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Thursday,	
February	
2, 2012	
Audit Committee	
Meeting	
Sioux Falls City Council	
Town Hall	
235 West	
10th	
Street	

AGENDA

1. Call To Order
2. Review and approve minutes from the meeting dated November 22, 2011
3. Review Audit Report: 11-13 City Wide Disbursements
4. Review Audit Report: 12-01 Update on Status of Audit Recommendations
5. Records Retention Policy for Internal Audit
6. Audit Committee Vacancy
7. Open Discussion
8. Executive Session
 - A. Pursuant to personnel issue under SDCL 1-25-2(1)
9. Adjournment

Date: 2012-02-02
SIRE Meeting ID: 1653
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:<https://youtu.be/-xt3m2EjaCo>
Agenda Item: Not Assigned
Item ID: 61644

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

NOTE: Minutes are considered 'draft' minutes until approved or amended at the next scheduled meeting

MINUTES

Tuesday, November 22, 2011

Audit Committee Meeting
Sioux Falls City Council

4:00 PM
Carnegie Town Hall
235 West 10th Street



Members Present: Sue Aguilar, Jim Entenman, Greg Jamison, Rex Rolfing, Anne Opegard, and Joe Marsh

Members Absent: Jason Forbes

Staff Present: Rich Oksol, Lead Internal Auditor; Tim Buseman, Internal Auditor; and Tamara Jorgensen, CMC, Assistant City Clerk

Guests: Dean Buckneberg, Dwight McElhaney, Al Roettger, Mike Cooper, Galynn Huber, Jeff Flaten, Dean Borchardt, Greg Neitzert and David Bixler

1. Call To Order

Committee Chair Jamison called the meeting to order at 4:00 p.m.

2. Review and approve minutes from the meeting dated September 27, 2011

A motion was made by Jim Entenman and seconded by Sue Aguilar to approve the minutes dated September 27, 2011. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

3. Review Audit Report: 11-11 School-Based Health Clinic

Oksol reviewed the report, detailed responses, recommendations and management responses. Jill Franken, Director of the Health Department, gave an update on payments received. Discussion followed.

A motion was made by Jim Entenman and seconded by Rex Rolfing to accept this audit report and recommend it for presentation to the City Council. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

4. Review Audit Report: 11-09 Fuel

Buseman reviewed the report, detailed responses, recommendations and management

responses. Galynn Huber discussed upcoming changes that will update the fuel system procedures. Discussion followed.

A motion was made by Sue Aguilar and seconded by Jim Entenman to accept this audit report and recommend it for presentation to the City Council. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

5. Review Audit Report: 11-12 Neighborhood Redevelopment

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

A motion was made by Jim Entenman and seconded by Sue Aguilar to accept this audit report and recommend it for presentation to the City Council. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

An Open Discussion item concerning Eide Bailly was heard at this time. See Open Discussion for details.

6. Update on Fraud Policy

Oksol gave an update on a first draft of a Fraud Policy, which has been discussed with Bill O'Toole, Director of Human Resources, and with David Pfeifle, City Attorney. Members of the Audit Committee requested a copy of the draft Fraud Policy to review.

The Fiscal Committee is scheduled to review the Fraud Policy at their meeting on Monday, December 5, 2011.

7. 2012 Annual Audit Plan

Oksol reviewed the draft 2012 Audit Plan with the committee. Once reviewed and approved by this committee, the plan is presented to the full City Council and needs to be adopted by a resolution. Oksol indicated this item may be reviewed on a City Council meeting at the end of December or the first meeting in January. Oksol stated that he has received seven requests from city directors to perform audits.

Jamison asked if there was enough room in the plan for the City Council or the Audit Committee to add any additional audits if needed. Oksol stated that other item(s) may need to be removed from the plan for this to occur. These changes will be brought before the committee before implementation.

Regarding contract/agreement audits, Entenman asked if Oksol was going to follow through on monitoring past audits where compliance issues were found, (example: insurance coverage), etc. Oksol stated that he would. Entenman also stated that he would like to know when any additional audits are being requested. Jamison indicated that this protocol will be reviewed again when the resolution is brought before the City

Council.

The Internal Audit Charter may be reviewed again in 2012.

A motion was made by Sue Aguilar and seconded by Jim Entenman to accept this plan and recommend it for presentation to the City Council. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

8. Update on Filling Vacant Internal Auditor Position

Oksol stated that the vacant Internal Auditor position will be advertised in the *Argus Leader* on Sunday, November 27, 2011. The position will also be posted on the city's website at www.sioxford.org. The posting will last for two weeks, closing on December 9, 2011. Oksol has also notified the Sioux Falls Chapter of the Institute of Internal Auditors, and the Association of Local Government Auditors of the vacancy.

Oksol requested authorization from the committee that he would be the hiring authority for this position. The committee was asked if anyone would like to be involved in the interviews. The committee members stated that they did not need to be involved in the hiring process for this position. The committee members stated that Oksol and Human Resources can work together to find the best candidate. Oksol stated that he felt the position would be filled by the end of January.

9. Open Discussion

Dean Buckneberg, Eide Bailly, spoke regarding the scheduled external audit of the City of Sioux Falls. Buckneberg stated the Eide Bailly group that conducts this audit would report to the Audit Committee. In preparation for the audit, Buckneberg asked the committee to communicate with them if they have any specific areas of concern, if they want anything specific reviewed regarding fraud or non-compliance issues or if they want any other items reviewed. Buckneberg mentioned that another area that they can review is financial assistance that the City receives from the State in the form of grant agreements.

Pre-audit work will begin the week of November 28, 2011, with the external auditors being onsite for a week or so. Yearend audit work will begin around January 30, 2012, with the auditors being onsite until February 10, 2012. The external auditors are looking at delivering a report at the end of March or the first part of April.

Buckneberg stated that this is the first step to keeping communications open and encouraged the committee to contact him with any concerns or requests as soon as possible so it can be included in the pre work planning. After discussion, Jamison recommended that the suggestions be sent to either to him or Oksol and the information would be forwarded to Buckneberg.

Entenman asked if there was anything specific that the committee should be made aware of or should watch for. Buckneberg stated there were specific grants in the past that had some small, non-compliance issues but that he could not recall anything significant at this point.

After discussion, the committee determined that the next update from Eide Bailly could be received in March after the external audit is completed. If something major happens before that time, the committee will be made aware of it as soon as possible. Buckneberg stated that he would be in contact with Jamison because their contract requires that he keep in direct contact in case something comes up that needs to be addressed.

Jamison requested that the Audit Department provide a yearend report illustrating whether or not management has followed through on recommended improvements. The status report should include the type of improvement requested and the steps that have been taken to comply with the request. The report should also provide data for unresolved improvements. After discussion, the recommendation was made that this report be changed to a quarterly summary update versus an annual update.

Oksol stated he would be working with Tamara in the City Clerk's Office to set up a schedule for the 2012 Audit Committee Meetings. The tentative schedule will be distributed in December for the committee's review and approval.

10. Executive Session

A. Pursuant to Personnel Issue Under SDCL 1-25-2(1)

A motion was made by Jim Entenman and seconded by Sue Aguilar to go into Executive Session at 5:05 p.m. for the purpose of discussing a personnel issue under SDCL 1-25-2(1). Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

A motion was made by Aguilar and seconded by Rolfing to go out of Executive Session at 5:17 p.m. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

11. Adjournment

A motion was made by Opegard and seconded by Entenman to adjourn at 5:18 p.m. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

Tamara Jorgensen, CMC
Assistant City Clerk

Date: 2012-02-02
SIRE Meeting ID: 1653
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:<https://youtu.be/-xt3m2EjaCo>
Agenda Item: Not Assigned
Item ID: 61645

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

City-Wide Disbursements Audit December 2011



Internal Audit
City of Sioux Falls, SD

CITY-WIDE DISBURSEMENTS AUDIT INTERNAL AUDIT REPORT 11-13

INTRODUCTION AND AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2010 as part of the 2011 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 fourth annual disbursements audit.

OBJECTIVES

We audited a sample of disbursements in the area of employee payroll to determine the following:

1. Paid to actual employees, not “ghost” employees,
2. Employees received the correct salary that was approved by employee’s supervisor,
3. Correct deductions were subtracted from employee’s gross earnings.

SCOPE AND METHODOLOGY

The scope of this audit included a review of the July 29, 2011 payroll and the August 12, 2011 payroll (Note: the August 12, 2011 payroll period was used only for the examination of employee United Way contributions). We examined original documents, performed analytical procedures, and made field observations where necessary. We reviewed records in the City’s computerized financial system. We used statistical sampling techniques to select disbursements for audit examination.

RESULTS

Our review of payroll disbursements found that the majority of the payments made were accurate, supported by proper documentation, made to actual employees, and properly recorded within the City’s financial records. However, we did have one audit finding. This finding resulted in a cost recovery for the City taxpayers. We have made recommendations that address this area (please see the recommendations section).

AUDIT FINDING

During the review of payroll deductions (specifically the dental premium deductions), we found that one employee was actually having money added to his or her pay. Each pay period, this employee was receiving \$160 instead of having the family plan dental premium, which is the plan this employee had elected, deducted from his or her pay. This overpayment occurred every pay period for 2 years. This person received \$8,320 more than he or she was authorized to earn and \$639.47 that was not paid in dental premiums for a total of \$8,959.47.

RECOMMENDATIONS

We made the following recommendations that address this finding and potential future payroll errors:

- 1) We recommend that this employee pay the City back for the over-payment. We understand this error was not the result of any wrong-doing or anything this person did, however; if the

employee was underpaid, he or she would rightfully be due what was owed to him or her. We also understand that this is a large sum of money, so the City cannot expect the employee to pay the entire lump sum. We further recommend that a repayment schedule be worked out with this employee.

Note: When we found this error, we immediately alerted management. At that time, we made the recommendation listed above. They agreed with the recommendation and notified the employee shortly there-after of the error. They have since established a repayment schedule with the employee and the employee has begun paying the City back.

Human Resources Response: This action has been completed and a repayment schedule has been established with the affected employee. Additionally, once alerted to the initial finding, management in Human Resources expanded the parameters of an existing electronic edit program and searched the payroll system for any other discrepancies. As a result of the additional search, one other similar deduction discrepancy was discovered and corrected. A repayment schedule was also established with that employee.

- 2) We recommend that a procedure be put in place to routinely review the payroll system for errors like the one detected by Internal Audit. This procedure could be in the form of a manual review of a sample of payroll disbursements or through an automated detection system or program that would detect and flag any payroll irregularities.

Human Resources Response: As stated above in Recommendation #1, Human Resources immediately expanded the electronic edit program for continued edit analysis of bi-weekly payroll, thereby, eliminating the ability for these discrepancies to occur.

- 3) We recommend that a policy be created that addresses how these types of situations will be handled in the future. For example, this policy should outline the employee's responsibility to repay the City for an over-payment regardless of whether it was the employee's error or not. The policy should also include what type of options the person will have to repay over-payments.

Human Resources Response: The Human Resources Department intends to work with the City Attorney's Office to draft ordinance language addressing correction of payroll errors. Similar "correction" language exists in City Ordinance Chapter 35 for pension related payroll errors and this language will be used as a foundation for our ordinance proposal.

- 4) We recommend that Human Resources attempt to educate all employees on how to read and understand their pay stubs and the importance of thoroughly reviewing this pay stub for accuracy. Each employee receives a pay stub that outlines how much they earned and then how much was deducted from their earnings for taxes, insurance, and pension contributions. If this person would have known what to look for, he or she may have been able to alert Human Resources and the error may have been corrected sooner.

Human Resources Response: The Human Resources Department will be modifying employee orientation materials for all new hires to include a sample payroll statement to educate

employees. In addition, Human Resources will be placing information on InSite within the next month to educate and inform employees regarding information contained in their payroll statements.

CONCLUSION

The City's payroll includes over one thousand full-time employees and hundreds of part-time employees. Human Resources staff manages this process quite effectively. We commend City staff and management for their efforts to ensure that payroll disbursements 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.

DRAFT

Date: 2012-02-02
SIRE Meeting ID: 1653
Meeting Type: Committee Meeting
Subtype: Audit Committee
YouTube:<https://youtu.be/-xt3m2EjaCo>
Agenda Item: Not Assigned
Item ID: 61649

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

Follow-up on Status of Audit Recommendations January 2012



**Internal Audit
City of Sioux Falls, South Dakota**

FOLLOW-UP ON STATUS OF RECOMMENDATIONS INTERNAL AUDIT REPORT 12-01

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.

SCOPE AND PURPOSE

Our purpose in performing a follow-up review of audit recommendations is to determine the status of corrective actions. This is a governance and risk management best practice. It is also included in the Internal Audit Charter of the City of Sioux Falls. An audit follow-up process is required by the International Standards for the Professional Practice of Internal Auditing. We focused this report on audit recommendations from 2010 internal audit reports. However, we also included information on several audit recommendations from 2009.

METHODOLOGY

When internal audit reports contain recommendations, department directors provide a response to these recommendations and this response is included in the final audit report. They will typically include information about corrective actions taken in regard to recommendations that they concur with. Important points to consider are as follows:

- Directors self-report the status of their corrective actions.
- We do not perform additional audit work to verify the corrective actions taken unless requested by the Audit Committee. However, corrective actions in the higher risk areas are reviewed when the area cycles through our audit plan.
- For some areas, we are involved as corrective actions are implemented. Our relationship with the department does not necessarily end with the issuance of an audit report.
- Some issues are not easily corrected nor are they always controllable by the departments. Corrective actions may take considerable time and effort to fully implement.
- In some cases, departments will assume the risk rather than try to mitigate it. If, in the judgment of management, the benefits of the corrective actions do not outweigh the costs, this may be a reasonable approach. If Internal Audit believed this approach subjected the City to serious risk, we would bring it to the attention of the Audit Committee for resolution.

REPORT FORMAT

For purposes of brevity, a brief summary of recommendations from a report is shown along with a brief description of management actions in response to the recommendation. Details of recommendations and corrective actions are generally not included but may be provided upon request.

CONCLUSION

Overall, management and audited agencies have made considerable progress in addressing issues raised by Internal Audit. This demonstrates the quality of leadership in City government and a commitment to an effective and efficient local government. In some cases, management had disagreed with audit conclusions and recommendations and no change has occurred. In other situations, management has made changes which were not exactly in accordance with the original audit recommendations but do represent positive change. **We would like to point out the considerable progress made by the Executive Director and board of directors at the Multi-Cultural Center of Sioux Falls in response to our audit.** Internal Audit met with management at the Center and concluded that all 21 audit recommendations have been implemented. See pages three and four of this report.

DISTRIBUTION OF REPORT

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

RESULTS

Recommendations implemented from 2009 audits

Our 2009 audit of the Employee's Retirement/Firefighter's Pension had recommended that the pension system's regular actuary (Gabriel Roeder Smith) be audited by an independent actuary. This is known as an actuarial audit. According to the pension board of trustees' minutes from August 2011, this was accomplished.

A recommendation from our follow-up audit of the Sioux Falls Convention Center management agreement involved a cost recovery to the City of Sioux Falls. In our audit, we noted that Ovations Food Services credit card fees were being paid by Global Spectrum, the convention center management company, from the convention center operating account. Ovations Food Services is a separate company responsible for catering services. The operating account belongs to the City of Sioux Falls. Internal Audit recommended reimbursement of these fees (City not bear the expense of Ovations' credit card fees.) In October 2011, Ovations Food Services paid \$15,482 into the operating account.

2010 Audit Reports

Workers Compensation

No audit recommendations.

Multi-Cultural Center

- MCC should pursue state licensing of the after-school program.

Status: Implemented

- Board or Treasurer should review and approve written accounting policies and procedures.
Status: Implemented
- Board and Executive Director should implement limited segregation of duties to extent possible.
Status: Implemented
- Outsource bookkeeping function or hire part-time bookkeeper/accountant.
Status: Implemented
- Raise the capitalization thresholds to \$500.
Status: Implemented
- Rotation of external auditor.
Status: Implemented
- Implement time clock, standardized time sheets, and supervisor approval of time sheets.
Status: Implemented
- Switch to bi-weekly payroll cycle.
Status: Implemented
- Outsource payroll function
Status: Implemented
- Board review of personnel policies; greater management oversight.
Status: Implemented
- Review by-laws and achieve greater compliance with by-laws.
Status: Implemented
- Develop repair records and maintenance schedules for buses for after-school program.
Status: Implemented
- Improve the financial information provided to the Board of Directors.
Status: Implemented
- Board or Treasurer review and approve the IRS form 990.
Status: Implemented
- Evaluate the Executive Director against previously determined set of expectations.
Status: Implemented
- Review conflict of interest policy; should apply to staff and Board of Directors.
Status: Implemented
- Update the MCC website.
Status: Implemented
- Develop a newsletter or organization report.
Status: Implemented
- Develop a nominating committee.
Status: Implemented
- Involve board members more in day-to-day operations.
Status: Implemented
- Fill Treasurer position on board with qualified person.
Status: Implemented

Electronic Funds Transfer

- ACH file can be altered. Recommended that management find a way to make this file read-only.
Status: Not agreed to by management. (There are other compensating controls.)
- Monthly bank reconciliation not performed such that individual ACH is performed.
Status: This should be resolved when new financial software is implemented later in 2012.
- Unused ACH number not being tracked; Finance should create ACH tracking system.
Status: Implemented

Pawn Shop Reimbursement Fund

- Continue practice of no reimbursement fund.
Status: Fund was discontinued by management in March 2010; fund has not been reestablished.
- Initiate and maintain a spreadsheet on City website accessible to pawn shop owners that list the pertinent information for each pawn shop concerning on-hold items.
Status: Not agreed to by management.
- Internal Audit supported Sioux Falls Police Department proposals to change City ordinances governing pawn shops and including precious metal dealers, gem dealers and licensed gun dealers.
Status: Implemented. Chapters 23 & 28 of the revised ordinances of the City of Sioux Falls were amended at the 07/18/2011 City Council meeting.

Comprehensive Annual Financial Report (CAFR) Review

No recommendations; informational report only.

Papa Johns and Crystal Ice (Park Concessions)

- These two reports had the same recommendation dealing with need for better monitoring of insurance requirements for contractors.
Status: In progress; Internal Auditing is doing more monitoring of this and working with City departments particularly in regard to larger contracts.

Capital Improvement Program (CIP)

- Project status codes on monthly financial reports should be changed.
Status: Implemented
- CIP transfer information should be included on monthly financial reports.
Status: Implemented
- Project capitalization policy should be reviewed.
Status: In progress; policy changes and clarifications will be reviewed with City's external audit firm this year.
- CIP project close-out should occur more timely.
Status: In progress; management contended that they already work to close-out projects quickly.

- Only transfers of funds from completed CIP projects should be occurring; transfers from uncompleted CIP projects to other CIP projects should have City Council approval.
Status: Not agreed to by management.
- CIP projects should be better defined in the CIP plan; specifically, limited use should be made of pooled projects.
Status: In progress
- Management should prioritize CIP projects at the fund level, especially in the “2nd penny” sales tax fund.
Status: Not agreed to by management; however, they agreed to review the ranking process to achieve as much clarity as possible.

Sanitary Landfill

- Management should request permission from the City Council, either through resolution or ordinance, to negotiate with vendors to purchase certain landfill waste products.
Status: Implemented; resolution 18-11 was adopted by the City Council on 03/21/2011.

Great Plains Zoo and Delbridge Museum

- A new agreement with relevant effective dates should be drafted.
Status: Implemented; a new agreement 2012-0006 was approved by the City Council on 12/05/2011.
- Any new agreement should transfer ownership of the live animal collection back to the City.
Status: Not agreed to by management; however, this issue was discussed by the City Council and Zoo management. It was agreed that ownership of live animal stock would remain with the Zoological Society as long as the agreement was in effect. Primarily, this was due to requirements of Zoo accreditation by the Association of Zoos and Aquariums, the AZA. Any new animals acquired would be with the use of nonpublic funds.
- New agreement should contain a provision that the IRS form 990 (information return for non-profit corporations) be provided to the City each year.
Status: Implemented in section 4.8 of new agreement 2012-0006.
- The Zoological Society should be required to make an annual report available to the Park Board and the City Council.
Status: Implemented in section 15.10 of new agreement.

American Recovery and Reinvestment Act

- City’s webpage concerning ARRA projects should be updated and should include a link to the Federal ARRA website, Recovery.gov.
Status: Implemented
- City employees need to be notified of Federal whistleblower protections related to reported fraud, waste or abuse in ARRA-funded projects.
Status: Implemented

City-Wide Disbursements

- There should a review of utility bills city-wide to ensure they are for legitimate City-related services and to identify potential for cost savings.
Status: In progress
- Management should develop a city-wide policy on setting up accounts with utility providers.
Status: Not completed; Internal Audit will work with Finance on this.

DRAFT