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| Wednesday ||
|
| December ||
|
| 16, 2015 ||
|Audit Committee
| Meeting | 4 PM ||
| Carnegie ||
|Sioux Falls City Council
| Town Hall ||
|
| 235 West ||
|
| 10th ||
|
| Street ||

AGENDA

1. Call To Order
2. Introduce new Internal Auditor, Ashley Stroschein
3. Approval of Minutes
- A. Meeting held on Wednesday, September 16, 2015
4. Reports and Updates
- A. Update on external audit of City s 2015 financial statements-Dean Buckneberg, partner, from Eide Bailly LLP
- B. Review 2016 Annual Audit Plan
- C. Review 2015 Internal Audit Annual Report
- D. Update on Rich Oksol s trip to Mid-America Intergovernmental Audit Forum
5. Travel Requests
- A. Kim Schroeder, Ashley Stroschein, ALGA 2016 Annual Conference in Austin, Texas on May 22-25, 2016
6. Open Discussion

7. Adjournment

Date: 2015-12-16
SIRE Meeting ID: 2361
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:<https://youtu.be/JGJeGkgEp6g>
Agenda Item: Not Assigned
Item ID: 78003

The following document(s) are public records obtained from the
City of Sioux Falls.

Note: Minutes are considered “draft” until approved at the next meeting

MINUTES

Wednesday
September 16, 2015

Audit Committee Meeting
Sioux Falls City Council

4 PM
Carnegie Town Hall
235 West 10th Street



Members Present: Audit Committee Members: Jason Forbes, Arnold Martens and Seth Peterson. City Council Members: Rick Kiley and Rex Rolfing

Members Absent: Council Members Michelle Erpenbach and Dean Karsky

Staff Present: Rich Oksol, Internal Audit Manager; Kim Schroeder, Internal Auditor; Tamara Jorgensen, MMC, Assistant City Clerk; David Bixler, Budget Analyst; and Jim David, Legislative/Operations Manager

1. Call To Order

Committee Chair Rex Rolfing called the meeting to order at 4 p.m.

2. Review and approve minutes from last committee meeting

A. Meeting held on Thursday, April 16, 2015

A motion was made by Rick Kiley and seconded by Seth Peterson to approve the minutes dated Thursday, April 16, 2015. Rolfing called for a voice vote and all members voted yes.

Motion Passed.

4:02 p.m. Council Member Dean Karsky arrived at this time.

3. Reports and Updates

A. Review Audit Report: 15-02 Police Crime Lab

Rich Oksol, Internal Audit Manager reviewed the report, detailed responses, recommendations and management responses. Discussion followed.

A motion was made by Rick Kiley and seconded by Jason Forbes to accept this audit report and recommend it for presentation to the City Council. Rolfing called for a voice vote and all members present voted

yes.

Motion Passed.

4:05 p.m. Council Member Michelle Erpenbach arrived at this time.

B. Review Audit Report: 15-04 Transit

Oksol reviewed the report, detailed responses, recommendations and management responses. Discussion followed.

A motion was made by Dean Karsky and seconded by Michelle Erpenbach to accept this audit report and recommend it for presentation to the City Council. Rolfing called for a voice vote and all members present voted yes.

Motion Passed.

C. Review Audit Report: 15-03 Great Plains Zoo & Museum

Kim Schroeder, Internal Auditor, reviewed the report, detailed responses, recommendations and management responses. Discussion followed.

A motion was made by Dean Karsky and seconded by Michelle Erpenbach to accept this audit report and recommend it for presentation to the City Council. Rolfing called for a voice vote and all members present voted yes.

Motion Passed.

4. Travel Request: Rich Oksol to Attend Mid-America Intergovernmental Audit Forum, Overland Park, Kansas

Oksol provided an update on this continuing educational course. Discussion followed.

A motion was made by Dean Karsky and seconded by Jason Forbes to approve attendance at this training. Rolfing called for a voice vote and all members present voted yes.

Motion Passed.

5. Update on Hiring for Open Internal Auditor Position

Rolfing stated that he, Rich Oksol and Arnold Martens would be conducting interviews for the vacant Internal Auditor position. Rolfing added that they reviewed 18 applications and have selected five candidates. Human Resources will set up the interviews.

6. Open Discussion

Rolfing asked if the 4 p.m. timeslot for the Audit Committee meetings suited everyone's schedules or if moving the meetings to 3:30 p.m. would work better. After discussion, the members agreed that the 4 p.m. timeslot works best.

7. Adjournment

Committee Chair Rex Rolfing adjourned the meeting at 5:15 p.m.

A motion was made by Jason Forbes and seconded by Rick Kiley to adjourn the meeting at 5:05 p.m. A voice vote was taken and all members voted yes.

Motion Passed.

Tamara Jorgensen, MMC
Assistant City Clerk

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2016 Audit Plan

City of Sioux Falls

Presented by

Internal Audit

Rich Oksol, Internal Audit Manager

Endorsed by

The Audit Committee of the City Council

INTERNAL AUDIT'S ORGANIZATIONAL INDEPENDENCE

According to the *International Standards for the Professional Practice of Internal Auditing* Standard 1110-Organizational Independence, the chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. Accordingly, the Internal Audit Manager confirms to the City Council of the City of Sioux Falls that the City's internal audit activity is organizationally independent of the departments and programs that it audits, both in fact and appearance.

Audits

Construction Manager at-Risk

CM at-risk (CM-R) is a delivery method which entails a commitment by the construction manager to deliver the project within a Guaranteed Maximum Price (GMP). The construction manager acts as a consultant to the owner in the development and design phases (preconstruction services), and as a general contractor during construction. The City has increasingly used this delivery method; examples include the Denny Sanford Events Center and the Midco® Aquatics Center. This audit will determine if internal controls are functioning to ensure that change orders are properly approved, GMP is not exceeded, the specified quality of materials and construction is being received and a competitive process is used to select the most qualified contractor.

Citywide Cash

This audit project will, with the assistance of the City Finance office, identify all locations in the City where cash is received. The volume of cash will be identified for each location as well as the percentage of composition (checks, currency, coin, credit cards). The audit will determine the status of audit recommendations from all previous cash handling audits. It will determine if all departments receiving cash have up-to-date written procedures for handling cash, whether there is adequate physical security of cash, adequate segregation of duties, and whether deposits are made timely. Particular attention will be directed towards identifying miscellaneous revenue coming into the City-that which is not invoiced and thus be more at risk to be diverted (stolen). During this audit we will discuss with management the security in place to protect credit card payment information, particularly compliance with the Payment Card Industry Data Security Standard (PCI DSS).

NOTE: This audit is a request from the administration. A related request was to review the dispersal (payment) of these funds entering the City. This will be addressed in the audit of Accounts Payable (disbursements). See page 2 of this Annual Audit Plan.

Other Activities

Technical Assistance to Committees, City Council Members, and Departments

This time is in our annual plan in order to respond to requests for information or help in specific areas not requiring an audit. The assistance does not result in a formal report, must not impair the independence of Internal Audit, nor require more than a few hours of time. Requests for assistance that will result in a formal report or require more than a few hours of time should be approved by the Audit Committee through the special project/quick response audit process.

Special Project/Quick Response Audits

Approximately 10 percent of our available hours are unassigned hours and have been set aside to perform special projects, “quick response” audits, investigations, and other work requested by elected officials or City Directors and authorized by the Audit Committee.

Fraud Hotline

A fraud hotline became available to City employees in 2008 for employees to report concerns about illegal, fraudulent, wasteful, or unethical activities. Employees may report their concerns anonymously. The hotline is provided by a third-party provider who uses highly trained operators to receive and screen reports. Internal Audit investigates any allegations of fraud according to protocols established in the City’s Fraud Control Policy. Other calls are directed to the appropriate City department for investigation. Internal Audit monitors the disposition of these investigations.

Follow up on Status of Audit Recommendations

We follow up with management on the status of implementation of audit recommendations made in previous years. The City Council will be provided a report each year on the status of audit recommendations.

Ongoing Auditing Activities

Internal Audit will continue developing ongoing auditing activities. This will include reviewing the effectiveness of various antifraud controls. It will likely involve “desk audits” of purchasing activities. We may do testing of asset accountability. Data extraction software will be used to increase audit efficiency wherever possible.

Continuing Professional Development

Internal auditors are required to receive continuing professional education in order to comply with the International Standards for the Professional Practice of Internal Auditing. We are actively involved with the Sioux Falls Chapter of The Institute of Internal Auditors (The IIA) to assist us in fulfilling this requirement. We are also active members of the Association of Local Government Auditors (ALGA). We make use of conferences, local seminars, and web-based training as our training budget allows.

Audit and Analyses Carried Over Into 2016

Audits and analyses approved in the 2015 Annual Audit Plan but not started in 2015:

Audits

Cable Television Franchise Fee

The City receives approximately \$750,000 annually from this fee. The last internal audit was completed in 2009. The purpose of this audit is to determine if the fee is properly assessed, collected, and remitted to the City.

Accounts Payable

The purpose of this audit is to determine if internal controls are in place and functioning so that payments for goods and services are made properly and timely, that the integrity of the master vendor file is maintained, that duplicate payments are avoided, and that leading practices related

to accounts payable are being used. Any payments of City funds that do not go through the normal accounts payable process will be identified and discussed with management. The last internal audit on the accounts payable process was completed in 2008.

Information Technology

The purpose of this audit is to determine whether general and application controls in information technology are in place and functioning effectively. The last internal audit of Information Technology was completed in 2009.

Affordable Housing

The Affordable Housing Division administers numerous federal/state grants. These grants provide funding for programs that provide decent, safe, and sanitary housing for low- and moderate-income persons. The purpose of this audit is to determine whether the internal control structure is in place and functioning effectively such that assets (cash, confidential information) are safeguarded, there is compliance with laws and policies, and financial information is accurate. Affordable Housing works to redevelop properties donated by Minnehaha County. The costs associated with the replacement and the profit and loss on each of these projects for the past four years will be identified.

Follow up to Fuel Control Audit

The City spends millions of dollars on fuel each year. An internal audit was completed on citywide fuel operations in November 2011. The purpose of this audit is to determine the status of audit recommendations made in that report. We will also analyze citywide fuel usage for opportunities for improvement and audit the payment back from outside agencies such as the Sioux Falls School District and Minnehaha County for their use of City fuel.

Analyses

Energy Saving Projects

The City has initiated a number of projects to save energy costs. Two examples are the replacement of conventional bulbs in traffic signals with more energy efficient technology. In 2015, five test areas in the City will receive LED streetlights. The purpose of this independent analysis is to determine whether these initiatives are reducing or have the potential to reduce energy costs for the City.

Adaptive Traffic Control Systems

Reducing traffic congestion is a high priority for the Public Works Department. An adaptive traffic controls system was installed and implemented in 2014 on 26th Street. In 2015, a similar system will be installed on Minnesota Avenue between 18th Street and Interstate 229. The purpose of this independent analysis is to determine whether these initiatives are reducing traffic congestion and increasing safety.

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SIRE Meeting ID: 2361
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Agenda Item: Not Assigned
Item ID: 78006

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Internal Audit 2015 Annual Report



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

2015 ANNUAL REPORT INTERNAL AUDIT

As required by our Internal Audit Charter, this is Internal Audit's annual report to the Audit Committee about our 2015 activities. It is also intended to provide information to the City Council and the citizens about how Internal Audit performs its work.

City of Sioux Falls Internal Audit Mission, Vision, Goals and Objectives

Mission

To help the City achieve the highest efficiency and effectiveness with integrity

Vision

To be a highly respected service division and a catalyst for positive change

Goals and Objectives

Complete all projects and audits in the Annual Audit Plan
Follow up and resolve any audit issues and findings from previous years by determining the status of management actions to specific audit recommendations
Respond to special request projects as approved by the Audit Committee
Complete continuing professional education (CPE) as required by professional audit standards
Schedule and pass a peer review of the Internal Audit office every five years

Internal Audit Staff

The professional staff of the Internal Audit office as of December 2015 consisted of:

Internal Audit Manager: Rich Oksol, CPA, CGAP
Internal Auditor: Kim Schroeder, CIA
Internal Auditor: Ashley Stroschein

*CPA=Certified Public Accountant
CGAP=Certified Government Auditing Professional
CIA=Certified Internal Auditor*

Professional Credentials

Auditors in the Internal Audit office maintain relevant certifications and are members of several professional audit and accounting associations. The professional associations providing the certifications have rigorous standards and minimum requirements that include comprehensive written exams for technical knowledge and skills and verified education and experience requirements. The certifications also carry stringent ethical standards.

Professional Organizations and Memberships

Professional associations provide opportunities for networking with other accounting and audit professionals. They also provide opportunities for continuing education and for maintaining proficiency and knowledge of current issues affecting the government and auditing professions. Internal Audit maintains either a group or individual membership in the following organizations:

- Association of Local Government Auditors (ALGA)
- Institute of Internal Auditors (IIA)
- South Dakota CPA Society

These organizations are instrumental in helping provide professional training for Internal Audit. The Internal Audit Manager and staff completed a collective total of 106 hours of continuing professional education (CPE) in 2015. Generally, 40 hours per year of CPE must be completed by an auditor to maintain certification(s).

Organizational Independence and Objectivity

Professional auditing standards require that the internal audit activity should be independent, and internal auditors should be objective in performing their work.¹

Internal Audit is independent of the departments and organizations it audits, both in appearance and in fact. This is achieved by the placement of the office under the City Council. The Internal Audit Manager is appointed by and reports to an Audit Committee. The committee members are appointed by the City Council. The departments audited are under the direction of the Mayor.

Objectivity is a state of mind and is defined as freedom from bias. The Internal Audit Manager conducts and documents annual training with staff auditors on the importance of objectivity in performing audit work. Auditors are not assigned to audit work in which they believe they would be unable to make objective professional judgments.

Audit Committee

The Audit Committee of the City of Sioux Falls oversees Internal Audit. They meet four to six times per year at public meetings to review/approve reports and the annual audit plan. They also receive reports from the City's external audit firm. The committee reviews the City's annual financial

¹ *International Standards for the Professional Practice of Internal Auditing, attribute 1100*

statements and audit-related matters. The committee is made up of three citizens and four council members. Committee members include accounting, business, and audit professionals.

At the close of 2015 the committee members were:

Citizen members

Jason Forbes, term July 2014 to May 2017

Arnie Martens, term May 2013 to May 2016

Seth Peterson, term September 2014 to September 2017

Council members

Rex Roling (Chair)

Michelle Erpenbach

Rick Kiley

Dean Karsky

2015 Audit Work Accomplished

The 2015 annual audit plan was approved by council action on December 16, 2014. The following audit projects were included in the plan:

Revenue audits

- Cable Television Franchise Fee
- Public Facility Ticket Fee

Special area audits

- Accounts Payable
- Police Crime Lab (evidence room)
- Information Technology
- Affordable Housing
- Storm Drainage
- Follow up to Fuel Control Audit
- Construction Contracts

Other

- Follow-up on Status of Audit Recommendations

Consultation

- REMSA/Ambulance Service Franchise Agreement

Analysis

- Energy Savings Projects
- Adaptive Traffic Control Systems

All audit projects were completed and reviewed by the City's Audit Committee in 2015 with the following exceptions:

- Cable Television Franchise Fee
- Accounts Payable
- Information Technology

- Storm Drainage
- Follow-up to Fuel Control Audit
- Construction Contracts
- Analysis of Energy Savings Projects
- Analysis of Adaptive Traffic Control Systems

The Storm Drainage audit is in progress as is the Construction Contracts audit. The other 2015 audits and projects will be carried forward into the 2016 Annual Audit Plan.

Special requests in 2015

The Audit Committee has a protocol to review and approve requests for internal audit for projects that are not in the Annual Audit Plan. The following special requests were approved by the Committee in 2015:

- Transit
- Accounts Receivable Citywide
- Sanitary Landfill Cash Controls

The Transit audit was completed in 2015. The other two special request audits are in progress and will likely be completed in early 2016.

Twelve audit recommendations were made in 2015 to improve controls and operations. Audit clients concurred with all audit recommendations.

The Internal Audit Manager tracks audit recommendations to ensure they are carried out effectively and timely. An annual report is made on this follow-up to past audit recommendations.

Frequently Asked Questions

Who gets audited?

All City of Sioux Falls departments/divisions and business processes are eligible to be audited. Outside entities and contractors doing business with the City may be audited.

Who audits the Internal Auditors?

To comply with professional internal audit standards, Internal Audit is required to undergo a Peer Review by other auditors every five years. Internal Audit underwent a Peer Review performed by the Association of Local Government Auditors in October 2014. The Internal Audit office was deemed to be in full compliance with the *International Standards for the Professional Practice of Internal Auditing*.

What is the difference between external auditors and internal auditors?

External auditors are not City of Sioux Falls employees. External auditors perform, under contract with the City, an annual audit of the financial records of the City and the Federal single audits. The External

Auditors provide an independent opinion on the City's financial statements and whether they conform to Accounting Principles Generally Accepted in the United State of America. The City is required by law to have an annual independent financial audit and annual Federal single audit.

Internal Auditors are City employees. Their placement within the City organization allows them to operate with a high degree of independence. Internal Audit focuses on accountability, internal controls, and improving effectiveness and efficiency of City operations.

How are audits selected?

The Internal Audit Manager is responsible for developing a risk-based annual audit plan which is presented to the Audit Committee for discussion and endorsement. The annual plan is then presented to the City Council and approved by resolution. The planning process provides for both legislative (City Councilors) and executive (Mayor) input. Management (City Directors) is also asked for suggestions and assists in the risk assessment of their areas of responsibility. Risk factors considered include:

- Large dollar expenditures or revenue.
- Suspected or potential fraud or error.
- Opportunities for increased revenue, cost savings, or improved service.
- Amount of change in a department including management turnover and increased responsibilities or new programs.
- Amount of currency, checks, and credit card payments processed by a department.
- Complexity of operations.
- Impact of department operations on the health and safety of citizens.

The Internal Audit Manager assesses audit resources available for the coming year and develops a proposed annual audit plan to provide as broad of coverage as possible and address the areas of greater risk and management interest.