

|
Thursday,	
December	
11, 2014	
Audit Committee	
4:00 PM	
Meeting	
Carnegie	
Sioux Falls City Council	
Town Hall	
235 West	
10th	
Street	

AGENDA

This meeting will take place in the Carnegie Chambers.

1. Call To Order
2. Meeting held on Thursday, October 16, 2014
3. Reports and Updates
 - A. Update from Dean Buckneberg, Eide Bailly, L.L.P., - Extrernal Auditor fo the City's 2014 Financial Statements
 - B. Review - 2015 Annual Audit Plan
 - C. Review - 2014 Internal Audit Annual Report
 - D. Update by Rich Oksol - Mid-America Intergovernmental Audit Forum
4. Travel Request
 - A. 2015 ALGA Annual Conference in San Diego, CA, May 3-5, 2015 - Kim Schroeder
5. Open Discussion
6. Adjournment

Date: 2014-12-11
SIRE Meeting ID: 2172
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:<https://youtu.be/apZHnsf9sgs>
Agenda Item: Not Assigned
Item ID: 73510

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

Minutes are considered DRAFT until approved at the next meeting.

MINUTES

Thursday, October 16, 2014

Audit Committee Meeting
Sioux Falls City Council

4:15 PM
Carnegie Town Hall
235 West 10th Street



Members Present: Council Member Rex Roling, Committee Member Arnold Martens, Council Member Christine M. Erickson, and Committee Member Seth Peterson.

Members Absent: Committee Member Jason Forbes, Council Member Dean Karsky, and Council Member Rick Kiley.

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

1. Call To Order

- A. Welcome new Committee Member Seth Peterson

Committee Chair Rex Roling called the meeting to order at 4:15 p.m.

Roling provided opening remarks and introduced new Audit Committee Member Seth Peterson.

2. Approval of Minutes

- A. Meeting held on Thursday, July 24, 2014

A motion was made by Council Member Christine M. Erickson and seconded by Committee Member Arnold Martens to approve the minutes.

Roling called for a voice vote and all members voted yes. **Motion Passed.**

3. Reports and Updates

- A. Review Audit Report: 14-05 Cell Phones, Mobile Devices, and Long Distance

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

A motion was made by Committee Member Arnold Martens and seconded by Council Member Christine M. Erickson to accept this audit report.

Rolfing called for a voice vote and all members voted yes. **Motion Passed.**

4:27 p.m. Council Member Rick Kiley arrived at this time.

B. Review Audit Report: 14-06 Payroll

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

A motion was made by Council Member Christine M. Erickson and seconded by Committee Member Arnold Martens to accept this audit report.

Rolfing called for a voice vote and all members voted yes. **Motion Passed.**

C. Results of Peer Review Audit

Oksol provided an update on the Peer Review Audit. Discussion followed.

D. Elements Required For Internal Audit Effectiveness

Oksol provided an update on the elements required for Internal Audit effectiveness. A PowerPoint presentation was reviewed and discussed.

E. Internal Audit Office Performance Measures

Oksol provided an update on the Audit Office Performance Measures and distributed the following information. Discussion followed.

Internal Audit Performance Measures

1. Schedule and pass a peer review every five years or more often.
2. Complete annual audit plan.
3. Majority of audit recommendations are accepted by management and implemented.
4. Continue to receive requests for audit work from elected officials and management.
5. Internal audit staff completes sufficient continuing professional education each year.

F. Internal Audit's Quality Assurance and Improvement Program

No discussion.

4. Travel Request

A. Rich Oksol, Mid-America Intergovernmental Audit Forum in Overland Park, Kansas - December 4-5, 2014

A motion was made by Committee Member Arnold Martens and seconded by Council Member Rick Kiley to approve this Travel Request.

Rolfing called for a voice vote and all members voted yes. **Motion Passed.**

5. Open Discussion

Oksol reminded the committee the next Audit Committee meeting is Thursday, December 11, 2014 at 4:00 p.m.

6. Adjournment

Committee Chair Rex Rolfing adjourned the meeting at 4:59 p.m.

Tamara Jorgensen, MMC
Assistant City Clerk

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The following document(s) are public records obtained from the
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2015 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.

Revenue Audits

Revenue audits are conducted to determine whether fees and other types of revenue to the City are properly assessed, collected, and remitted.

Cable Television Franchise Fee

The City receives approximately \$750,000 annually from this fee. The last internal audit was completed in 2009.

Public Facility Ticket Fee

The City receives approximately \$275,000 annually from this fee. The last internal audit was completed in 2011. This ticket fee is charged for events at the Sioux Falls Events Center, Convention Center, Arena and Stadium.

Other Audits

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. The last internal audit on the accounts payable was completed in 2008.

Police Crime Lab

The purpose of this audit is to determine whether internal controls are in place and functioning effectively to provide assurance those items in evidence storage such as drugs and cash are properly accounted for. This will be the first internal audit of this area.

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.

Storm Sewer and Drainage

The City's Storm Sewer and Drainage division maintains the storm sewer system such that urban runoff is safely conveyed to the Big Sioux River through storm sewers and open channel drainage. The division's operational, maintenance and capital activities are funded through a storm drainage fee that is assessed on real property. This fee generates over \$5 million in annual revenue. The purpose of this audit is to determine whether the internal control structure is functioning properly to ensure compliance with law and policies including Environmental Protection Agency (EPA) requirements, operational and financial information are accurate, and that Best Management Practices are effective. This will be the first internal audit of this division.

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.

Great Plains Zoo and Museum

The City owns the Great Plains Zoo and Delbridge Museum. The Sioux Falls Zoological Society manages the Zoo under an agreement with the City and receives an operating subsidy. This audit will concentrate on the financial controls used by management.

Consultations

Professional internal audit standards encourage internal auditors to add value to their organizations by providing consulting services to management. Our Internal Audit Charter allows us to provide these services as well.

REMSA/Ambulance service franchise agreement

REMSA is the Regional Emergency Medical Services Authority which was created by the City Commission in the early 1990s to oversee the performance of the provider of emergency medical services to the citizens of Sioux Falls. In May 2015, the provider of emergency medical services will switch from long-time provider, Rural/Metro Ambulance, to Paramedics Plus. Internal Audit will work with REMSA staff and the City's Director of Health to review the requirements of the new franchise agreement and offer assistance in how the provider's performance according to the new agreement can best be monitored. Internal Audit will not assume a management role.

Analysis

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 street lights. 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.

Other Activities

Technical Assistance to Committees, Council members, 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% 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.

On-going Auditing Activities

Internal Audit will continue on-going auditing activities. This will include reviewing the effectiveness of various anti-fraud controls. We will 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.

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Agenda Item: Not Assigned
Item ID: 73517

The following document(s) are public records obtained from the
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Internal Audit 2014 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

2014 ANNUAL REPORT INTERNAL AUDIT

As required by our Internal Audit Charter, this is Internal Audit's annual report to the Audit Committee about our 2014 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 in 2014 consisted of:

Internal Audit Manager: Rich Oksol, CPA, CGAP
Internal Auditor: Kim Schroeder, CIA
Internal Auditor: Jess Bickett

*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 116 hours of continuing professional education (CPE) in 2014. Generally, 40 hours per year of CPE must be completed by an auditor to maintain certifications.

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 five 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 statements and

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

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 2014 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)

Christine Erickson

Rick Kiley

Dean Karsky

2014 Audit Work Accomplished

The 2014 annual audit plan was approved by council action on December 17, 2013. The following audit projects were included in the plan:

Contract/agreement audits

- Dakota Golf Management

Special area audits

- Mobile Devices/Cell Phones/Long Distance Charges
- Convention Visitors Bureau Business Improvement District
- Family Day Care Registration
- Payroll (citywide)
- Rental Rehabilitation Program
- Rental Registration Program
- MidAmerican Energy/Constellation NewEnergy charges
- Construction Contracts

Other

- Follow-up on Status of Audit Recommendations

All audit projects were completed and reviewed by the City's Audit Committee in 2014 with the exception of Dakota Golf Management, Rental Registration Program, MidAmerican Energy, and Construction Contracts. The Dakota Golf, Rental Registration, and MidAmerican Energy reports will be on the Committee agenda at their first meeting in 2015. The Construction Contracts audit report will be completed when Fire Station 11 construction is completed in spring 2015.

Ten audit recommendations were made 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.

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.

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.

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*.