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Leanis L. Steward
City Internal Auditor

**REPORT TO THE CITY
COUNCIL
BY THE CITY INTERNAL
AUDITOR**

**ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 2014**

**INTERNAL AUDIT REPORT
(IAR) 270116-05**

December 8, 2016

Report Highlights	Page(s)
• Total of five findings were reported	2
• Management reported three findings as partially complete	3,4
• Management reported two findings as complete	3



The Council
City of Shreveport

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December 8, 2016

Councilman Willie Bradford
Chairman, Shreveport City Council

Dear Councilman Bradford:

Subject: IAR 270116-05 - Annual Follow-Up External Audit Management Letter for the Year Ended December 31, 2014

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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**ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 2014
INTERNAL AUDIT REPORT (IAR) 270116-05**

BACKGROUND

This report covers the results of our annual follow-up on the December 31, 2014, external audit management letter.

During their audit of the City of Shreveport's 2014 annual financial statements, the external auditors brought to management's attention certain deficiencies and other matters.

OBJECTIVES

We have completed the annual follow-up on the 2014 external audit management letter. The objective of a follow-up is to report on the status of corrective action regarding the report's findings and recommendations. Procedures we performed do not constitute an audit conducted in accordance with generally accepted government audit standards. Follow-up procedures rely on the department providing the current status and supporting documentation for addressing the recommendations.

SCOPE AND METHODOLOGY

The scope of the follow-up included obtaining a current statement from management explaining the status of each reported response. We limited the scope to actions taken to address the audit recommendations from the issue date of the final report, June 30, 2015.

The methodology of the follow-up included interviewing and requiring appropriate city employees to complete and sign a questionnaire that defined the 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. The detailed report restates the original deficiency/matter and provides a current 2016 status and management response.



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OBJECTIVES	N/A	1
SCOPE AND METHODOLOGY	N/A	1
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<u>FINANCE</u>		
<u>DEFICIENCIES:</u>		
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2. Fixed Assets: Capitalization Policy Related to Capitalized Interest Needs to Be Adhered	Complete	3
<u>Other Matters:</u>		
1. Compliance with Louisiana Constitution Tax Levy Requirements	Complete	3
2. Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (Statement)	Partially Complete	4
3. Significant Changes to Federal Grant Policies	Partially Complete	4



FINANCE:

Deficiencies:

1. Cash: Reconciling Statements Timely

During the audit, we noted that certain deposits from the City's operating bank statements were not recorded in the City's general ledger. Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the City's procedures. We recommend that the City review its procedures and controls over the bank reconciliation process and that all unrecorded reconciling items be promptly investigated and adjusted with adequate explanations.

◆ **2016 STATUS (Reported by the Director of Finance) – PARTIALLY COMPLETE**

Management's Response: All clearing accounts are being checked to make sure deposits are being recorded timely and that any errors are being corrected.

2. Fixed Assets: Capitalization Policy Related to Capitalized Interest Needs to Be Adhered

During the audit, we noted that capitalized interest related to individual construction in progress projects was not being moved to depreciable assets once the project was complete. This caused depreciation expense to be understated in the current and prior years. The City has a policy to track capitalized interest associated with construction in progress projects and to depreciate the interest once the project is complete. We recommend that capitalized interest associated with completed construction in progress be moved to depreciable assets and depreciated as soon as the specific project is complete.

◆ **2016 STATUS (Reported by the Director of Finance) – COMPLETE**

Management's Response: As part of the annual audit all capitalized interest is properly recorded.

Other Matters:

1. Compliance with Louisiana Constitution Tax Levy Requirements

During the audit, we calculated the property tax assessed by the City to fund debt service on general obligation bonds. We noted that the City is collecting more than is necessary to fund debt service payments currently and an excessive reserve of approximately two and a half years of debt service payments has been collected and segregated. We suggest the City continue to monitor the millage rates assessed for



debt service on its general obligation bonds to remain in compliance with the Louisiana Constitution tax levy requirements.

◆ **2016 STATUS (Reported by the Director of Finance) – COMPLETE**

Management's Response: Each year the amount of tax collected for debt service is tied directly to the debt payments made that year. The ordinance is broken down by debt issue thus we cannot collect an amount greater than we are paying.

2. Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (Statement)

This Statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria.

The Statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, defined contribution plans and plans with insured benefits. More specifically, this Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The effective date for this standard is generally for periods beginning after June 15, 2014.

◆ **2016 STATUS (Reported by the Director of Finance) – PARTIALLY COMPLETE**

Management's Response: The City in conjunction with the external auditor continues to implement the GASB statements dealing with Pension obligations.

3. Significant Changes to Federal Grant Policies

In December 2013, the Office of Management and Budget issued final guidance to supersede and streamline requirements from OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133 by consolidating into one document the federal government's guidance on "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*." This guidance, commonly referred to as the Omni- or Super Circular, is effective for all federal awards or funding increments provided after December 26, 2014, and the audit requirement changes contained



therein will be effective for years beginning on or after December 26, 2014. The final guidance is located in Title 2 of the Code of Federal Regulations.

The new guidance raises the audit threshold and the minimum Type A/B program threshold to \$750,000, simplifies, in many instances, the support requirements for the indirect cost rate used and increases the focus on internal controls over compliance with federal program rules.

Personnel in your organization responsible for federal grant administration will need to become familiar with this new guidance and, in most cases, certain controls over compliance with federal program rules and guidance will require modification as a result of implementing this new guidance.

◆ **2016 STATUS (Reported by the Director of Finance) – PARTIALLY COMPLETE**

Management's Response: In working with external auditors for 2015, changes were made to single audit. Accounting personnel met with affected departments in October 2016 to make sure the departments were aware of the changes and what information would be required of them for the 2016 audit.

Prepared By:

A handwritten signature in blue ink, appearing to read "Nadia Dunams".

Nadia Dunams, CIA
Associate Auditor

Approved By:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

Leanis L. Steward, CIA, CPA
City Internal Auditor

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c: Mayor
CAO
City Attorney
City Council
Clerk of Council
Carr, Riggs & Ingram
Director of Finance