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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 2019**

March 31, 2020

Report Highlights

Page(s)

- Reports highlighted recommendations for improving efficiency and effectiveness in City operations 2-4
- Successfully passed peer review 5



**The Council
City of Shreveport**

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March 31, 2020

Councilman James Flurry
Chairman, Shreveport City Council

Dear Councilman Flurry:

Subject: Annual Report on Operations of the Internal Audit Office for Year 2019

This attached Annual Report highlights Internal Audit Office operating activities and peer review results for year 2019 and goals and objectives for 2020.

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 2019

INTRODUCTION

The City Auditor position is established by the City Charter 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. As outlined in the Code of Ordinances, the Audit & Finance sub-committee of the City Council provides functional oversight of the Internal Audit Office (IAO).

The 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 to review critical areas of operations and areas that directly impact city residents. 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, divided into three sections, illustrates how the IAO added value to the City through audits and other services for year 2019. It also provides information on the staff, their qualifications to serve the City, and their contributions to the audit profession.

Part I: Audits/Projects: describes reports completed in 2019 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 peer review.

Part III: Future Goals and Conclusion: provides a conclusion highlighting office accomplishments for the past year and goals for year 2020.

PART I: AUDITS/PROJECTS

The work performed by the IAO is guided by the annual audit plan that outlines audits and other projects for the fiscal year. The following summarizes each completed audit or project. Our completed publications can be found on our website at <https://www.shreveportla.gov/363/Audit-Reports>.

A. REPORTS COMPLETED 2019

Report Name	Report Summary
<p>IAR 650019-01</p> <p><i>Audit of the City of Shreveport Financial Condition</i></p>	<p>We analyzed significant financial indicators for the City over a 10-year period to identify opportunities for improving budgeting and financial health. There were some <i>positive</i> financial indicators over the 10-year period:</p> <ul style="list-style-type: none"> • Sales tax revenues that support 53% of the general fund show a steady rising trend. • Also, when adjusted for inflation, the total cost to provide city services has remained the same. <p>Significant <i>negative</i> indicators included:</p> <ul style="list-style-type: none"> • The City has not been able to meet the budget goal of maintaining an operating reserve (unassigned fund balance) of 7% of expenditures. Unassigned fund balance was at a 10-year low in 2017 of approx. \$155K (0.07% of expenditures). Increasing operating reserves by reducing spending during a revenue decline, limiting budgeted revenues to 98% of previous year's actual revenues, and consolidating or streamlining processes where appropriate may improve financial health to withstand economic disruption and respond to growth, decline, and change. • The ERS (Employee Retirement System) is severely distressed having a funding ratio of 47.5%. The ERS Board of Trustees should continue to make necessary and feasible plan changes to ensure the city remains on track to bring the funding ratio up to an acceptable level (80%) over the long term.
<p>IAR 909219-02</p> <p><i>Audit of the Public Works Department, Streets and Drainage Division</i></p>	<p>Responsible for making small street repairs, including potholes, and maintaining alleys, drainage, ditches, canals, etc., the division should implement the following to improve efficiency:</p> <ul style="list-style-type: none"> • Implement an automated, integrated work order system to replace the heavily dependent manual work order system now being used to manage service requests that are primarily received from citizens. • Update operating procedures for the division overall, and the warehouse specifically, for improved controls over materials and supplies. • Create and document safety and training programs, especially for mechanical equipment such as backhoes, loaders, and mowers and to reduce injuries and accidents at work sites.
<p>SR 150019-03</p> <p><i>Audit of the Community Development, Workforce Development Bureau</i></p>	<p>This Bureau is responsible for managing and training programs that are designed to improve the skills and job readiness of persons employed, underemployed, and those seeking career changes. Performance measures for employment rate, median income, and measurable skills gain goals were exceeded. However, expenditures for youth programs should be increased to meet grant program requirements. Expenditures should be at least 75% (compared to 62% actual) for out-of-school youth and at least 20% (compared to 10% actual) for youth work experiences.</p>

Report Name	Report Summary
<p>SR 290019-04</p> <p><i>Disclosure Statement Reporting for Board and Commission Members (2017)</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"> • 5 of about 120 board members reported having business with the City for year 2018. • There were seven inactive boards. <ul style="list-style-type: none"> ○ We recommended Administration review the status of seven 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 280119-05</p> <p><i>Independent Internal Auditors' Report on Applying Agreed Upon Procedures (AUP) for the Year Ended 12/31/2018</i></p>	<p>A new reporting requirement by the Legislative Auditor for 2017 going forward, all organizations in state who receive more than \$500,000 in public funds must complete the AUP report. The procedures are intended to improve accountability and transparency, and over time yield cost savings, as the potential for fraud, waste, and abuse is reduced.</p> <p>Matters reported as exceptions included:</p> <ul style="list-style-type: none"> • Policies and procedures for receipts/collections and ethics were needed or required updating. • All bank accounts were not reconciled every month and in some instances evidence of the preparer and reviewer were not notated on the reconciliations. • Several deposits sampled were not made within a timely manner. • Sampled reports showed evidence that fuel card reports were not properly reviewed. • Two sampled travel cards did not document the business/purpose for the transactions. • In three instances, state payroll tax forms were not filed timely during year. <ul style="list-style-type: none"> • Management will work to correct exceptions.
<p>IAR 0201019-06</p> <p><i>Performance Audit of City of Shreveport Insurance Procurement</i></p>	<p>Our office was asked to investigate changes to the City's insurance broker and coverages. The changes were made without following the appropriate process and without oversight. Additionally, for the 2019 property insurance coverage:</p> <ul style="list-style-type: none"> • Premiums increased by over \$600K, and deductibles increased by \$50K. • However, named storm coverage decreased by over \$515M. • Over \$790M less in construction and demolition coverage that covers undamaged portion of building for building code requirements.
<p>IAR 050219-07</p> <p><i>Audit of the Department of Finance, Purchasing Division- Request for Proposal (RFP) Process</i></p>	<p>We recommended Purchasing management:</p> <ul style="list-style-type: none"> • Ensure all contracts are entered in the financial system and determine if an alert can be setup in the system for expiring contracts • Automate hard-copy RFP files and ensure documentation in files is complete and consistent • Update the RFP award letter to reflect the process. • Evaluate vendor performance.

Report Name	Report Summary
<p>IAR 100019-08</p> <p><i>Audit of the Department of Public Works, Solid Waste Division Collection Process</i></p>	<p>We highlighted the following issues:</p> <ul style="list-style-type: none"> • Update collection routes that were created in the 1980s. • Include GPS tracking and monitoring software on garbage packers to improve missed pickups, ensure driver accountability, increase safe driving habits, and help with collection precision. • Monitor and document review of fuelman gas cards. • Enforce citations for curbside and bulk waste collections. • Set a limit as to how much is collected for bulk pickup. • Collection employees should wear personal protective equipment (PPE) at all times.
<p>IAR 050319-09</p> <p><i>Limited Scope Performance Audit of Payroll and Payroll Tax Reporting Process</i></p>	<p>As part of the City Council's investigation of the Finance Department, the Internal Audit Office provided this report involving the payroll and payroll tax reporting process:</p> <ul style="list-style-type: none"> • The payroll system is unreliable when generating reports to be submitted to the IRS. Manual checks and voids that occur outside the regular payroll make it difficult to keep up with when the associated liabilities are due. • The City was initially penalized over \$457,000 by IRS and State. Over \$427,000 has been abated or refunded, resulting in a net penalty cost of approximately \$30,000. The State abated its penalties because the City was not registered as a governmental agency and the State does not charge penalties to governmental agencies.

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." Our audits determine whether operations of the City are:

- 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.

Exceptions for those issues are noted in Section A above for referenced audits and special reports issued by the IAO. Additionally, deficiencies are detailed in the most recent external auditor report categorized as follows:

- Material Weakness-deficiency in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the financial statements will not be

prevented or detected on a timely basis. Issues included, but were not limited to: Account reconciliations and review; controls over payroll; actuarial data accuracy; fund statement adjustments, review, close procedures; bank wire disbursements; journal entry, account balance, transaction review; SEFA accuracy; liability recognition; ERS payment accuracy; capital asset policies; compensated absences; cash disbursement processing; W&S billings accuracy.

- Significant Deficiency – issues less severe than material weakness yet important enough to merit attention by those responsible for oversight of the company’s financial reporting. Issues included, but were not limited to: supply inventory controls; timely payroll tax filings; vendor file support;
- Various compliance issues

PART II: SPECIAL PROJECTS AND OTHER ACTIVITIES



A. External Peer Review

During 2019, the IAO successfully passed its external peer review. To make sure we have objective well-supported products, we are reviewed by an external review team every three years. The team concluded on June 27, 2019 that our office operated in compliance with Government Auditing Standards during the period January 1, 2016 through December 31, 2018. The Government Auditing Standards are issued by the U.S. Comptroller General to provide a framework for performing high-quality audit work with competence, integrity, and independence. Our next review will occur in 2022.

B. Timely Information for City Policy Makers

In addition to our audits, in 2019 we provided reports and other information to City Councilmembers to make informed decisions on important issues. Staff is assigned to research information and provide independent reviews. The resulting work is distributed to the requestor(s), generally by email/memorandum. The following summarizes the special projects completed or researched by the IAO for year 2019.

- ◆ Audit and Finance Committee Ordinance Legislation
- ◆ Amounts owed to Shreveport Convention Center
- ◆ Emergency contract expenditures
- ◆ Expense budget exception report
- ◆ Property tax revenue per mill
- ◆ EMS revenue
- ◆ Proposed bond issue costs



- ◆ Department head salary and travel costs
- ◆ Reserve fund balance
- ◆ Commercial solid waste accounts
- ◆ Sanitation fee analysis
- ◆ Outside legal costs for Police Department
- ◆ Budgetary analysis of selected departments
- ◆ Inspectors for Property Standards and Permits
- ◆ Coordinated the independent auditor selection process for the City Council, stipulated by City Charter Section 4.28

C. 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, twelve allegations of possible fraud, waste, and abuse were recorded and one allegation was carried forward from prior years. Eleven allegations were closed out, with two pending allegation as of December 31, 2019.

[Please refer to the Fraud Hotline Activity Report for the period January 1, 2019 through December 31, 2019 for the summary report on this activity.]

D. Professional Development

The 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). Certifications have rigorous standards and minimum requirements that include comprehensive written exams assessing technical knowledge and skills, and verified education and experience requirements. Certifications also carry stringent ethical standards. Staff members acquire continuing training and education annually in order to ensure that they maintain proficiency and competency in the internal auditing field.

E. 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 2019, noting no systemic issues for corrective action. Some administrative issues were documented and addressed with staff members.

F. Contributions To The City And Auditing Profession

The IAO participated in the Junior Achievement program, where staff members taught an elementary school class a five-session course on understanding business and economics. Our office also facilitated training to educate City employees concerning what Internal Audit does, internal controls, and the fraud, waste, and abuse hotline. IAO staff members serve on several boards and committees of professional organization and also participated in peer reviews of other audits shops around the country.

PART III: FUTURE GOALS AND CONCLUSION

For 2020, we will continue to expand our use of technology to improve and increase the depth of our audits. The City Council approved our purchase of an audit project software management system that we will implement in 2020. Some of the benefits of this system include being able to better define and assess risks and controls automatically; standardize audit planning, scoping and scheduling; manage finding and issue tracking; improve and report time management; and help create detailed, targeted and actionable reports automatically. This will be used in conjunction with data analytic tools. We are continuing to ramp us this technology to help identify areas in need of audit focus by pinpointing opportunities for additional revenue enhancements, as well as, isolating potential problem transactions for detailed review, improving overall audit efficiency.

Also, our office will engage the citizens more through social media. We currently have a [Twitter](#) account, and will establish a Facebook presence in the future. We will use these communication tools to keep the public informed about our audits and *upcoming activities, where to find our reports online, and how to submit audit suggestions.*

During the year, we will continue efforts to encourage additional professional certifications for staff 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. 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. We welcome suggestions for future work our office could perform.

REPORT ADDENDUM: COVID19 – As this report was being finalized, the COVID19 pandemic began. Addressing and responding to risks for this pandemic will inform and impact our audit work for the upcoming audit year.

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
Carr, Riggs and Ingram