



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR YEAR 2015

February 26, 2016

INTERNAL AUDIT
OFFICE
505 Travis St.
Suite 450
Shreveport, LA 71101
www.shreveportla.gov
Office: 318-673-7900
Fraud Hotline: 318-222-5698



Leanis L. Steward
City Internal Auditor

Report Highlights	Page(s)
• Completed reports with recommendations for improving efficiency and effectiveness in City operations	2-4
• Hotel manager was overpaid about \$266,000 in fees	4
• Internal Audit is scheduled to undergo a peer review in early 2016	6



The Council
City of Shreveport

Leanis L. Steward, CPA, CIA
City Internal Auditor
P.O. Box 31109
Shreveport, LA 71130-1109

E-Mail Address:
Leanis.Steward@shreveportla.gov
Phone: 318.673.7900
Fax: 318.673.7911

February 26, 2016

Councilman Willie Bradford
Chairman, Shreveport City Council

Dear Councilman Bradford:

Subject: Annual Report on Operations of the Internal Audit Office for Year 2015

This attached Annual Report highlights Internal Audit Office operating activities and internal quality control results for year 2015 and goals and objectives for 2016.

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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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 City Council from time to time as it may require. The Internal Audit Office applies Government Auditing Standards to the audits conducted which requires independence and helps to ensure 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 2015. 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, Annual Internal Quality Control Review results, and Office Presentations.
- Part III:** **Conclusion:** provides a brief conclusion highlighting goals for year 2016.



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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 audits and other projects for the fiscal year. The following summarizes each audit and project (completed and in process) outlined in the plan.

A. REPORTS COMPLETED 2015

Report Name	Report Summary
<p>IAR 060315-01</p> <p><i>Audit of Shreveport Police Department, Office of Special Investigations (OSI)</i></p>	<p>Major Issues: This was a scheduled audit where we reviewed OSI for adherence to general orders; accuracy and completeness of reporting activities; and compliance with laws, ordinances, and regulations. We identified the following issues: (1) reporting was not properly documented to support arrests in six instances and use of force in two instances; (2) supervisors had not signed off on reports in nine instances; and (3) user access controls for the computer system were inadequate and user lists were not up to date.</p> <p>Recommendations: Arrest reports be properly submitted to support actions; all arrest reports document whether use of force was used; supervisors review reports before entry into computer database; the department correct the deficiencies in system access controls and errors in the list of authorized users.</p>
<p>IAR 650015-02</p> <p><i>Limited Scope Review of Straightlining Allegation at Adjudicated Property</i></p>	<p>Major Issues: This work was the result of a fraud hotline call. It alleged a citizen was accessing the city's water supply without authorization or payment. Management "plugged the line" to prevent any future unauthorized use after we provided them this information. We did recommend Water & Sewerage management pursue legal charges for theft. Concurrent with our review, for this same address, we saw records documented by city personnel in other departments indicating violations for weeds and inoperable vehicles (Property Standards), and for operating an unauthorized auto repair shop with no occupation license (Metropolitan Planning Commission).</p> <p>Conclusions: This allegation was sustained. To reduce future city losses, we recommended early proactive communication among departments to address these types of infractions. Management indicated legal charges were not pursued due to the lapse in time and lack of evidence to quantify amount of unauthorized use for this case. Management will develop procedures in the future to more timely pursue charges for illegal water use through the court system.</p>
<p>IAR 020015-03</p> <p><i>Audit of the City Attorney's Office</i></p>	<p>Major Issues: For this scheduled audit within the City Attorney's Office, we identified the following issues: (1) possibly higher overall legal costs because contracted legal services were not competitively bid, there was no formal performance evaluation for contracted attorney services, and retainer agreements for outside attorneys did not include adequate provisions for billing guidelines (frequency, format, increments, rates for support staff) and claim settlement procedures; (2) the litigation management system that tracks assignment, status and expenses for legal cases was not accurate and complete; and (3) performance measures and job descriptions for department staff were not documented.</p> <p>Recommendations: We recommended: (1) to better manage costs, management competitively procure outside legal services based on documented criteria; evaluate work of contract attorneys to assess performance; and institute billing guidelines including claim settlement procedures; (2) clean up the erroneous data in the claim management system; and (3) improve human resource management by creating performance measures for staff and writing specific job descriptions.</p>



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<p>IAR 900015-04</p> <p><i>Audit of the City of Shreveport Public Works Department, Traffic Engineering Division</i></p>	<p>Major Issues: For this scheduled audit within the Traffic Engineering Division, we reported: (1) written policies and procedures tailored to day-to-day operations of the division were not available; (2) customer response system was not adequate because data in the program used to track and manage customer service requests contained unreliable statuses of requests (e.g, complete vs. incomplete); and there was no consistent process to route the customer service requests; and (3) inventory count was not accurate.</p> <p>Recommendations: We recommended management: (1) make operations manuals available; (2) improve customer response by standardizing review process to ensure full completion of service requests and centralizing the response process; and (3) improve inventory accuracy.</p>
<p>SR 280015-05</p> <p><i>Disclosure Statement Reporting for Board and Commission Members (2014)</i></p>	<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 anything of financial value from a contract with the City of Shreveport. <p>Conclusions: 9 of the 115 board members reported having business with the City for year 2014. We recommended that Administration list all current boards, duties, and appointment/designation requirements on the City's Website to provide improved transparency of information. We also recommended that 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>
<p>IAR 650015-06</p> <p><i>Limited Scope Review of Non-Compliance with City Uniform Policy</i></p>	<p>Major Issues: This work was the result of a fraud hotline call alleging an Airport employee had purchased ineligible clothing using City funds. The clothing: (1) did not have appropriate logos or City of Shreveport identification to indicate City of Shreveport property; (2) included a trench coat, that appeared inappropriate for city use; and (3) was used by appointed employees, in violation of the uniform policy that makes only classified employees eligible for uniforms. Additionally, management had contravened the City uniform policy by establishing a separate policy for its employees to allow these purchases.</p> <p>Recommendations: We recommended Airport management comply with the City uniform policy. Management responded they will undergo training on this policy and institute stronger controls over clothing purchases.</p>
<p>IAR 270015-07</p> <p><i>2015 Annual Follow-Up</i></p>	<p>Major Issues: The benefit of audit work is not necessarily in the findings reported, 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 to determine if the recommendations have been implemented by management.</p> <p>Conclusion: Since December 31, 1991, the Internal Audit Office has made 2,331 audit recommendations. The statuses are as follows:</p> <ul style="list-style-type: none"> ■ Complete -- 1,888 or 81% ■ Partially Complete -- 56 or 2% ■ No Progress -- 33 or 2% ■ No Longer Applicable/Removed/Archived -- 354 or 15% <p>Management concurrence of 83% (complete and partial implementation) of audit recommendations is comparable to benchmarks of other similar audit shops.</p>



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<p>IAR 650015-08</p> <p><i>Limited Scope Performance Audit of Inadequate Controls Over the City of Shreveport's Weed Abatement Program Operations</i></p>	<p>Major Issues: We received fraud hotline allegations that there were improprieties in the operation of the Weed Abatement Program. Our work did identify certain properties owned indirectly by the department director that were cut using City resources without charge. This information was referred to the Shreveport Police Department and District Attorney. This review specifically focused on the relevant internal controls surrounding the Weed Abatement operations that could improve identification, tracking, and billing for properties cut.</p> <p>Recommendations: We recommended: (1) a more accurate process to determine ownership status for property within the City; (2) upgrading the computer system that maintains information on lots cut including notification of owners, contracting for lots cut, and invoicing; (3) implementing an automated work order system that manages the flow of work for all transactions (adjudicated and non-adjudicated) from beginning to end; (4) evaluating the cost efficiency of bringing the work done by contractors in house; (5) charging administrative fees for lots cut by owners; and (6) evaluating a billing process for adjudicated properties.</p>
<p>IAR 210015-09</p> <p><i>Audit of the City of Shreveport Convention Center Hotel (Hilton)</i></p>	<p>Major Issues: This was a regular scheduled audit to determine if the hotel manager was operating within the guidelines of the agreement. We found: (1) the hotel management company did not transfer operating profit to the City in accordance with the agreement; (2) overpaid itself "purchasing fees" of about \$266,000; and (3) was not compiling and timely providing financial information in accordance with contract terms.</p> <p>Recommendations: We recommended hotel management: (1) transfer operating profit to the City annually; (2) stop collecting purchasing fees; and (3) submit financial information in accordance with the contract agreement.</p>

B. AUDITS IN PROCESS 2015

Audit/Project	Estimated Percentage Of Completion
Citywide Inventory	90%
Time and Attendance	80%
Community Development-Workforce Development	80%



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PART II: SPECIAL PROJECTS AND OTHER ACTIVITIES

A. Routine Activities/Memorandums

Our office has also completed memorandums and other projects at the request of the City Council, Audit and Finance Committee, or that were self-initiated. Staff is assigned to research information. This work may require detailed research but generally does not result in a formal report issued by the Internal Audit Office. Any resulting work is distributed to the requestor(s) and/or Council as necessary. The following summarizes the special projects completed by the Internal Audit Office or work for which our office worked on or assisted in completing for year 2015.

- ◆ Assisted in reviewing 2015 budget issues
- ◆ Researched laws for civil service leave benefits
- ◆ Compiled information on Water & Sewer special rates
- ◆ Compiled Fair Share information
- ◆ Compiled information for civic appropriations
- ◆ Compiled purchasing card transaction information
- ◆ Tested viability of continuous monitoring for certain transactions
- ◆ Observation of annual Citywide Inventory count
- ◆ Compiled City Court revenue information

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, online, or in person. During 2015, 14 allegations were recorded; 12 allegations were carried forward from the previous year; 20 were closed; and 6 were pending at year end.

[Please refer to the Fraud Hotline Activity Report for the period January 1, 2015 through December 31, 2015 for the summary report on this activity.]

C. Professional Development

The 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 position. 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), one Certified Management Accountant (CMA), and three Certified Law Enforcement Auditors (CLEA).

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



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membership in several professional associations. Current affiliations include the Institute of Internal Auditors, Association of Certified Fraud Examiners, Association of Local Government Auditors, Louisiana Society of Certified Public Accountants, Government Finance Officers Association, Association of Government Accountants, and the International Law Enforcement Auditors Association.

D. Annual Internal Quality Control Review

According to government auditing standards, the Internal Audit Office should analyze and summarize the results of monitoring procedures for its operations at least annually to determine if the office is in compliance with auditing standards. The standards also require audit organizations document and take corrective actions as needed based on the results of the internal assessment. Internal Audit performed this internal assessment for activities occurring in 2015, and the results documented conformance with government auditing standards. The internal assessment did note opportunities for improving administrative documentation to more clearly indicate compliance, including dating work papers consistently to verify timeliness of work, and labeling work paper titles appropriately for accurate identification of work.

E. Other Activities

During 2015, the Internal Audit Office coordinated the external audit firm selection process that is completed every four years. This responsibility involved preparing a comprehensive request for proposal (RFP) to convey all requirements to proposing firms, coordinating with the City's Purchasing Division to issue the RFP, coordinating Audit & Finance meetings to evaluate and recommend an external audit firm to the City Council for approval, and overseeing contract administration for the selected firm. Our office also assisted the City Council in performing its oversight duties for the city's audit function by coordinating four Audit and Finance Committee meetings held during the year where the committee reviewed both internal and external audit activities and reports.

Additionally, 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. Staff members also participated in Junior Achievement training through the local Institute of Internal Auditors (IIA) professional association, and participated in and served as chapter officers for the local IIA and CFE chapters.

PART III: CONCLUSION

As a part of overall quality control and assurance in carrying out the audit function, our office is scheduled to undergo an external peer review during the first quarter of 2016. The purpose of the peer review is to assess Internal Audit Office conformance with professional requirements as set out



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by government auditing standards. The peer review will be coordinated through the Association of Local Government Auditors, and two independent reviewers are scheduled to perform this review and document results during the first quarter of 2016.

For 2016, our office is also making advances in carrying out our work more efficiently and effectively. In this digital age, use of ever-changing technology is a core competency for internal auditors. During previous years, 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 during this year, 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, 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.

Lastly, enhancing staff knowledge through professional certifications and training is a continuing focus of our office. During 2016, our office is strongly encouraging professional certifications for staff members to enhance individual professional credibility as well as to show our office is committed to delivering the highest quality work product. We will provide resources to support those efforts.

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 and transparency over programs, improve efficiency and effectiveness of City operations, and provide appropriate 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