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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 2014

February 26, 2015

Report Highlights

Page(s)

- Completed reports focused on recommendations for improving efficiency and effectiveness
- Identified potential for increased property tax revenue of over \$500,000 annually
- Future initiatives to utilize technology to enhance audit quality, and market fraud hotline services

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The Council
City of Shreveport

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February 26, 2015

Councilman Jeff Everson
Chairman, Shreveport City Council

Dear Councilman Everson:

Subject: Annual Report on Internal Audit Office Operations for Year 2014

This attached Annual Report highlights Internal Audit Office operating results and activities during 2014 and goals and objectives for 2015.

Please review the report. Should you have questions or comments, feel free to contact me.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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INTERNAL AUDIT OFFICE
ANNUAL REPORT

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ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR YEAR 2014

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.

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 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 2014. 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, Professional Development, and Office Presentations.
- Part III: **Conclusion:** provides a brief conclusion highlighting some office accomplishments for past year and goals for current year.



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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 2014

Report Number	Report	Report Summary
IAR 240014-01	Audit of SPAR, Concession Contract	<p>Major Issues: This was a scheduled audit where we reviewed the concessionaire contract to ascertain compliance and effectiveness with which SPAR manages the contract. We identified the following issues: (1) No valid health permit to operate the concession stands in compliance with state law (2) Concessionaire employees did not wear uniforms in accordance with contract provisions (3) No contract in place from January 2011 to April 2012. (4) The city undercharged concessionaire about \$400 in 2013 for payment obligations under the contract.</p> <p>Conclusion: We offered the following recommendations: Concessionaire acquire a health permit to comply with state law; Contractor comply with uniform policy; SPAR ensure formal contract is executed at all times; City charge concessionaire the appropriate amount based on contract terms and request any underpayment.</p>
IAR 270114-02	Annual Follow-Up External Audit Financial Statement Findings for the Year Ended December 31, 2012	<p>Major Issues: Our office follows up on recommendations made by the external auditors to determine the status. The external auditors reported that annual audited financial statements were not submitted to the State by the deadline because complete actuarial information was not available to allow the preparation and audit of the financial information.</p> <p>Recommendations: The City should take appropriate steps to ensure all information is prepared timely to meet the legal deadline for submission of audited financial statements to the state.</p> <p>The 2014 Status was Partially Complete: Actuarial information for risk claims was not submitted timely, which delayed submission of audited financial statements, although they were ultimately submitted by the legal deadline.</p>
IAR 060214-03	Audit of the Police Department, Support Division, Communications Bureau	<p>Major Issues: For this scheduled audit within the Police Communications Bureau, we identified the following issues: (1) significant amounts of overtime paid (averaging \$170,000 annually for the last 3 years) due to employee leave taken (2) Lack of management continuity caused by turnover at executive level (3) Call handling issues and complaints were not tracked (4) all employees were not aware that a SOP manual existed (5) a survey administered showed morale issues caused by desire for more training, understaffing, poor communications with police officers, and desire for supplemental pay.</p> <p>Conclusions: We recommended Police management: (1) consider hiring 2-3 full time employees to fill vacancies caused by leave. This would help to improve safety by lessening fatigue from working overtime for extended periods of time. (2) evaluate staffing patterns and overtime to determine if changing shift hours (from 12 hour shifts to a combination 8 and 12 hour shifts) can improve call processing ability with fewer overall labor costs. (3) Offer additional career path for PCO's at upper management level.</p>



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Report Number	Report	Report Summary
Cont'd	Cont'd	(4) Document and track complaints and call handling problems to evaluate problems and prevent mistakes. (5) Provide all employees a copy of the SOP and require acknowledgment. (6) Improve morale by providing refresher training, incentives for no unscheduled absences, rotating assigned positions to reduce stress.
SR 280014-04	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 year 2013.</p> <p>Conclusions: 5 of a total of 103 board members reported having business with the City for year 2013. We recommend the Administration list all current boards and members on the City's Website to provide improved transparency of information. We also recommend the Administration review the status of appointed boards, and particularly the six inactive boards, to assess their continued significance. If the boards or commissions are not fulfilling their established functions, the governing authority should consider their abolishment, as deemed appropriate.</p>
IAR 100014-05	Audit of Citywide Revenue	<p>Major Issues: For this scheduled audit, we determined the effectiveness of overall city revenue generation and collection efficiency. We found: lost revenue ranging between \$420,000 and \$736,000 for ad valorem taxes on untaxed aircraft; city is expending excessive money and labor hours that could be avoided processing NSF (non-sufficient funds) payments; inadequate controls over the accounting for and physical security of NSF checks; City's W&S bad debt is 3x the national average; delinquent accounts less than \$50 are not sent to collection; Solid Waste landfill past due accounts over 60 days have increased since the previous audit 2 years ago; policies and procedures over revenue processing are out of date, incomplete, and do not provide guidance for current operations; areas of inefficiency and weak customer service in cashiering function caused by less than optimal equipment and processes, and insufficiently trained employees.</p> <p>Conclusions: We recommend the following: Airports provide a current listing of aircraft based at their airports to the parish assessors for property tax assessment; the City consider electronic payments directly from payer's accounts to reduce acceptance of NSF checks, subsequently freeing up labor time for other tasks; maintain listing of NSF checks and ensure they are kept in a secure area; implement and enforce policies for past due accounts and rescind policy prohibiting turnover of small accounts to third party collection agency; improve collection polices for Solid Waste landfill, including enforcing credit limits; update Revenue Compliance Division policies and procedures manual; cross train cashiers on machines and tasks and install a drop box for citizens paying by check.</p>



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Report Number	Report	Report Summary
IAR 050014-06	Limited Performance Audit - Inadequate Controls over Retirement Systems Data and Reporting	<p>Major Issues: This issue was reviewed as a result of a fraud hotline call. Monthly retirement reports and contributions were issued or paid late to third parties; time purchased for employees on military leave lacked details to determine timeliness of transfer; retirement reports submitted to third parties contained errors regarding employees that should be listed and the amounts.</p> <p>Conclusions: We recommend: Finance Department ensure retirement reports are filed timely and accurately.</p>
IAR 030014-07	Limited Scope Review of Terminated Weed Abatement Contractors	<p>Major Issue: This review was a special request from Property Standards to determine if the three weed abatement contractors terminated during the 2013 contract year were terminated in compliance with policies and procedures.</p> <p>Conclusions: The Property Standards Department followed its stated policies and procedures in terminating the three weed abatement contractors reviewed. Terminated contractors did not meet required guidelines. Specific deficiencies included not having proper signage of vehicles, not cutting correct lots, not providing clear pictures of before and after work, not presenting photos within prescribed time period; not providing dated photos; not removing grass, debris, and clutter from lots.</p>



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B. AUDITS IN PROCESS 2014

Audit	Estimated Percentage of Completion
Public Works – Traffic Engineering	80%
Police Department – Office of Special Investigation	75%
Mayor-City Attorney	75%
Convention Center Hotel	25%
Community Development-Workforce Development	20%
Citywide Inventory/Fixed Assets	10%

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 2014.

- ◆ Provided Council members memorandum on research for new “Independent Registered Municipal Advisor Rule”;
- ◆ Assisted clerk of council in reviewing 2015 budget issues.

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, through the internet, or in person. During the reporting period, 21 allegations of possible fraud, waste, and abuse were recorded. There were 12 pending allegations as of December 31, 2014.

[Please refer to the Fraud Hotline Activity Report for the Period January 1, 2014 through December 31, 2014 for the summary report on this activity.]

Promotional and marketing efforts during 2014 increased awareness of the Fraud Hotline. Activity on the fraud hotline rose as a result of these initiatives.



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C. 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 professional auditor positions and one administrative assistant. Professional degrees and certifications held by the staff include: eight Bachelor's degrees, four Master's degrees, two Certified Internal Auditors (CIA), two Certified Public Accountants (CPA), three 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 in order to ensure that they maintain proficiency and competency in the internal auditing field. Audit staff members also maintain membership in several professional associations. Current affiliations include the Association of Local Government Auditors, Louisiana Society of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Government Finance Officers Association, Association of Government Accountants, and the International Law Enforcement Auditors Association.

D. Other Activities

During the year, the Internal Audit Office facilitated training through the Human Resources Leadership Academy to educate other City employees concerning what Internal Audit does, internal controls, and the fraud, waste, and abuse hotline. During the coming year, we look forward to reaching additional employees through this training. Audit staff was also the featured speaker at a Certified Fraud Examiner monthly professional meeting.

PART III: CONCLUSION

Our office is making advances in carrying out our work more efficiently and effectively. In this digital age, use of ever changing technology is a basic core competency for internal auditors. During 2014, the Internal Audit Office transitioned to use of an electronic work paper management system. This system was developed in-house, at a significantly reduced cost, to more efficiently carry out, manage, and oversee audit work activity from the planning to final reporting stages. As we continue to focus on use of technology for 2015, we will expand utilization of data analytic tools to improve and increase the depth of our audits. Resources and tools to perform large scale reviews of transactions were put in place during 2014, and training opportunities for staff on these new methods is ongoing. 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.

Secondly, our office will continue to focus marketing and promotional efforts on the Fraud Hotline. We believe our promotional efforts in 2014, by sending mass emails and making presentations to employees, resulted in calls that more than quadrupled activity over the previous year. For 2015, we will ramp up promotional efforts by creating flyers, posters, and brochures and setting up display stands throughout



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City buildings, advertising the Fraud Hotline to employees, citizens, and vendors.

Third, enhancing staff knowledge attained through professional certifications and training is a continuing focus of our office. One staff member recently attained CFE certification. During the current year, our office is encouraging additional professional certifications for staff members for enhanced individual professional credibility as well as to show our office is committed to delivering the highest quality work product. Staff members have also received specialized audit training in law enforcement audits to more effectively review that area.

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 and our citizens that will strengthen public accountability, improve efficiency and effectiveness of city government, and provide information to facilitate decision making.

Prepared and approved by:

Leanis L. Steward, CPA, CIA
City Internal Auditor

ls:nd

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