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City Internal Auditor

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

**ANNUAL REPORT ON
OPERATIONS OF THE
INTERNAL AUDIT OFFICE
FOR YEAR 2013**

FEBRUARY 21, 2014

Report Highlights

Page(s)

- | | |
|---|-----|
| • Completed reports focused on recommendations for improving efficiency and effectiveness | 2-4 |
| • Identified potential for increased city revenue of over \$2.7 million | 3 |
| • Internal Audit initiatives to enhance quality of reports, and special projects | 6 |



The Council
City of Shreveport

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February 21, 2014

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: Annual Report on Internal Audit Office Operations for Year 2013

This attached Annual Report highlights Internal Audit Office operating results and activities during 2013. Please review the report. Should you have questions or comments, feel free to contact me.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

nd

c: Audit and Finance Committee
City Council Members
Clerk of Council

INTERNAL AUDIT OFFICE
ANNUAL REPORT

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ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR YEAR 2013

INTRODUCTION

The City Internal Auditor position is established by City Charter, Section 4.25, reporting directly to the City Council. The City Internal Auditor is charged with assisting the City Council in its accountability functions by performing audits of City departments, divisions, agencies, boards, commissions, and activities. The City Auditor directs appropriate staff to assist with carrying out these functions. To ensure the appropriate level of independence and objectivity for the areas audited, the City Internal Auditor reports administratively to the City Council Chairman and operationally to the Audit & Finance sub-committee of the City Council. The charter provides the City Auditor complete access to all City books, records, information, and documents.

The audits performed by the Internal Audit Office provide objective analysis so that the Administration and City Council can use the information to:

- Improve program performance and operations,
- Ensure that resources are used efficiently and effectively,
- Facilitate decision making by parties with responsibility to oversee corrective action,
- Contribute to public transparency and accountability, and
- Reduce expenses and enhance revenues.

The Office of Internal Audit follows an annual audit plan that utilizes a combination of rotation and risk analysis to review critical areas of operations. Additionally, the City Charter provides that the City Auditor submit information and reports to the City Council from time to time as it may require. The Internal Audit Office applies Government Auditing Standards to the audits conducted which allows the office to ensure that audits are accurate and objective.

This Annual Report illustrates how the Internal Audit Office added value to the City through audits and other services for year 2013. It also provides information on the staff and their qualifications to serve the City. The report contains the following three parts:

- Part I: **Audits/Projects:** describes reports completed and audits in process by the Internal Audit Office.
- Part II: **Special Projects and Other Activities:** provides information related to the special projects completed, Fraud Hotline, Disclosure Reporting Administration, Professional Development, and Office Presentations.
- Part III: **Conclusion:** provides a brief conclusion highlighting a few of the office goals for the upcoming year.



ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

January 31, 2014

PART I: REPORT OF AUDITS/PROJECTS

The work performed by the Internal Audit Office is guided by the annual audit plan. The plan outlines audit projects for the fiscal year. The following summarizes the current status (completed and in process) of each audit and project outlined in the plan.

A. REPORTS COMPLETED 2013

Report Number	Report	Report Summary
IAR 250213-01	2011 Annual Follow-Up	<p>Major Issues: The benefit of audit work is not necessarily in the reports issued, but in the fact that recommendations are implemented by management to help improve government accountability, efficiency, and effectiveness. The Internal Audit Office tracks all audit recommendations made as of 1991 to determine if the recommendations have been implemented by management.</p> <p>Conclusion Since December 31, 1991, the Internal Audit Office has made 2,205 audit recommendations. The statuses of all 2,205 recommendations are as follows:</p> <ul style="list-style-type: none"> ▪ Complete -- 1,804 or 81% ▪ Partially Complete -- 40 or 2% ▪ No Progress -- 16 or 1% ▪ No Longer Applicable/Removed/Archived -- 345 or 16% <p>Management acceptance and concurrence of 83% (complete and partial implementation) of audit recommendations is comparable to benchmarks of other similar audit shops.</p>
IAR 100013-02	Audit of the Department of Engineering and Environmental Services: Roadways & Bridges and Drainage, Floodplains & Private Developments	<p>Major Issues: We reviewed this area to determine if contracts and projects were being managed effectively and efficiently. We identified the following issues: the contract payments spreadsheet does not bring forward prior payments to ensure accurate current payments; no consistent policies or procedures in place to address errors in assumption or estimates that are discovered in projects; incomplete guidance for defining and addressing changes in scopes for projects; possible violation of city ordinances regarding brokering contracts and eligible projects under ordinances; time inefficiencies in processing contracts; documentation weaknesses in processing contracts; inadequate documentation and follow up of quality inspections and maintenance for several projects.</p> <p>Recommendations: We recommended: the payment spreadsheet be revised to ensure accurate payments; consistent policies and procedures be established to address errors in assumptions or estimates for projects and to define and address changes in scopes for projects; compliance with city ordinances; improved documentation and efficiencies in processing contracts; performing and documenting quality inspections of projects.</p>



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REPORTS COMPLETED 2013 (CONTINUED)

IAR 906013-03	Audit of the Accuracy of Inside/Outside Water and Sewer Charges	<p>Major Issues: We were asked to determine whether correct rates were being charged to water and sewerage customers inside and outside the City limits. Outside customer's rates are generally double the rates charged to inside customers. We identified the following: the City has lost over \$180,000 since 2010 because some outside water customers were charged inside rates; W&S personnel rely on customer statements and no independent verification of customer address location is performed; documentation was not available authorizing special rates for some commercial customers; the city has overcharged \$28,000 since 2010 for some water customers located in the city but charged outside rates; some outside water customers were not approved by the City Council to connect to the City's water system.</p> <p>Conclusions: We recommended W&S develop a verification procedure to determine if service addresses are inside or outside City limits; properly adjust rates for water billings charged incorrectly; ensure documentation is available authorizing special rates for commercial customers; and, ensure water customers outside the City limits receive City Council approval.</p>
SR 280013-04	Disclosure Statement Reporting for Board and Commission Members	<p>Major Issues: Section 2-51 of the Code of Ordinances requires that any member of any board, commission, or other body appointed by the Mayor and confirmed by the City Council, immediate family members, and any legal entity in which they have a financial interest must file with the City Internal Auditor:</p> <ul style="list-style-type: none"> • An acknowledgement of understanding of Section 2-51 of the Code of Ordinances. • Initial and annual disclosure statements if they derive income or any thing of financial value from a contract with the City of Shreveport. <p>We provided the City Council with disclosure statement reporting activities for years 2011 and 2012.</p> <p>Conclusions: We recommended the Administration list all current boards and members on the City's Website. We also recommended the Administration review the status of about six inactive boards and determine if revisions are needed to the legislation that created these boards. If the boards or commissions are not fulfilling their established functions, the governing authority should consider their abolishment, as deemed appropriate.</p>
IAR 210413-05	Audit of the Shreveport Home Mortgage Authority (SHMA)	<p>Major Issues: We noted the following: Two members of the SHMA Board of Trustees, who are appointed by the City, are deceased; the remaining board of trustee members have served for at least 13 years consecutively with no reappointment; no formal board meeting has been held since mid-year 2012; SHMA has excess available cash on hand (funds that are not tied to any debt) of approximately \$2.6 million that can potentially be transferred to the City of Shreveport as beneficiary; inconsistent communication between SHMA and the City regarding SHMA's future direction.</p> <p>Conclusions: We recommended the Administration: appoint board members as necessary to the SHMA Board of Trustees; work with SHMA Board to determine the appropriate manner of transferring some or all of the excess funds to the City of Shreveport; SHMA and City Administration appoint designee contacts who would be responsible for communicating with each other regarding SHMA's future operations.</p>



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REPORTS COMPLETED 2013 (CONTINUED)

IAR 160013-06	Audit of the Shreveport Area Transit System (SporTran)	<p>Major Issues: Sportran’s operational costs and subsidy from the City has increased over the past 5 years, while ridership has slightly decreased; the chargeback fee for Bossier City does not include all indirect costs the City incurs; performance standards have not been established for Sportran although the contract allows them to be in place; there is no operating policies and procedures manual in place.</p> <p>Conclusions: We recommend: Sportran look for ways to decrease operational costs and increase ridership; Sportran include all indirect costs to the City within the Bossier City chargeback fee; performance standards and measures be developed and included within future contract agreements; a comprehensive policies and procedures manual be developed for Sportran operations.</p>
AA 2013-07	Auditing Alert: Vehicle Insurance	<p>Major Issues: The City’s vehicle insurance policies did not accurately reflect inventory owned by City departments and divisions because there is no formal process in place to check the accuracy and timeliness of these records. In addition, generic insurance copies are copied and issued for vehicles and heavy equipment without any ability to process or control the authenticity.</p> <p>Conclusions: We recommend Risk Management work with other departments to develop a process to obtain inventory information to update insurance policies; we also recommend Risk Management establish better control over insurance documents.</p>

B. AUDITS IN PROCESS 2013

Audit	Estimated Percentage of Completion
SPAR – Concessions Contract	90%
Police Department – Communications Division	80%
Finance – Citywide Revenue Collections	70%
Finance – Accounting – Payroll	40%
Water & Sewer – Wastewater (a)	10%
Community Development – Workforce Development	10%
Mayor – City Attorney	5%
(a) Audit has been reassigned and reassessed for completeness for year 2014.	



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PART II: SPECIAL PROJECTS AND OTHER ACTIVITIES

A. Memorandums

Our office has also completed memorandums and other projects at the request of the City Council and Audit and Finance Committee. Staff is assigned to research information and provide independent reviews. This work may require detailed research and analysis but may not result in a formal report issued by the Internal Audit Office. The resulting work is distributed to the requestor(s). The following summarizes the special projects completed by the Internal Audit Office or work for which our office assisted in completing for year 2013.

- ♦ Provided extensive analysis and research for the Audit and Finance Committee Report entitled “*Recommendations to the City Council Regarding the Neuner Report*”;
- ♦ Follow-up memorandum on audit report recommendation for Shreve Memorial Library audit;
- ♦ Follow-up memorandum answering specific questions for Landfill Audit.

B. Fraud Hotline

The Internal Audit Office maintains a fraud hotline to report allegations of fraud, waste, and abuse. Hotline allegations may be made by phone, email, or in person. During the reporting period, four allegations of possible fraud, waste, and abuse were recorded and two were carried over from 2012. All allegations were closed with no pending allegations as of December 31, 2013.

[Please refer to the Fraud Hotline Activity Report for the Period January 1, 2013 through December 31, 2013 for the summary report on this activity.]

During 2013, the Internal Audit Office began an effort to increase awareness of the Fraud Hotline by increasing the fraud hotline’s presence and accessibility on the City’s website.

C. Disclosure Reporting Administration

Code of Ordinances Section 2-51 requires that any member of any board, commission or other body appointed by the Mayor and confirmed by the City Council, their immediate family members, and any legal entity in which they have a substantial economic interest must file an acknowledgement, and also, initial and annual disclosure statements with the City Internal Auditor if they derive any thing of economic value from a contract with the City of Shreveport. **[See Section entitled “Reports Completed 2013” SR 280013-04 for the summary report on this activity.]**

D. Professional Development

The current staff of the Internal Audit Office provides the City of Shreveport with experienced professionals who are knowledgeable in governmental operations. There are seven budgeted



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professional auditor positions and one administrative assistant. Professional degrees and certifications held by the staff include: seven Bachelor's degrees, four Master's degrees, two Certified Internal Auditors (CIA), two Certified Public Accountants (CPA), two Certified Fraud Examiners (CFE), two Certified Information Systems Auditors (CISA), two Certified Governmental Financial Managers (CGFM), and one Certified Management Accountant (CMA).

Staff members acquire continuing training and education (minimum 40 hours per year) in order to ensure that they maintain proficiency and competency in the internal auditing field. Audit staff also maintain membership in several professional associations and serve as officers. Current affiliations include the National Association of Local Government Auditors, Louisiana Society of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Government Finance Officers Association, and the Association of Government Accountants.

E. Office Presentations

During the year, the Internal Audit Office was invited by the Human Resources Division to participate and facilitate training to educate other City employees concerning what Internal Audit does, internal controls, and the Fraud Hotline. During the coming year, we look forward to reaching additional employees through this training.

PART III: CONCLUSION

For year 2014, the Internal Audit Office is maintaining a commitment to quality work. One initiative our office is embarking upon for year 2014 is utilizing data analytic tools to improve and increase the depth of our audits. We plan to implement data analysis efforts by acquiring resources and tools to perform large scale reviews of transactions and by providing training opportunities to staff on these new methods. We believe that these tools will help us to identify areas in need of audit focus by identifying opportunities for additional revenue enhancements, as well as, isolating potential problem transactions for detailed review.

A second initiative our office is working on is increasing marketing efforts for the Fraud Hotline. We plan to continue making presentations in training sessions sponsored by Human Resources. We also will be creating and distributing hard copy and electronic promotional materials regarding the Fraud Hotline to employees and citizens.

Finally, we are making investments in educating the audit staff by purchasing the current "Comprehensive Audit Library Collection." These books and journals outline key fundamental audit concepts for audit shops to succeed and add value to an organization.

We hope this report has provided helpful information to those interested in gaining an understanding of the performance of the Internal Audit Office. During the coming year, we look forward to offering services to the City Council, Administration, and the citizens that help to strengthen public accountability, improve efficiency and effectiveness of city government, and provide information to facilitate decision making.