

## MINUTES

### Audit Committee Meeting

Monday, April 22, 2019 at 4:00 PM

Carnegie Town Hall, 235 West 10th St., Sioux Falls, South Dakota 57104

#### 1. Call To Order

Present: Committee Member Dean Buckneberg, Committee Member Tony Goettsch, Committee Member Rose Grant, Committee Member Rick Kiley, Committee Chair Greg Neitzert, Committee Member Curt Soehl, Committee Member Theresa Stehly

Committee Chair Greg Neitzert called the meeting to order at 4 p.m.

#### 2. Approval of Minutes

##### A. Monday, December 3, 2018

A motion was made by Committee Member Soehl and seconded by Committee Member Kiley to approve the minutes of Monday, December 3, 2018.

Voice vote to approve. 7 Yes: Buckneberg, Goettsch, Grant, Kiley, Neitzert, Soehl, Stehly; 0 No: (None). Motion Passed.

#### 3. Reports and Updates

##### A. External Audit Results: City of Sioux Falls 2018 Financial Statements by Keith Severson and Brian Stavenger, Eide Bailly

Keith Severson presented in-person and Brian Stavenger presented via telephone. Severson opened the presentation by providing an overview of the External Audit and introducing the service team that worked on it. Stavenger continued with the audit results. The audit was performed in accordance with generally accepted auditing standards, Government Auditing Standards, and Title 2 U.S. Code of Federal Regulations (CFR) and designed to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement. Planning for the audit began this past year when the service team met with the Audit Committee, interim testing was conducted in December and January with the team onsite in mid-December, Year-end testing took place from January through March where the team was again onsite for two full weeks, and finished with reporting in March and April. For the Financial Statements, the audit resulted in an unmodified opinion with no findings. The Federal Audit looked at three major programs and resulted in an unmodified opinion with no material weakness or significant deficiency internal control findings and no material weakness or significant deficiency compliance findings.

The Management Letter included passed adjustments and suggestions for improvements over inventory controls. The adjustments were for the: 1) Sales and

Use Tax Fund - \$562,465 of revenue recognized in 2017 that should have been recorded as deferred revenue; and, 2) Storm Drainage Fund - \$33,196 to adjust for

one month of 2017 revenue recorded in 2018. The two suggestions were to: 1) Perform full year-end observation of parts inventory in the fleet department; and, 2) Retain all documentation surrounding inventory tracking in the Street Department.

Discussion covered the following topics: how internal controls are measured; types of opinions rendered; the meaning of material weakness and significant deficiency; the varying levels of modified opinions; recommendations for retention of inventory tracking; and, strategies for synergy between external and internal audit.

A motion was made by Committee Member Soehl and seconded by Committee Member Buckneberg to accept the External Audit Report.

Voice vote to accept. 7 Yes: Buckneberg, Goettsch, Grant, Kiley, Neitzert, Soehl, Stehly; 0 No: (None). Motion Passed.

B. South Dakota Public Assurance Alliance - Emerging Trends and Risks in Municipalities by Dave Pfeifle, Executive Director

Dave Pfeifle, Executive Director of the South Dakota Public Assurance Alliance (SDPAA), provided an overview of the organization, which includes 424 members--almost 300 cities, 55 counties, 77 townships, and other special districts. SDPAA members receive approximately 700 claims per year. He also discussed the SDPAA's loss control efforts, which include: thousands of hours of training for thousands of local government employees; Loss Control surveys for each member every three years; an Employment Practices Hotline; and, a new Government Practices Hotline. Civil rights cases against law enforcement and employment-related claims are rising litigation claims nation-wide. In South Dakota, emerging trends impacting the state are: the increasing number of interactions between people with mental health issues and law enforcement; cyber liability; and, property damage claims. Pfeifle discussed each emerging trend in detail. During his discussion of property damage claims, he noted that the City of Sioux Falls has insurance through another carrier for such claims. He further provided an overview of SDPAA enhanced crime coverage.

Discussion followed about: enhanced crime coverage; other types of services offered by the SDPAA; types of partnerships associated with cyber liability; communication with the City's risk management office; and, deductibles.

Committee Member Theresa Stehly departed the meeting at 5:09 p.m.

C. Audit Report 18-02: Great Plains Zoo and Delbridge Museum by Abby Vandelanotte, Internal Auditor

Abby Vandelanotte, Internal Auditor, provided an introduction, background, objectives, and scope and methodology of the audit. Audit results covered: Great Plains Zoo Contract Compliance; City Internal Controls over Contract Compliance; City Fixed Assets; Cash Receipts and Disbursements; and, Operational and Program Performance Trends. A resulting recommendation was that the Great Plains Zoo management add a policy and procedure to their Financial Procedure Manual that addresses their purchasing card program. Purchasing cards should have specific policies and procedures documented to provide direction and guidance to all employees who use a company purchasing card. It was noted that the recommendation was implemented by Zoo management in mid-February, 2019. The audit concluded that The Great Plains Zoo and Delbridge Museum is in compliance with the management agreement and that the City has established controls to monitor the compliance of the management agreement.

Discussion followed about use of external audit reports and how samples are judgmentally selected.

A motion was made by Committee Member Buckneberg and seconded by Committee Member Soehl to accept the report and submit it to the Mayor and City Council.

Voice vote to accept the report and submit it to the Mayor and City Council.  
6 Yes: Buckneberg, Goettsch, Grant, Kiley, Neitzert, Soehl; 0 No: (None).  
Motion Passed.

#### D. Performance Metrics for Internal Audit Staff by Rich Oksol, Internal Auditor

Rich Oksol, Part-Time Internal Auditor, opened the presentation by explaining that performance measures help to demonstrate the value of internal audit and are required by their professional standards. The standards are grouped into five broad categories: environment; output; quality; efficiency; and impact. The environmental category includes: number of management requests and management satisfaction survey results. The output category includes: percentage of the annual audit plan completed; number of audits completed; number of recommendations made; and, number of recommendations implemented. The quality category includes: auditee satisfaction survey; staff audit experience; number of professional certifications; percent of staff meeting Continuing Professional Education (CPE) requirements; number of professional organization meetings attended; number of hours of training per staff; and, passed external peer review. The efficiency category includes: hours spent vs. hours budgeted; percent administrative time; time cycle for issuing draft report; and, percent of recommendations implemented. Lastly, the impact category includes: percent of budget audited and percent of identified risks audited. Oksol noted that impact performance measures are seldom used because the true impact of audit work is very difficult to quantify. Quality measures are most frequently used. He also offered industry recommendations on how to use performance measures and how to select them. Discussion followed about the best ways to use the performance measures.

#### 4. Recognition

A. Recognizing the Service of Rich Oksol as a Part-Time Internal Auditor from August, 2018 to May, 2019

Neitzert provided an overview of Oksol's part-time service to the Office of Internal Audit and noted that he will complete his role in late May.

#### 5. Open Discussion

Neitzert provided a brief update to the committee on the new audit offices, additional training opportunities, the purchasing card audit, the audit ordinance, and the fraud hotline.

#### 6. Public Comment

Bruce Danielson spoke about his personal experience with internal and external auditing. He also spoke about the importance of an independent auditor.

#### 7. Adjournment

Audit Committee Chair Greg Neitzert adjourned the meeting at 6:02 p.m.

Thomas M. Greco, City Clerk