Office 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.

The methodology of the follow-up included interviewing and requiring appropriate city employees to complete and sign a questionnaire that defined 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	NA	1
OBJECTIVES	NA	1
SCOPE AND METHODOLOGY	NA	1
INDEX	NA	2
FINDINGS		3
<u>Airport</u>		
1. Single Audit Davis-Bacon Act Compliance Requirement	Complete	3
2. Accounts Receivable	Partially Complete	3
<u>Information Systems</u>		
3. System Access	Partially Complete	4
4. User Addition or User Deletion Notice	Partially Complete	6
<u>SporTran</u>		
5. Time Sheets	Complete	6
<u>City of Shreveport</u>		
6. Revenue Receipts	Complete	7
7. New Reporting Model - GASB 34	Partially Complete	7

AIRPORT

- 1. Single Audit Davis-Bacon Act Compliance Requirement - During our review of contractors' payroll submissions, we noted the Project Engineer reviews the submitted payrolls and provides Airport management with the payroll documentation and a letter evidencing their review of the contractor's wage rates for compliance with the Davis-Bacon Act. However, KPMG noted no documentation of a review of the payroll submissions by Airport management. Per discussion with management, we noted the Manager of Administration Services reviews the submissions; however, no signature requirement or formal documentation of such review has been implemented. We recommend a policy be implemented requiring the signature and/or initials of the Manager of Administration Services or designee on the face of each payroll submission as evidence that reviews of payroll submissions are performed.**

Management's Response as Reported on March 27, 2000 - We agree that there is no signature or formal documentation that payroll submissions have been reviewed. However, the payroll submissions are reviewed as a part of the Payment Processing Checklist which is initialed. In the future, for clarification purposes, we will initial the face of the payroll submission as well as the Payment Processing Checklist.

CURRENT STATUS (reported by the Manager of Administrative Services) - Complete. The Shreveport Airport Authority is now requiring that payroll documentation is submitted with the pay request instead of receiving this documentation under separate cover.

IAR 220200-05

December 20, 2000

The face of the payroll submission as well as the Payment Processing Checklist is initialed.

2. **Accounts Receivable - We noted a significant increase in past due accounts on the accounts receivable aging for the Airport Fund. The majority of the aging balances pertained to well established customers with no prior payment problems. Two customers' account balances greater than 90 days totaled \$189,741. No payments had been received in 2000. While the department has standard collection procedures for past due accounts, it did not appear these procedures were being consistently followed or documented.**

We also noted that each month the City's Accounting Division records an adjustment to the accounting system (FAMIS) in order for the City's accounts receivable balances to agree with the Airport's accounting records. No reconciliation between the City and Airport's records is performed monthly to ensure the Airport's accounting records are accurate. The City's accounting records should be reconciled to the Airport's accounting records on a monthly basis. Any differences should be investigated and explained. The reconciliation should be reviewed and approved by someone independent of the process. Following this procedure will provide assurance that all receivables are properly reflected on both the City's and Airport's ledgers.

Management's Response as Reported on March 27, 2000 - We agree that there was an increase in past due accounts. The Airport's current procedures are:

1. **A late letter is sent after the 15th of the subsequent month.**

IAR 220200-05

December 20, 2000

2. Statements are mailed by the 25th of each month. If there is a past due amount, it is reflected on the statement.
3. Telephone calls are made to all customers that are more than 30 days past due.

In addition to the current procedures, the Manager of Administrative Services will be notified of accounts over 45 days past due and the manager will send a final letter prior to initiating legal action.

As to the difference between the City's accounts receivable balance and the Airport's, a reconciliation will be prepared by the Airport on a monthly basis and reviewed by the Airport's Manager of Administrative Services.

CURRENT STATUS (reported by Manager of Administrative Services) - Partially Complete. The Shreveport Airport Authority is currently utilizing the FAMIS accounts receivable module. Therefore, a reconciliation between two systems is no longer needed. We are the first department to utilize this system and have experienced some problems. Data Processing is working on creating statements for our customers. Although we have not been able to provide statements for our customers, we do follow up with phone calls to customers that are late. Per Data Processing, we will be able to generate statements in January 2001. We recently received the new Accounts Receivable Aging report. The Manager of Administrative Services will review this report on a monthly basis.

INFORMATION SYSTEMS

December 20, 2000

- 3. System Access - During our review of the Revenue, Payroll, and Purchasing departments process for submitting requests to create New, Modify existing, and Terminate user's system access, we identified that a predefined and approved Security Profile Matrix does not exist for the Revenue and Payroll departments. Personnel in these departments responsible for filling out the Access Request Form are relying on their personal knowledge of the various department positions and the access they consider appropriate or are mirroring/cloning the previous users access. These procedures can result in system access being granted or modified inappropriately.**

We recommend the City consider developing a Security Profile Matrix for the Revenue and Payroll departments. Also, we recommend the current Security Profile Matrix for the Purchasing department be reviewed and updated and/or expanded as needed. Any new or updates to an existing Security Profile Matrix should be reviewed and approved by the Director of Finance, and all personnel filling out the Access Request Form should be required to utilize this tool as a control guide in order to insure that access will be granted or modified appropriately. Additionally, someone should be assigned ownership of the Security Profile Matrix and be required to manage and update this tool on a timely and consistent basis.

Management's Response Reported on March 27, 2000 - A predefined and approved Security Profile Matrix for FAMIS and Purchasing is in place, and we are in the process of reviewing and expanding these Profiles. The updated profiles will be reviewed and approved by the Director of Finance and will be used as a control guide for all users. Ownership of the Security Profile Matrix will be assigned and this individual will manage and update this tool

regularly.

A Security Profile Matrix is not in place for the Revenue and Payroll Departments. Due to these departments having a limited number of employees with access to either system, we feel that a Security Profile Matrix is not necessary. When a new employee is added the supervisor and management, including the Security Officer, review the "Inquiry and Update Access Document" for each employee prior to granting that employee access. In the future, mirroring or cloning on any employees' access will not be allowed in any security system.

CURRENT STATUS (reported by Finance's Management Assistant) - Partially Complete. All matrices for FAMIS and ADPICS have been added and reviewed. Security Officers have been assigned in the larger departments to complete the input forms for these systems. The review and the update of each individual user is 95% completed. The target completion date for this task is by the end of the year.

IAR 220200-05

December 20, 2000

- 4. User Addition or User Deletion Notice - In most instances, the User Addition or User Deletion Notice does not provide sufficient information for the department Security Administrators to perform their function. In particular, the User Addition Notice does not provide the level of detailed information required by the Revenue Security Administrators to appropriately grant or modify access. The Revenue Security Administrator must, therefore, contact the personnel that submitted the request in order to determine exactly what access they wanted the user to have.**

The Security Administrators for each of the business units should work in conjunction with their business unit directors/managers and the Mainframe Security Administrator to develop a form that can supply all parties involved with the necessary information to perform their job without having to utilize any other source. The finished product should be reviewed and approved by the Director of Finance (functional lead) and the Data Service Administrator (technical lead).

Management's Response Reported on March 27, 2000 - The Revenue Division will develop a Security Access form for each of the systems, which are controlled by their Division. These forms will provide the level of detailed information that is required by the Revenue Security Administrators to appropriately grant or modify access without having to utilize any other source.

CURRENT STATUS (reported by the Revenue Administrator) - Partially Complete. Security access forms have been developed for each Revenue system. These forms need to be reviewed and approved by the Director of Finance and

**IAR 220200-05
December 20, 2000**

Data Services Administrator.

SPORTRAN

- 5. Time Sheets - During our review of time sheets, we noted instances when employees' time sheets were not approved by the employees' supervisors. We recommend all employee time sheets be reviewed and approved prior to the disbursement of payroll. The proper review and approval of time sheets will improve control over payroll disbursements and help ensure accurate payment of payroll to employees.**

Management's Response Reported on March 27, 2000 - We agree that there were instances wherein employees' time sheets were not approved by the employees' supervisor.

IAR 220200-05
December 20, 2000

Procedures have been initiated to ensure that all employees' time sheets are approved by the employees' supervisor.

CURRENT STATUS (reported by SporTran's Director of Accounting) - Complete.

CITY OF SHREVEPORT

- 6. Revenue Receipts - Each day the Accounting Division receives from the Revenue Division a bundle of revenue receipts of the previous day's revenue. These revenue receipts are then recorded in a revenue receipt log by an accounting clerk. This log lists the numerical sequence of the revenue receipts and the date the series of receipts were keyed into the system. KPMG scanned the revenue receipts log for selected months noting missing revenue receipt numbers. Thus, the log was not all-inclusive. Upon further investigation, it was determined the missing revenue receipts did exist and were properly input into the accounting system; however, such receipts were not properly recorded in the log.**

We recommend all revenue receipts be properly recorded in the revenue receipt log. A complete and accurate revenue receipts log helps ensure all receipts are deposited and recorded. The log should be reviewed periodically by someone independent of the cash receipts function.

Management's Response Reported on March 27, 2000 - We agree that the revenue receipts logs were missing some receipt numbers. In the future, these logs will be reviewed periodically by the supervisor to ensure their accuracy.

IAR 220200-05

December 20, 2000

CURRENT STATUS (reported by the Controller) - Complete. All revenue receipts are currently being recorded in the Revenue Receipt Log. The log is periodically reviewed by the supervisor over this area.

- 7. New Reporting Model - GASB34 - After years of study and consideration of the needs of users of government financial statements, the Governmental Accounting Standards Board (GASB) issued its revolutionary new reporting model in June 1999. The new model dramatically changes the presentation of governments' external financial statements. In the GASB's view, the objective of the new model is to enhance the clarity and usefulness of government financial statements to the citizenry, oversight bodies, investors and creditors. It will substantially affect the City's financial data accumulation and financial statement presentation processes. Some of the key aspects of the changes follow:**

Management's Discussion and Analysis (MD&A) - A comprehensive MD&A will now be included as required supplementary information. The MD&A will introduce the financial statements by presenting an analysis of the government's financial performance for the year and its financial position at year end. The MD&A will be in addition to the transmittal letter currently required for Government Finance Officers Association (GFOA) award candidates, but we expect that the GFOA will make changes in their requirements so as to avoid any duplication between the two documents.

Government-Wide Reporting - The City will be required to report financial operations and net assets, not only at the fund perspective for governmental activities, but will also have to prepare statements at the government-

IAR 220200-05
December 20, 2000

wide level. This level will distinguish between government and business type activities. All information at the government-wide level will be reported using the economic resources measurement focus and accrual basis of accounting, as enterprise funds do under the current model. Fiduciary activities will be excluded from the government-wide level of reporting. General government fixed assets and long term liabilities of the government will need to be reported with all other governmental assets and liabilities.

Statement of Activities - Governments will now be required to use a "net program cost" format for the government-wide statements instead of a traditional operating statement. This new format groups revenues and expenses by functional categories (such as public safety, public works, etc.). The purpose of the new statement is to inform readers about the cost of specific functions and the extent to which they are financed with program revenues or general revenues of the government. Governments will have the option of reporting both direct and indirect program costs. Depreciation expense will now generally be reflected as a cost in the statement of activities.

Infrastructure Reporting - Historically, the City has not been required to record infrastructure assets in its financial statements. Under the new standard, the City must report infrastructure assets acquired within the last twenty-five years at historical cost. The standard provides several alternatives for determining historical cost of infrastructure assets. Although the standard generally requires depreciation of infrastructure assets, the City may not be required to

IAR 220200-05
December 20, 2000

depreciate these assets if it can demonstrate that it is preserving its infrastructure at approximately (or above) a disclosed condition level established by the City.

IAR 220200-05

December 20, 2000

Fund Level Reporting - Fund level financial statements will still be required and will provide information about the City's fund types, including fiduciary funds and blended

component units. General capital assets and general long-term liabilities will only be reported at the government-wide level. Fund level reporting will continue to focus on fiscal accountability and reflect the flows and balances of current financial resources. The modified accrual basis of accounting will continue to be used at the fund level, except for proprietary and fiduciary funds which would continue reporting based on economic resources and the accrual method of accounting. Reconciliation between the fund and the government-wide statements will be required on the face of the fund statements. Finally, proprietary fund cash flows statements must be presented using the direct method.

Presentation of Budgetary Information - The standard requires budgetary statements for the general fund and certain other governmental funds as required supplementary information. The original adopted budget of the City as well as the final revised budget must be presented. Actual results on a budgetary basis will need to be reconciled to the GAAP (generally accepted accounting principles) basis on the face of the statements.

The effective date of the new pronouncement will require implementation by the City for its year ending December 31, 2002. The magnitude of these changes and the time required to prepare for implementation should

IAR 220200-05
December 20, 2000

not be underestimated. We recommend that the City begin to look at its systems and processes to ensure that the required information will be available to ensure timely implementation. Further, we recommend that the City consider the cost of required changes to its systems and processes to ensure availability of necessary funds in its upcoming budget.

Management's Response Reported on March 27, 2000 - The City is aware of the impending changes required by GASB 34 and is currently in the process of reviewing these requirements. If possible, we intend to implement this statement prior to the required date. This will require more man-hours than changes to the existing systems and should not have a significant budget impact.

CURRENT STATUS (reported by the Controller) - Partially Complete. The City is still in the review process and continuing to work towards an early implementation. We are currently reformatting the 1999 financial statements to conform to GASB 34. We have notified our discrete component units of our intentions. Without their implementation, the City cannot implement. There are still many things that have to come together to complete this project for the year ended December 31, 2000. The effective date for the City's required implementation is for its year ending December 31, 2002.

Prepared/Approved by:

Douglas W. Sanders, CFE, CGFM
Interim City Internal Auditor

IAR 220200-05
December 20, 2000

DWS:jdm

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor