



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR YEAR 2016

INTERNAL AUDIT OFFICE

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May 4, 2017



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City Internal Auditor

Report Highlights

Page(s)

- Completed reports with recommendations for improving efficiency and effectiveness in City operations 2-3
- Quality Control Review: Internal Audit Office was in full compliance and received the highest pass rating for the external peer review 5



The Council
City of Shreveport

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May 4, 2017

Councilman James Flurry
Chairman, Shreveport City Council

Dear Councilman Flurry:

Subject: Annual Report on Operations of the Internal Audit Office for Year 2016

This attached Annual Report highlights Internal Audit Office operating activities and quality control results for year 2016 and goals and objectives for 2017.

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 2016

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 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 require that office is independent 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 2016. 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 quality control results.
- Part III:** **Conclusion:** provides a brief conclusion highlighting some office accomplishments for the past year and goals for year 2017.

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 2016

Report Name	Report Summary
<p>IAR 280016-01</p> <p><i>Audit of City of Shreveport Citywide Inventory Control</i></p>	<p>Major Issues: Inventory value for the City is approximately \$4.7 million in about 30 locations. Audit report pointed out weak controls over inventory including: Water & Sewerage department could not reconcile how many brass water meters were ordered, used, and missing after a theft of the meters occurred in 2014; varied and diverse systems are being used to manage inventory including paper, spreadsheets, to more sophisticated software programs, which makes it difficult to ensure accuracy, completeness, and accountability for overall inventory transactions; year-end inventory counts did not follow up on discrepancies with records.</p> <p>Conclusions: We offered the following recommendations: brass water meter inventory be reconciled by W&S; Administration should promote and enforce citywide inventory standards and functional requirements, at a minimum requiring a perpetual inventory system for all locations; discrepancies between year-end counts and records should be investigated.</p>
<p>IAR 650016-02</p> <p><i>Limited Scope Performance Audit of Employee Failure to Report Time Off</i></p>	<p>Major Issues: Our work confirmed a fraud hotline report alleging certain airport employees were not complying with policies for reporting time off. One employee had not submitted documentation to support absence from work for 45 consecutive days. Another employee had 27 equivalent days absent that was not properly documented on leave slips.</p> <p>Conclusions: We recommended appropriate disciplinary measures against the employees and the recovery of funds, if employees were paid improperly. Additionally, management has indicated adjustments were made to leave records to account for the time not charged accurately.</p>
<p>IAR 280016-03</p> <p><i>Disclosure Statement Reporting for Board and Commission Members (2015)</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. • Initial and annual disclosure statements if they derive income or any thing of financial value from a contract with the City of Shreveport. <p>Conclusions: Six board members reported having business with the City. We also recommended Administration list all current boards, duties, appointment/designation requirements on the City's Website to provide improved transparency. We further recommended Administration review the status of appointed boards, particularly the six inactive boards listed in the report, 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 230016-04</p> <p><i>Audit of the Caddo Shreveport Sales and Use Tax Commission</i></p>	<p>Major Issues: This is an independent agency established under agreement to collect sales taxes for the City. For this scheduled audit, there were two minor findings: (1) no formally documented disaster recovery plan (2) not using the financial system's automatic check generating feature for all accounts.</p> <p>Conclusions: We recommended management: (1) document in writing the disaster recovery plan (2) utilize check generating feature of the automated financial system for all accounts. Management agreed to implement the recommendations.</p>

Report Name	Report Summary
<p>IAR 270116-05</p> <p><i>Annual Follow Up External Audit Management Letter for year ended December 31, 2014</i></p>	<p>Major Issues: Our office follows up on recommendations made by the external auditors to determine the status. The external auditors reported the following: (1) the city was not reconciling bank statements timely (2) capitalized interest costs were not being properly recorded in the financial statements (3) the City was collecting more than necessary in property tax assessments to fund debt service on general obligation bonds (4) the City should be aware of the new requirement that defined benefit plans are recorded in the financial statements as a liability and of the changes to the federal grant policies related to audit thresholds and indirect cost rate.</p> <p>Conclusions: Management reported that they had implemented two recommendations, properly recording capitalized interest costs and collecting only the required amount for debt service. The other recommendations were still outstanding as of year-end.</p>
<p>IAR 240116-06</p> <p><i>Audit of the Contract Between the City of Shreveport and SRAC</i></p>	<p>Major Issues: This work was a scheduled contract compliance audit. Two minor issues were reported (1) conflict of interest policy and board member selection procedures are not noted in the by-laws (2) opportunities existed to use additional social media platforms to market the organization.</p> <p>Conclusions: We recommended SRAC management amend by-laws to reference existing policies and procedures regarding conflict of interest and board member selection and expand presence in additional social media platforms.</p>
<p>IAR 650016-07</p> <p><i>Limited Scope Performance Audit of City Take Home Vehicles</i></p>	<p>Major Issues: A fraud hotline complaint alleged that a City vehicle was being used for non-City purposes. We confirmed this allegation and the employee's take home privileges were revoked. In addition, we saw that policies and procedures between administrative procedures and city ordinances conflicted for take home vehicles; the administration lacked documentation of take-home vehicle approvals; and the City was unable to demonstrate compliance with IRS regulations regarding take home vehicles.</p> <p>Conclusions: We recommended updates to policies and procedures, to include IRS reporting requirements and excess mileage charges; approval documentation related to take home vehicles be strengthened; all city vehicles have GPS tracking devices; and, the city comply with local and IRS laws for reporting take home vehicle usage.</p>
<p>IAR 270016-08</p> <p><i>2016 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>Conclusions: Since December 31, 1991, the Internal Audit Office has made 2,371 audit recommendations. The statuses are as follows:</p> <ul style="list-style-type: none"> • Complete -- 81% • Partially Complete -- 2% • No Progress -- 2% • No Longer Applicable/Removed/Archived -- 15% <p>The completion rate of 81% is comparable to benchmarks of other similar audit shops.</p>

B. ANNUAL OPERATIONS OF THE CITY REPORT

The Charter of the City of Shreveport, 1978, Section 4.25, states "...The City internal auditor shall

...(b) Issue a report to the council at least annually on all operations of the City."

With the exception of those issues noted in this report and the referenced audits and special reports, we believe the operations of the City are generally:

- Being properly conducted in accordance with standards for governmental accounting and generally accepted accounting controls;

- Operating within their budgetary controls;
- Complying with the Louisiana Constitution, City Charter, City Ordinances, and all other applicable laws and regulations;
- Being managed and utilized in an economical and efficient manner;
- Adequately insuring timeliness and reliability of information in the management information system, administrative procedures and organizational structures;
- Properly accounting for and safeguarding city property from loss; and
- Achieving objectives or benefits.

C. AUDITS IN PROCESS 2017

Audit/Project	Estimated Percentage Of Completion
Solid Waste/Recycling	90%
Employee Benefits/Pensions	70%
Community Development-Workforce Development	40%
Employee Benefits/FMLA	40%
Citywide Overtime	40%
EMS	30%

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 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 for year 2016.

- ◆ Funeral escort fees
- ◆ Demolition analysis
- ◆ Sales tax comparison

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, fifteen (15) allegations of possible fraud, waste, and abuse were recorded and six (6) allegations were carried forward from prior years. Fifteen (15) allegations were closed out, with six pending allegations as of December 31, 2016.

[Please refer to the Fraud Hotline Activity Report for the period January 1, 2016 through December 31, 2016 for the summary report on this activity.]

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 eight professional auditors. Professional degrees and certifications held by the staff include: eight Bachelor's degrees, four Master's degrees, three 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), three Certified Law Enforcement Auditors (CLEA), 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 (ALGA), Louisiana Society of Certified Public Accountants, Institute of Internal Auditors (IIA), Association of Certified Fraud Examiners (CFE), Government Finance Officers Association, Association of Government Accountants, and the International Law Enforcement Auditors Association. Staff members serve as officers for the local IIA and CFE chapters, as well as on ALGA national committees including professional issues, conference planning, and advocacy.

D. Quality Control Reviews

As a part of overall quality control and assurance, the (IAO) underwent an external peer review during the first quarter of 2016. The purpose of the peer review was to determine if our office was conforming with professional government auditing standards. I am pleased to report that the IAO received the highest pass rating, and was in full compliance with government auditing standards for the 2015 year under review. The peer review was coordinated through ALGA, a professional organization committed to supporting and improving local government auditing standards through advocacy, education, and training, while upholding the highest standards of professional ethics. Conducted by two independent reviewers assigned by ALGA, the peer review report recognized areas which the IAO excels, as well as provided suggestions for improving operations, which our office has already implemented.

Additionally, according to government auditing standards, the IAO should perform an internal quality control review to analyze and summarize the results of monitoring procedures for its operations at least annually. The review identifies any systemic issues needing improvement, along with recommendations for corrective action. Internal Audit performed this assessment for activity occurring in 2016, noting no systemic issues for corrective action. Some administrative issues were documented and addressed with staff members.

E. Other Activities

The Internal Audit Office participated in the Junior Achievement program, where staff members taught high school students a six-session course on Career Success. Finally, our office facilitated training through the Human Resources Leadership Academy to educate 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.

PART III: CONCLUSION

For 2017, 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 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 for 2017, 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.

Also, enhancing staff knowledge attained through professional certifications and training was a goal for 2016. I am pleased to report one IAO staff member attained the certified internal auditor (CIA) designation during 2016. For 2017, our office is continuing efforts to encourage 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.

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

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