



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR YEAR 2017

April 18, 2018

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Report Highlights

Page(s)

- Reports summarized recommendations for improving efficiency and effectiveness in City operations 2-3
- Internal quality control review determined compliance with government audit standards 6



The Council
City of Shreveport

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April 18, 2018

Councilman Jerry Bowman
Chairman, Shreveport City Council

Dear Councilman Bowman:

Subject: Annual Report on Operations of the Internal Audit Office for Year 2017

This attached Annual Report highlights Internal Audit Office operating activities and quality control results for year 2017 and goals and objectives for 2018.

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 2017

INTRODUCTION

The City Auditor position is established by City Charter, Section 4.25, reporting directly to the City Council. Charged with assisting the City Council in its accountability responsibility, the City Auditor supervises appropriate staff in performing audits of City departments, divisions, agencies, boards, commissions, and activities. 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 Internal Audit Office (IAO) issues reports on city activities and operations that assist management and the City Council to:

- improve program performance and operations;
- ensure that resources are used efficiently and effectively;
- provide information, analysis, and recommendations to facilitate decision making by parties with responsibility to oversee corrective action;
- contribute to public transparency and accountability.

The IAO 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 the office is independent, audits are accurate and objective, and the work is performed by competent staff.

This annual report, outlined in three parts, illustrates how the IAO added value to the City through audits and other services for year 2017. It also provides information on the staff and their qualifications to serve the City.

Part I: Audits/Projects: describes reports completed in 2017, audits in process, and the Annual Operations of the City Report.

Part II: Special Projects and Other Activities: provides information related to special projects completed, Fraud Hotline, staff qualifications and professional development, and internal quality control results.

Part III: Future Goals and Conclusion: provides a conclusion highlighting office accomplishments for the past year and goals for year 2018.

PART I: AUDITS/PROJECTS

The work performed by the IAO 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 2017

Report Name	Report Summary
<p>IAR 070117-01</p> <p><i>Audit of the Public Works Department, Solid Waste Division – Recycling Services</i></p>	<p>This audit reviewed the City’s curbside recycling program that is managed by a contractor whose contract expired in 2017. We found the following:</p> <ul style="list-style-type: none"> • The agreement with the recycling contractor had no specific benchmarks or performance measures to assess whether the services were adequate and being carried out effectively. • The City’s goal of diverting 20%-30% of waste from landfill was not met – with only 8% recycled. • The City saves over \$185,000 annually by recycling 8% of waste. • 78% of survey respondents were satisfied with recycling program, but citizens desire more recycling education and better customer service. <p>For the new recycling contract and operation, we recommended:</p> <ul style="list-style-type: none"> • Increased education and awareness programs to improve recycling participation, including stipulating specific benchmarks and performance measures in the contract. • Strengthening contract provisions by adding an audit clause, reconciling fee change dates for recycling contractor and landfill operator, and specifying the recycle collection schedule days.
<p>IAR 270117-02</p> <p><i>Annual Follow Up External Audit Management Letter for year ended December 31, 2015</i></p>	<p>We reported on corrective actions taken by management for the external audit findings and recommendations. Of the recommendations reported:</p> <p>These matters were corrected and completed as of March 2017:</p> <ul style="list-style-type: none"> • Information Technology updated password policies to meet best practices standard. • Community Development management adjusted and corrected inaccurate data submitted to HUD on the Consolidated Annual Performance and Evaluation Report (CAPER); and, strengthened procurement procedures to ensure all documents needed for contracting are included in the official file. <p>These issues remained incomplete as of March 2017:</p> <ul style="list-style-type: none"> • <i>Information Technology</i> had not completed a formalized Risk Assessment for its operations; had not adopted a Formal Change Management Policy to ensure software changes are properly tracked, tested, and approved; and the IT Strategic Plan did not describe the processes and procedures needed to achieve the plan. • <i>Finance</i> did not timely provide fund reconciliations to the external auditors to complete the audit; the financial statements required material adjustments to several account balances; capital asset additions were not set up in the proper year, causing misstated capital asset reports; no adequate procedures were in place for reviewing year-end fund accounting and journal entries prepared by the accountants; the Schedule of Federal Awards (SEFA) Report included incomplete and inaccurate information.

Report Name	Report Summary
<p>IAR 650017-03</p> <p><i>Audit of the City of Shreveport Pension Office</i></p>	<p>Our review of the Finance Department, Pension Office, identified operational concerns:</p> <ul style="list-style-type: none"> • The Pension Office did not have a good system for identifying deceased pensioners. Over \$26,000 in improper payments were made to deceased pensioners and beneficiaries. • \$1.4 million of funds received by the Pension Office were deposited untimely, from 18 days to 18 months later than received. These funds are remitted to various payees for retirees' city benefits (health insurance) and other third party deductions (credit union, etc.) • Continuing discrepancies related to late payments and reporting made to state retirement fund agencies who receive monthly contributions from the Pension Office for retirees' benefits.
<p>SR 290017-04</p> <p><i>Disclosure Statement Reporting for Board and Commission Members (2016)</i></p>	<p>To aid in transparency, city ordinance requires members of any board, commission, or other body appointed by the Mayor and confirmed by the Council must disclose business contracts with the city to the City Auditor.</p> <ul style="list-style-type: none"> • Four board members reported having business with the City. • To further improve transparency, we recommended the Administration list all current boards, duties, appointment/designation requirements on the City's Website. We also recommended Administration review the status of eight 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.
<p>IAR 080417-05</p> <p><i>Audit of the Water and Sewerage Customer Service Water Billing Process</i></p>	<p>At the request of the Audit and Finance Committee, we looked at specific issues related to monitoring abnormal water usage and the status of the automatic meter reading system managed by the Water & Sewerage Department. Our report showed:</p> <ul style="list-style-type: none"> • The automatic meter reading system installed in 2010 for \$7.4M is not being used. • The process for pinpointing those water meters with unusually high usage prior to billing is inefficient because the reports used are not sorted based on highest abnormal readings. • Meters that are in need of repair should be followed up on in a more timely manner. Our sample showed 14% of meters to be repaired did not have timely corrective action. • Process for monitoring meters with abnormal usage (e.g., zero usage and vacant locations with usage) should be improved.
<p>IAR 600017-06</p> <p><i>Limited Scope Performance Audit of Water and Sewer Service Charges</i></p>	<p>Our work reviewed the monthly fees (flat rates) billed to water and sewer customers and recycling customers to determine if rates were being charged correctly:</p> <ul style="list-style-type: none"> • Approximately 2,300 accounts were billed an incorrect water and sewerage flat rate during the 2015-2016 period. Undercharges comprised most of the error, totaling over \$100,000; overcharges were \$2,300. • 58 accounts were not properly billed the monthly \$2.50 recycle fee during 2016.

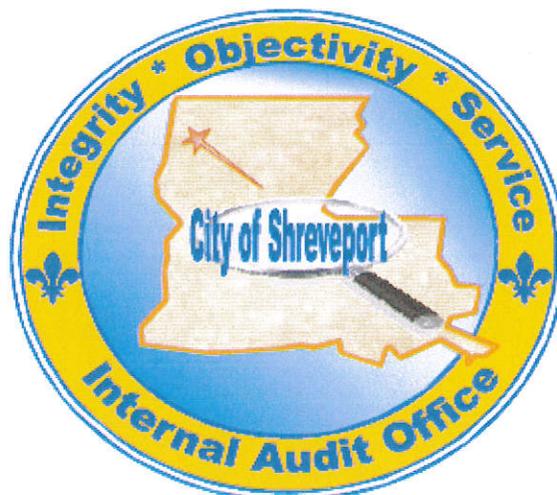
B. AUDITS IN PROCESS 2017

Audit/Project	Estimated Percentage Of Completion
Employee Benefits/FMLA & Sick Leave Donation	70%
EMS	60%
Citywide Overtime	40%
Community Development-Workforce Development	40%

C. 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.



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 IAO for year 2017.

- ◆ Researched water billing concerns for citizen
- ◆ Submitted preliminary research on landfill gas lease contract
- ◆ Analyzed property tax losses for demolished structures
- ◆ Researched city salary questions
- ◆ Researched expiration of 1% Mall St. Vincent Sales Tax
- ◆ Researched and recommended potential additional revenue for Occupational License Tax

B. Fraud Hotline

The IAO 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, three (3) allegations of possible fraud, waste, and abuse were recorded and six (6) allegations were carried forward from prior years. Eight (8) allegations were closed out, with one pending allegation as of December 31, 2017.

[Please refer to the Fraud Hotline Activity Report for the period January 1, 2017 through December 31, 2017 for the summary report on this activity.]

C. Professional Development

The current staff of the IAO provides the City of Shreveport with experienced professionals who are knowledgeable in governmental operations. There are seven professional auditors and one administrative staff member. Professional degrees and certifications held by the staff include: eight Bachelor's degrees, four Master's degrees, four 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). Most certifications have rigorous standards and minimum requirements that include comprehensive written exams for technical knowledge and skills and verified education and experience requirements. Certifications also carry stringent ethical standards.

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. These associations provide opportunities for continuing education and for maintaining proficiency and knowledge of current issues affecting the government and auditing professions. 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. Internal Quality Control Review

As a part of overall quality control and assurance, 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 2017, noting no systemic issues for corrective action. Some administrative issues were documented and addressed with staff members.



E. Other Activities

The IAO participated in the Junior Achievement program, where staff members taught four high school classes a six-session course on Personal Finance. Our office also 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: FUTURE GOALS AND CONCLUSION

For 2018, we will continue to expand our use of data analysis technology to improve and increase the depth of our audits. We believe these tools will help us identify areas in need of audit focus by pinpointing opportunities for additional revenue enhancements, as well as, isolating potential problem transactions for detailed review.

Also, our office will engage the citizens more through social media. We will establish social media accounts (twitter, etc.) to keep the public informed about our audits and upcoming activities, where to find our reports online, and how to submit audit suggestions.

Enhancing staff knowledge attained through professional certifications and training was a goal for 2017. I am pleased to report one IAO staff member attained the certified internal auditor (CIA) designation in the first quarter of 2018. In 2018, our office will continue efforts to encourage additional professional certifications and expand auditor's capabilities, fortifying our commitment 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

ls:dw

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