

AGENDA	Monday, September 24, 2018	
Audit Committee Meeting	4 PM	
Sioux Falls City Council	Carnegie Town Hall	
	235 West 10th Street	

1. Call To Order

2. Approval of Minutes

A. Meeting of Monday, April 23, 2018, at 4 p.m.

3. Presentations and Updates

A. Recognition of Service for Arnie Martens

B. Introduction of Tony Goettsch

C. Introduction of Rich Oksol

D. Audit Staffing Update

E. Updates to the City Council History of Internal Audit

4. Audit Report Review

A. In-Progress Audits Status Zoo & Great Bear

B. Follow-Up of Recommendations from 2017

C. Status of the 2018 Audit Plan

D. Amendments to the 2018 Audit Plan

E. Discussion of the 2019 Audit Plan

5. Administrative Matters

A. Travel/Continuing Education for Abby Vandelanotte

6. Open Discussion

7. Public Comment

8. Adjournment

Date: 2018-09-24
SIRE Meeting ID: 2769
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:
Agenda Item: Not Assigned
Item ID: 89009

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City of Sioux Falls.

MINUTES

Monday, April 23, 2018

Audit Committee Meeting

4 PM

Sioux Falls City Council

Carnegie Town Hall
235 West 10th Street



Members Present: Committee Member Arnold Martens, Committee Chair Rex Rolwing, Committee Member Greg Neitzert, Committee Member Rose Grant

Members Absent: Committee Member Rick Kiley, Committee Member Michelle Erpenbach, Committee Member Dean Buckneberg

1. Call To Order

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

2. Approval of Minutes

A. Meeting of Thursday, January 25, 2018, at 4 p.m.

A motion was made by Committee Member Arnold Martens and seconded by Committee Member Greg Neitzert to approve the minutes.

Vote to approve: Roll Call: Yeses, Arnold Martens, Rex Rolwing, Greg Neitzert, Rose Grant, 4. Noes, 0.

Motion Passed.

3. Reports and Updates

A. External Audit Results: City of Sioux Falls 2017 Financial Statements

Brian Stavenger, Eide Bailly Engagement Partner, introduced the service team and provided the results of the audit. The audit is performed in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations (CFR.) The audit is designed to obtain reasonable, not absolute assurance about whether financial statements are free of material misstatement. Stavenger explained the unmodified opinion, the two restatements, one finding due to restatements, and significant estimates. Restatement #1 is intended to record the assets held for management agreements beginning in 2017 and moving forward. Stavenger further explained the restated values for: General Fund for the Municipal Golf Courses; Entertainment Tax Fund for the Event Complex, and Transit Fund for Transit. Restatement #2 is a reclassification of the offset to notes receivable and rehabilitation loans in the Community Development Fund. The former method was "deferred revenue" and the new method is "Restricted Fund Balance." For the Federal Audit the following resulted: an unmodified opinion; no material weaknesses or significant

deficiency internal control findings; and, no material weakness or significant deficiency compliance findings.

Discussion followed about: clarification of Restatement #1, who made the decision for Restatement #1, total amount of cash in the fund, and involvement of the State Auditor's Office.

B. Audit Report 17-08: Motor Vehicle Fee Revenue

Ashley VanDeBerg, Internal Auditor, provided an introduction, background, objectives, and scope and methodology of the audit. Audit results covered: 1) changes in legislation; 2) budget impact; 3) distribution of motor vehicle funds; 4) recording and reporting; and, 5) internal controls. VanDeBerg reviewed each of the results in detail. The audit recommends: 1) In preparation of the 2019 budget, management take into consideration the analysis performed by Internal Audit over motor vehicle license revenue and how changes to legislation will affect the amount the City will receive in the future; and 2) That management update the procedure document that is used by staff to assist in the recording of motor vehicle fee revenue to ensure revenues are recorded and reported properly. This document should be reviewed regularly for updates and accuracy. It's also recommended that staff be properly trained to ensure year-end accrual entries are completed accurately.

Discussion about department impacts from the shortfall, statutes governing spending of these fees, and impacts to the 2018 budget followed.

A motion was made by Committee Member Arnold Martens and seconded by Committee Member Rose Grant to accept the Audit Report.

Vote to accept: Roll Call: Yeses, Arnold Martens, Rex Rolfing, Greg Neitzert, Rose Grant, 4. Noes, 0.

Motion Passed.

C. Update on 2018 Audit Plan

Kim Schroeder, Internal Audit Manager, communicated that one item is being removed from the 2018 Audit Plan--Bank Franchise Tax Revenue. The item was removed because during preliminary planning for the audit, it was found that recent changes in State Law explain why certain funds are now being received. There is no longer a need for the audit.

D. Update on RFP for auditing services

Rolfing noted that Eide Bailly was selected as the City's auditor for the years 2018 through 2020. A new contract will go before the City Council on Wednesday, May 2, 2018, for consideration.

4. Travel / Continuing Education Requests

- A. Kim Schroeder, Ashley VanDeBerg, and Abby Vandelanotte, 2018 Annual ALGA Conference

A motion was made by Committee Member Greg Neitzert and seconded by Committee Member Arnold Martens to approve the requested travel.

Vote to approve: Roll Call: Yeses, Arnold Martens, Rex Rolfing, Greg Neitzert, Rose Grant, 4. Noes, 0.

Motion Passed.

5. Open Discussion

Neitzert recognized the service of Committee Members Michelle Erpenbach and Rex Rolfing, who have each served multiple years on the committee.

Schroeder will serve as a peer review auditor to a city to be determined in Colorado later this fall. There is no cost to the City for travel; Schroeder is seeking concurrence from the committee to provide the peer review.

A motion was made by Committee Member Rose Grant and seconded by Committee Member Arnold Martens to approve the peer review.

Vote to approve: Roll Call: Yeses, Arnold Martens, Rex Rolfing, Greg Neitzert, Rose Grant, 4. Noes, 0.

Motion Passed.

Rolfing recognized Tracy Turbak, Finance Director, for his service to the City. Turbak will be retiring.

6. Adjournment

A motion was made by Committee Member Arnold Martens and seconded by Committee Member Rose Grant to adjourn at 4:47 p.m.

Vote to adjourn: Roll Call: Yeses, Arnold Martens, Rex Rolfing, Greg Neitzert, Rose Grant, 4. Noes, 0.

Motion Passed.

Thomas M. Greco
City Clerk

Date: 2018-09-24
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A History of Internal Audit in the City of Sioux Falls

**Informational Meeting
September 25, 2018**

Current Status of Audit Division

- Internal Audit Division Employees
 - 3 FTE's Authorized
 - 1 Internal Audit Manager, 2 Staff Auditors
 - Internal Audit Manager (IAM) currently vacant
 - 1 Staff Auditor position vacant (promoted to Finance)
 - 1 Staff Auditor (Full Time) – Abby Vandelanotte
 - 1 Staff Auditor (Part Time) – Rich Oksol
 - Audit Chair /Acting Manager – Councilor Greg Neitzert

What Do We Want from Audit?

We need to ask ourselves:

- What do we want from our Internal Audit division going forward?
- What are our priorities?
- What should the mission statement be?
- What is it's reason for being?
- What can they do for us?

What is Internal Auditing?

Internal auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

Definition from the IIA (International Institute of Auditors)

Internal vs. External Audit

- **Internal Auditors** evaluate and recommend ways to improve the effectiveness of the city's controls and processes, do performance and financial audits, and look at business practices and risk
- **External Auditors** analyze financial statements and records to ensure reporting is accurate

Who Benefits from Internal Audit?

- Management (Administration)
- Governing Board (City Council)
- Shareholders (Taxpayers)

The Internal Audit function provides value to all three – not just the City Council!

The Need for Internal Audit—City of Sioux Falls

- STI Case Study (2004)—Not a City issue, but raised important questions
- City Audit Function('02 – '04)—Not a dedicated employee until 2002
- Phillips to Falls (2004) Controversy & Pasley Park Railroad Underpass Controversy (2004)
- *City Council forced to appropriate money it did not initially approve AND after it was spent...*

December 2004 – A Major Controversy

The City administration was forced to ask the Council for budget authority to spend the additional money from the cost overruns and change orders after it had already spent the money or entered into binding contracts with contractors who had to be paid. The City Council was notified in November 2004. However, the Mayor had entered into a contract that put Phillips to the Falls 1 million over budget in February 2004. Additional spending and contracts signed over the year without Council notice.

Council Response—2005

- City Council contracts with State Department of Legislative Audit (DLA) to conduct special audit
 - 15 projects were sampled
 - Of those 15 projects, 11 of the projects overspent their approved budget
 - Of those 15 projects, 13 of the projects had obligations (i.e. contracts) in excess of their approved budget

DLA Findings

- A project had overspent its approved budget in EVERY YEAR from 1995-2004
- This was NOT a one time thing
- It spanned several years and TWO administrations
- In the later years (2002-2004), the number of times projects overspent their budget increased, as did the amount of money the project exceeded its budget

DLA Findings (2)

- Violations of City Charter and State Law
 - Spending more than appropriated by Council
 - Failing to notify Council of problem “without delay”
- Multiple instances where spending in departments exceeded yearly authorization
- One instance where Sales/Use Tax Fund (2nd Penny) over-obligated for the year

DLA Findings (3)

- Internal Controls were lacking over budgetary accountability for CIP projects
- Reports given to the City Council were not in sufficient detail for the Council to detect problems as the situation developed
- In 2000, the Finance department was removed from the approval process for CIP project expenditures, changes, and contract approvals and was consolidated into Public Works
- Public Works was approving and overseeing its own projects

DLA Recommendations

- City Council should receive regular reports of CIP project, departmental, and fund balances to monitor spending and have early warnings of trouble
- Council should receive a report of any carryovers to future years
- Restore Finance department in approval process of CIP project expenditures, contracts, and change orders

DLA Recommendations (2)

- City Council should establish an audit committee
 - It “would represent the Council’s first line of defense with respect to the City’s system of internal controls”
 - Committee should have City Councilors and financial industry experts
 - Committee should be responsible for activities of an Internal Auditor
 - The hiring and firing of the Internal Auditor should be under the authority of the committee – NOT the administration – for independence

Recommendations Implemented

- All recommendations from the 2005 State DLA Audit were eventually implemented
- An internal audit report on budget adjustments and transfers of appropriations in 2008 stated “all budget adjustments and transfers of appropriations were done accurately, timely, and in accordance with the City Charter and Executive Orders”

Recommendations Implemented (2)

- An internal audit report in 2010 on the Capital Improvement Program (CIP) stated “We also conducted a test similar to the one performed by the state to see if there were any months in the period reviewed where a Major Organizational Unit (MOU) may have gone over budget. We **did not** find any cases of this occurring.”

Additional Safeguards

- Full-time Council Budget Analyst
- Full-time Council Legislative Operations Manager
- City Clerk back under the Council
- Monthly Financial Reports from the Administration
- Change orders and contracts reported to the Council on the consent agenda

Audit Committee & Audit Division Created

Committee

- Created Nov. '05 (Ord. No. 120-05)
- First members appointed in Feb. '06
 - Five members – 2 City Councilors, 3 citizen volunteers
- Reports to the City Council
- Committee given authority to hire a Lead Auditor and additional staff if necessary
- Original members were Councilors Kevin Kavanaugh and Bob Jamison and 3 citizen members (all CPAs)

Division

- Lead Internal Auditor hired Nov. '06
- Internal Auditor also hired
- Eventually expands to three FTEs
- Audit Charter created

Audit Charter

- Sets forth the mission and scope of work of Internal Audit
 - Promote effectiveness and efficiency in city government
 - Identify risk
 - Ensure adequate internal controls are in place
 - Ensure accountability

Audit Charter (2)

- **Internal Audit Manager / Lead Auditor Duties**
 - Annual risk assessment of the City
 - Develop an annual audit plan
 - Deliver reports to the Audit Committee and City Council
 - Coordinate the external audit of the City
 - Follow up on audit recommendations
 - Investigate reported issues of fraud
 - Help management become more efficient

Audit Charter (3)

- **Internal Audit Division Authority**
 - Unrestricted access to City records, property, and personnel
 - Obtain assistance and cooperation from City personnel and divisions being audited
 - Implement and execute an annual audit plan
- **Independence**
 - Internal Audit Manager reports to Audit Committee, not the Administration

What Do We Want from Internal Audit—Possibilities

- Proactive risk mitigation
- Performance audits
- Financial audits
- Compliance audits
- Reactive audits when problems arise
- Fraud detection and investigation
- Consulting services to city departments
- Financial analysis and budget services
 - *Next Steps...*

Questions?



BACK-UP SLIDES

Benefits for the Administration

- Identify risk areas and weaknesses
- Ensure risks are being managed appropriately
- Provide consultation
- Identify processes and controls that are not working effectively
- Provide recommendations for improvement
- Help improve efficiency

Benefits for the City Council

- Provide assurance that risks are properly managed
- Ensure internal controls are in place
- Ensure laws, ordinances, regulations, and policies are being followed
- Provide assurance that Council authorized budget is honored and finances are being handled appropriately
- Provide a check on the administration by putting a “cop on the beat”

Benefits for Taxpayers

- Instill confidence in City government
- Protect tax dollars from waste, fraud, and abuse
- Promotes efficiency and good government
- Promotes accountability and transparency

Case Study

Southeast Technical Institute

- February 2004 – A former employee (teacher and administrator) is convicted of 3 counts of Grand Theft and sentenced to 17 years in prison
- Employee for 16 years at the time he was fired
- He stole \$785,000 from STI before being caught
- Method – Employee took checks from businesses intended as payment to STI and deposited them into his own bank account

STI Case – Causes

Several issues were identified that led to the theft:

- No Internal Audit function
- Lack of Internal Controls
- Sloppy and lax procedures for handling cash, recording transactions, and a lack of segregation of duties
- Too much trust in one person – no verification

City Auditors 2002-2004

- Audit Coordinator and 3 Auditors under Finance
- Not independent of administration
- No clear direction or significant support from administration
- Audit Coordinator had other responsibilities
- By 2004 only one Auditor remaining

Memo to City Attorney

In March of 2004, the City Audit Coordinator sends a memo to the City Attorney referring to the STI case and stating in part:

“It is my belief that the City of Sioux Falls similarly operates with an antiquated and/or ineffective set of internal controls. I believe procedures and processes are inadequately documented, if documented at all, and a system of oversights with checks and balances operates sporadically and is only marginally effective”

Phillips to the Falls

- Phillips to the Falls was a major road project originally programmed in the 1996-2000 CIP
- Original budget 1.16 million – final cost 10.85 million
- By December 2004 City had overspent project budget by over 3 million dollars and entered into contracts over-obligating the City by 4.3 million dollars

Pasley Park Railroad Underpass

- 2004 CIP Project
- Original budget \$500,000 – final cost 2 million
- By December 2004 City had overspent project budget by \$457,000 and entered into contracts over-obligating the City by \$831,000

December 2004 – A Major Controversy

The City administration was forced to ask the Council for budget authority to spend the additional money from the cost overruns and change orders after it had already spent the money or entered into binding contracts with contractors who had to be paid. The City Council was notified in November 2004. However, the Mayor had entered into a contract that put Phillips to the Falls 1 million over budget in February 2004. Additional spending and contracts signed over the year without Council notice.

December 2004 Council Actions

- Ordinance 119-04 provided supplemental appropriations to Parks and Public Works to cover overruns by taking money from general fund, sales tax fund, storm drainage fund, and entertainment tax reserves in the amount of 2.77 million dollars (including 1.4 million dollars from the general fund)
- Resolution 141-04 transferred 3.37 million from other departments into Parks and Public Works budgets to cover overruns
- *These actions occurred **after** the money had been spent!*

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Internal Audit Department 2018 AUDIT PLAN

The 2018 Audit Plan was approved by the Sioux Falls City Council on February 20, 2018 per Ordinance 32.022.



Internal Audit's mission is to help the City achieve the highest efficiency and effectiveness with integrity.

We continuously collect information about risks facing the City from a variety of sources including the City Council, City Administration, and the public.

We assessed this information to identify audit topics which are prioritized based on resources, timing, audit coverage, and other factors and then included them in this Audit Plan.

Committee Members

Councilor Rex Rolfing, Chair
Councilor Michelle Erpenbach
Councilor Rick Kiley
Councilor Greg Neitzert
Arnold Martens
Dean Buckneberg
Rose Grant

Internal Audit Department
Sioux Falls, South Dakota
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2018 AUDITS

Audit Title	Department	Preliminary Objective
High Level Audits		
1 Purchasing Card Program	Finance - Purchasing	Determine that Purchasing Card (P-Card) transactions are appropriate and in compliance with City policy, the economy and efficiency of the program, and that adequate controls are in place.
2 Payroll - Employee Deductions	Human Resources	Determine if deductions are accurate and adequate controls are in place to prevent errors.
3 Bank Franchise Tax Revenue	Finance	Review Bank Franchise Tax Revenue to determine if the City is receiving the correct amounts.
4 Travel Expenditures	City-wide	Evaluate employee travel expenses for the effectiveness of controls for reimbursement and compliance with City policies and procedures.
Process Audits		
5 Landfill - Licensing	Public Works	Review the process for licensing and relicensing haulers and compare to best practices.
6 Damage Recovery Billing Process	Public Works	Review the billing process for damage done to City Property for effectiveness and efficiency.
Audits of Agreements for Management Services		
7 Great Bear Recreation Park	Parks & Recreation	Review operating account, preventative maintenance performed and determine compliance with reporting and insurance.
8 Great Plains Zoo & Delbridge Museum	Parks & Recreation	Review capital assets and inventory, preventative maintenance performed and determine compliance with reporting and insurance.
Analysis / Follow-Up		
9 Follow-up of Audit Recommendations	Multiple	Has City management implemented changes that were agreed to in recent audits?
CARRYOVER AUDITS FROM 2017		
Analysis / Follow-Up		
10 Fraud Risk Analysis	Risk Management, Citywide	Does the City actively detect, deter, and prevent fraud before it occurs?
11 Financial Condition Analysis	Finance, Citywide	How does the City's financial performance compare to other cities in our region?
Resource Audits		
12 Motor Vehicle Fee Revenue	Finance	Is the City receiving the correct distribution of revenue from the State?
13 Preventative Maintenance	Facilities Management	Is preventative maintenance performed and adequately monitored to extend the useful lives of City owned assets?

Date: 2018-09-24
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**CITY OF SIOUX FALLS AUDIT COMMITTEE
AUDIT UNIVERSE COVERAGE
2009 THRU 2015**

MOU/Division	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public Works/Water				X	X	X	X			
Police			X						X	
Public Works/Water Reclamation	X				X		X			
Fire Rescue	X			X	X					
Pension System	X									
Parks and Recreation	X	X			X					X
Health/Life Benefit					X*					
Public Works/Street Snow Removal			X		X					
Public Works/Drainage and Storm Sewer							X			
Public Works/Street Maintenance			X		X	X				
Public Works/Light				X						
Public Works/Sanitary Landfill		X		X			X			
Health	X		X	X		X			X	
Transit			X				X			
Public Works/Engineering						X		X		
Siouxland Libraries				X						
Entertainment Venues			X				X			
Affordable Housing						X		X		
Public Works/Fleet Revolving			X					X		
Urban Management			X							
Public Parking Facilities										
Central Services/Information Technology	X							X		
Economic Development								X		
Multimedia Support								X		
Finance		X			X				X	
Human Resources										
Liability and Property Insurance						X				
Facilities Management										
City Attorney										
Workers' Compensation		X								
Convention Visitor Bureau						X				

Major business processes	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Payroll						X				
Accounts Payable									X	
Capital Program (CIP and OCEP)		X								
Purchasing and Procurement				X						
Accounts Receivable							X			
Maintenance of Administrative Instructions									X	
Fee waivers									X	
Citywide cash handling								X		

*consultant did audit