

AGENDA
Fiscal Committee

Tuesday, September 4, 2012

***4:30 PM
Carnegie

Town Hall

235 West

10th Street

***Committee Meeting will start immediately following the adjournment of the 4:00 p.m. Informational Meeting. The meeting will take place in the Carnegie Chambers.

1. Call To Order

2. Approval of Minutes

A. Tuesday, July 3, 2012

3. Reports and Updates

A. Fraud Control Policy by Rich Oksol, Lead Internal Auditor

B. Developing City-Wide Fees Including Park Department Fees by Rich Oksol, Lead Internal Auditor, and Jim David, Legislative/Operations Manager

4. Open Discussion

5. Adjournment

Date: 2012-09-04
SIRE Meeting ID: 1792
Meeting Type: Committee Meeting
Subtype: Fiscal Committee
YouTube:<https://youtu.be/Xa8apN5CeHo>
Agenda Item: Not Assigned
Item ID: 64570

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

FRAUD CONTROL POLICY

I. SUMMARY OF POLICY

A. Overview

This policy's goal is:

1. The prevention of fraud affecting the City of Sioux Falls (the City).
2. The timely detection of instances of fraud affecting the City.
3. The recovery for the City of losses resulting from such fraud.
4. Remedial steps to strengthen internal processes and controls once fraud is detected.

This policy is intended to be consistent with and not supersede the following:

1. City Council's Code of Ethics
2. City's Ethics Ordinances
3. Internal Audit Charter
4. City personnel policies and procedures

B. Definition of Fraud

For purposes of this policy fraud shall be defined as dishonest activity or other intentional misconduct causing actual or potential financial loss or reputational damage to the City. Examples of a fraudulent act covered by this policy include but are not limited to:

1. Embezzlement.
2. Forgery or alteration of any document or account belonging to the City.
3. Authorizing or receiving compensation for hours not worked.
4. Theft of any asset (money, tangible property, etc.).
5. Impropriety in the handling or reporting of money or financial transactions.
6. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment.
7. Any similar or related inappropriate conduct.

C. Zero Tolerance of Fraud

The City will not tolerate fraud and is committed to providing an effective system for preventing, detecting and reporting such activity.

D. Waste and Abuse

Waste and abuse are closely related to fraud. Waste and abuse are often reported through means of fraud hotlines. Waste is defined as the intentional or unintentional, thoughtless or careless expenditure of City resources. Examples would include unnecessary spending of City funds to purchase supplies or equipment or making extravagant arrangements for City travel. Abuse is the intentional destruction, diversion, maltreatment or misuse of City resources. Examples would include failure to report damage to City equipment or property, creating unneeded overtime or requesting staff to perform personal errands on City time. The City is committed to identifying and eliminating waste and abuse of City resources.

II. SUMMARY OF FRAUD CONTROL STRATEGIES

A. Role of Audit Committee and Internal Audit

Internal Audit under the oversight of the Audit Committee will be responsible for implementing and monitoring this policy and coordinating the fraud risk assessment process. Internal Audit will also be responsible for working with the City's finance staff to coordinate the fraud risk assessment procedures with respect to the City's internal control over financial reporting. Internal Audit shall also be responsible for recording fraud incident reports. The Audit Committee will be made aware of the results of any fraud investigations and will be responsible for communicating the results to the Mayor and City Council.

All Directors and employees shall provide all necessary assistance and cooperation to Internal Audit and other investigators.

B. Fraud Detection

The City shall implement a process to identify instances of fraud in the event that prevention strategies fail. The City's fraud detection efforts shall include, but not be limited to, the following:

- Strategic use of computer systems including effective data mining to identify suspect fraudulent transactions.
- Analysis of management accounting reports and exception reports as appropriate.
- Unannounced cash counts.

- Other tools and strategies deemed appropriate.

C. Fraud Risk Management

Internal Audit shall periodically review and assess fraud risk and the strategies to combat such fraud.

D. Fraud Awareness

The City shall provide appropriate fraud awareness information (including this policy) to all employees upon commencement of employment with the City or as soon as practicable thereafter. The City shall include this information, as updated from time to time, with other employee related information and City policies on the City intranet (InSight).

Internal Audit shall be available as a resource to provide or assist in training of City managers and staff in regard to fraud prevention and detection.

E. Fraud Reporting

The City shall maintain a telephone hotline (fraud, waste, and abuse hotline) for reporting of fraud and similar matters involving City employees, including Department Directors. The City shall provide employees with hotline information on the City intranet and other appropriate means such as employee bulletin boards and mailings. Any report of fraud and similar matters involving City Council members, including the Mayor, which is covered under the City Ethics Ordinances shall be immediately referred to the Sioux Falls Board of Ethics, which shall have exclusive jurisdiction for further handling.

The City's policy is to prohibit retaliation against any employee who reports in good faith any incident of fraud or misconduct.

F. Internal Control Review Following Discovery of Fraud

In each instance where fraud is detected, Internal Audit and management should reassess the adequacy of the internal processes and controls and consider whether any improvements are required.

Agreed upon remedial changes shall be implemented as soon as practicable. A summary of recommendations or requirements for the modification of the internal processes or controls shall be provided to the managers of the division(s) concerned.

III. FRAUD RISK MANAGEMENT

A systematic fraud risk assessment shall be conducted at a minimum of every five years. Internal Audit will coordinate this assessment. The assessment shall involve management and staff from Finance, Information Technology, Risk Management and other divisions as appropriate. Real or potential fraud risks and scenarios will be reviewed and appropriate prevention and detection strategies identified. The Audit Committee shall receive a report on this assessment and the results communicated with the Mayor and City Council.

IV. PRE-EMPLOYMENT SCREENING

All new employees will be subject to pre-employment screening.

The Director of Human Resources will be responsible for identifying screening policies and procedures and recommending changes when appropriate.

V. RESPONSIBILITIES AND PROCEDURES

A. All Employees

Any employee who has knowledge of an occurrence of fraud or related misconduct or has reason to suspect that such activity is occurring shall immediately notify their supervisor, file a complaint with the Board of Ethics, or call the fraud hotline. Any suspected fraud or related misconduct of a member of the City Council, including the Mayor, which is covered by the City's Ethics Ordinances, should be reported to the Sioux Falls Board of Ethics. If that supervisor is the subject of the alleged impropriety, the report should be made to the next higher level supervisor. If the employee is uncomfortable reporting through management or the Board of Ethics, the hotline is an option for reporting concerns anonymously. Every employee shall cooperate with investigations. The employee shall not discuss the matter with anyone other than the employee's supervisor, or next level of management, City Attorney's Office, Director of Human Resources or Internal Audit.

An employee having knowledge of fraud or related misconduct who does not report it may be considered to have been an accomplice to the misconduct and will be subject to disciplinary action.

B. Employee Activities Not to be Reported as Fraud, Waste or Abuse

Examples of employee activities that should not be reported as a fraud issue are as follows: (parenthetical items are the appropriate office for reporting, not necessarily in the order specified)

- Equal Employment Opportunity Complaints (Human Relations)
- Safety Hazards (supervisor, chain of command, Risk Management)
- Grievances (supervisor, chain of command, Human Resources)
- Workplace Violence (supervisor, chain of command, Risk Management)
- Harassment (supervisor, chain of command, Human Resources)
- Substance Abuse (supervisor, chain of command, Human Resources)
- Sexual Harassment (supervisor, chain of command, Human Resources)
- Compensation (supervisor, chain of command, Human Resources)
- Workers' Compensation (supervisor, chain of command, Risk Management)
- Customer Service (supervisor, chain of command, Human Resources)
- Management Issues (chain of command, Human Resources)

C. Supervisory Personnel

For purposes of this policy supervisory personnel include supervisors through appointed City Directors. Upon notification from an employee of suspected fraud or related misconduct, or if the supervisor has reason to suspect that fraud has occurred, the supervisor shall immediately notify the next higher level manager up to and including the Director. The supervisor shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the necessary management personnel, City Attorney's Office, Director of Human Resources or Internal Audit. However, if the supervisor has reason to believe that the next level manager may be involved, the supervisor shall contact the next higher level manager, City Attorney's Office, Director of Human Resources or fraud hotline.

D. Retaliation and False Charges

It shall be the policy of the City of Sioux Falls that retaliation in any form against employees who report, in good faith, misconduct or suspected misconduct shall not be tolerated. Retaliation includes dismissal of employees or threats to dismiss, intimidation or coercion of employees or imposition of penalties. Employees who retaliate will be subject to discipline. Employees who knowingly make false allegations will likewise be subject to discipline.

E. Internal Audit

Since fraud and related misconduct can involve an infinite number of circumstances and degrees of seriousness, how each case is handled can vary. A **Fraud Coordination Committee** will include the Lead Internal Auditor, the City Attorney, the Director of Human Resources and the Audit Committee Chair. This Committee will monitor and refer any reports regarding employees to the Director of Human Resources for further handling. Any reports regarding an elected official shall be referred to the Board of Ethics for further handling. Any reports regarding an elected official shall be referred to the Board of Ethics for further handling if the allegations are covered by the City's Ethics Ordinances.

Employee activities that are not fraudulent but may be considered inappropriate should be reported to the respective department's supervisors and/or Human Resources or other appropriate departments.

For any reports that are referred to the Director of Human Resources for further handling, the Director of Human Resources will provide an executive summary to the other members of the Fraud Coordination Committee on the results of the investigation and recommendation changes, if any.

F. Security of Evidence

A successful investigation can only be performed if the documentation relating to an alleged fraud is available for review in its original form. Therefore, once a suspected fraud is reported, Internal Audit, or the investigative team, shall take prompt action to prevent the theft, alteration or destruction of relevant records. This shall be done in consultation with the City Attorney.

Such actions include, but are not limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist and preventing the individual suspected of committing the fraud from having access to the records, whether these records are in paper or electronic form.

G. Confidentiality

All participants in a fraud investigation shall keep the details, identities and results of the investigation confidential except as expressly provided in this

policy or as otherwise provided by law. Great care must be taken in the investigation of suspected fraud so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. Failure to comply with this provision may result in disciplinary action, up and including termination.

H. Media Issues

Any City employee or elected official contacted by the media with respect to an audit investigation shall refer the media to the City Attorney. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the City Attorney's Office.

Investigation of alleged fraud or related misconduct may simply detect control weaknesses, without revealing or indicating the presence of fraud. In such instances, confidentiality of all involved is important to protect the legal rights of those individuals. However, the control weakness will be reported and become public information via normal practices.

I. Police and States Attorney

In all circumstances where an investigation has provided reasonable grounds that a serious fraud has occurred, Internal Audit, subject to the advice and consent of the City Attorney, will contact the Sioux Falls Police Department and the States Attorney office.

J. Restitution

To the extent practicable, the City Attorney will make reasonable efforts, including requesting court-ordered restitution, to obtain recovery of the City's losses from the offender, or other appropriate source. Coordination with Risk Management will be done, as appropriate, in seeking restitution for property loss.

VI. DISPOSITION OF INVESTIGATION

At the conclusion of a serious fraud investigation, the Audit Committee will ensure that a formal report is made by Internal Audit to the Mayor and City Council. The report will not include the names of individuals involved in the fraud. Minor instances of fraud, waste and abuse do not require a report to the Mayor and City Council. However, the executive summary of any final report of any investigation will be sent to the appropriate Director as well as Internal Audit. The reports shall include the findings, action plan to correct and implementation dates. Internal Audit

shall maintain a file of all fraud investigations whether major or minor. Upon completion of the investigation and all legal and personnel actions, records will be returned to the appropriate department unless prevented by law or internal policy.

DRAFT

Date: 2012-09-04
SIRE Meeting ID: 1792
Meeting Type: Committee Meeting
Subtype: Fiscal Committee
YouTube:<https://youtu.be/Xa8apN5CeHo>
Agenda Item: Not Assigned
Item ID: 64571

The following document(s) are public records obtained from the
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City-Wide Fees Audit April 2012



Internal Audit
City of Sioux Falls, SD

CITY-WIDE FEES AUDIT INTERNAL AUDIT REPORT 12-03

INTRODUCTION AND AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2011 as part of the 2012 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 104-06. This is the first fees audit.

OBJECTIVES

We reviewed City of Sioux Falls (City) ordinances and a sample of fee deposits to determine the following:

1. What fees are in City ordinance,
2. Were the fees collected in accordance with ordinance and recorded correctly in the accounting general ledger,
3. When were the fees last reviewed and adjusted,
4. Does the City either as a whole or individual departments have a policy on how fees are set and then reviewed and adjusted,
5. Were best practices followed when setting and reviewing fees.

SCOPE AND METHODOLOGY

The scope of this audit included a review of all City fees that are included in ordinance. We also reviewed a sample of fee deposits from September 2011 thru March 2012. We examined original documents, performed analytical procedures, and held meetings with different departments that collect fees. We also reviewed records in the City's computerized financial system. We reviewed audit reports and fee policies from other government entities. Finally, we received guidance for our audit and recommendations from the 1996 GFOA (Government Finance Officers Association) best practices publication "Establishing Government Charges and Fees (1996) (Budget)".

RESULTS

Our review of City-wide fees found that most fees charged by the City are collected accurately and are established within ordinance. We also found that the majority of the fees in ordinance are reviewed on a regular basis and updated when warranted. However, we found the City does not have a comprehensive fee policy either at the department level or City-wide level. We have made a recommendation for this along with additional recommendations that will hopefully make all City fees more transparent to the public.

RECOMMENDATIONS

We made the following recommendations that address areas we feel will improve the handling and transparency of City fees:

- 1) We recommend that a City-wide fee policy be created that covers the City's philosophy on fees as well as the procedures for implementation, review, and adjustment of City fees. The philosophy portion of the policy would discuss what the City's expectation would be for all fees. This portion of the policy would probably have to be stated in sections by department

or by the type of service provided. We would anticipate that the philosophy section would outline how much of a services' expenses would be expected to be recuperated through collection of fees.

The other portions of the policy could detail what would warrant the creation of a new fee, how often a fee should be reviewed, and what would contribute to the adjustment of a fee. We envision that a policy would spell out the steps in the procedure for each of the areas of the policy listed above.

- 2) We recommend that all the fees listed in ordinance be consolidated under "Chapter 15 ½ - Fees". Currently, the fees are spread out throughout ordinance. This makes it difficult for the public to easily locate a fee they might be looking for. We would not expect for this to happen immediately with one large ordinance revision, but would anticipate this happening over a few years as fees are reviewed and updated.
- 3) We recommend that all fees approved in ordinance be listed on the City's website in one section under the heading "Fees" or something similar. Currently, only certain fees are listed on the City website and can be difficult to locate. We further recommend that any City-wide fee policy adopted by the City be published on the City website so that the citizens of Sioux Falls can get a better understanding as to the philosophies and procedures used in the City's management of fees. We believe this would improve the transparency of City fees.

CONCLUSION

City ordinance lists hundreds of fees City departments are allowed to collect for services offered to the citizens of Sioux Falls. All departments that handle fees appear to be doing an effective and efficient job. We commend City staff and management for their efforts to ensure City fees are accurate.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Lead Internal Auditor is accountable to an Audit Committee appointed by the City Council per City ordinance 120-05.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

Internal Auditor Timothy Buseman performed this audit.