

AGENDA	Tuesday, July 3, 2012	
Informational Meeting	4:00 PM at Carnegie Town Hall	
Sioux Falls City Council	235 West Tenth Street	

1. Call To Order

2. Staff Report

A. Lorie Hogstad, City Clerk

B. Jim David, Legislative/Operations Manager

3. Land Use Committee

A. Report of meeting held on June 26, 2012

4. City Council Open Discussion

5. Presentations

A. Presentation of Two Audit Reports: 12-05 Overtime and 12-07 Wayne Township Fire/Rescue Services Agreement by Rich Oksol, Lead Internal Auditor

6. Adjournment

The City Council may include such other business as may come before this body.

Date: 2012-07-03  
SIRE Meeting ID: 1752  
Meeting Type: Informational Meeting

YouTube:<https://youtu.be/3U0GMBdS-E8>  
Agenda Item: Not Assigned  
Item ID: 63750

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

# Overtime Audit May 2012



Internal Audit  
City of Sioux Falls, SD

## OVERTIME AUDIT INTERNAL AUDIT REPORT 12-05

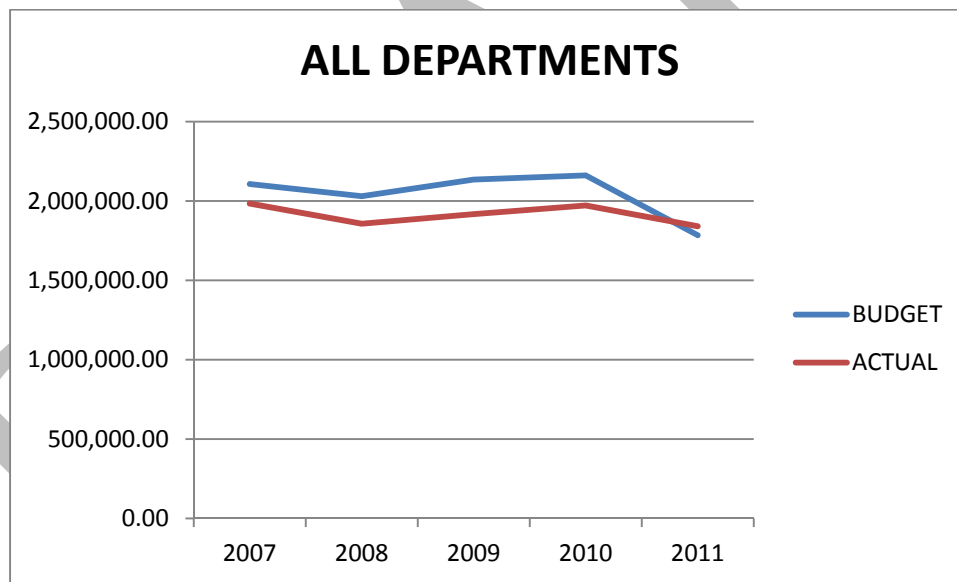
### INTRODUCTION AND AUTHORIZATION

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 overtime audit.

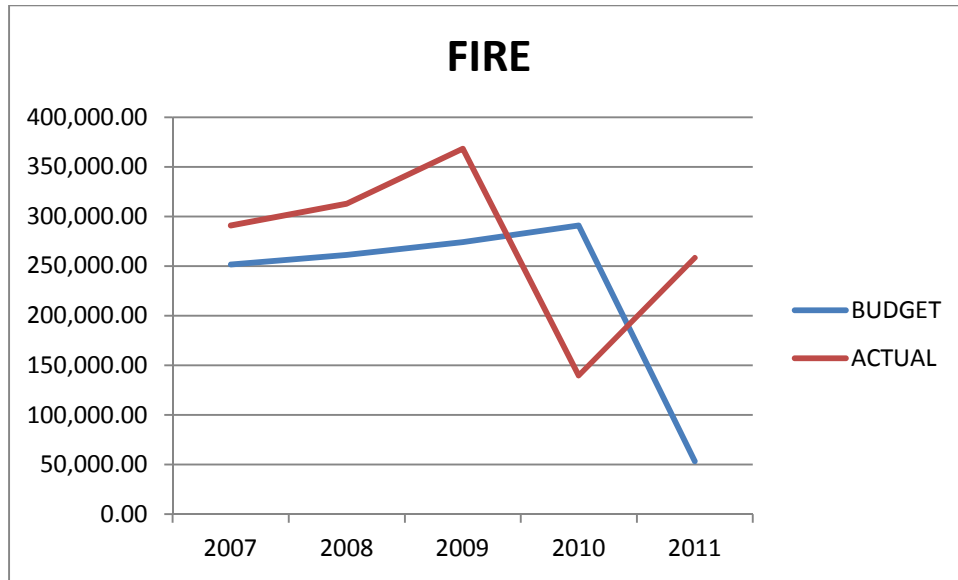
### BACKGROUND

The City of Sioux Falls (City) allows employees to earn overtime for hours worked beyond a normal 40 hours per week for most hourly City employees or 204 hours per 27 days in the case of some Fire Department (Fire) employees. The City does not allow most salaried employees to earn overtime. However, most Fire personnel that work a 204 hour per 27 day schedule are classified as salaried and are eligible for overtime.

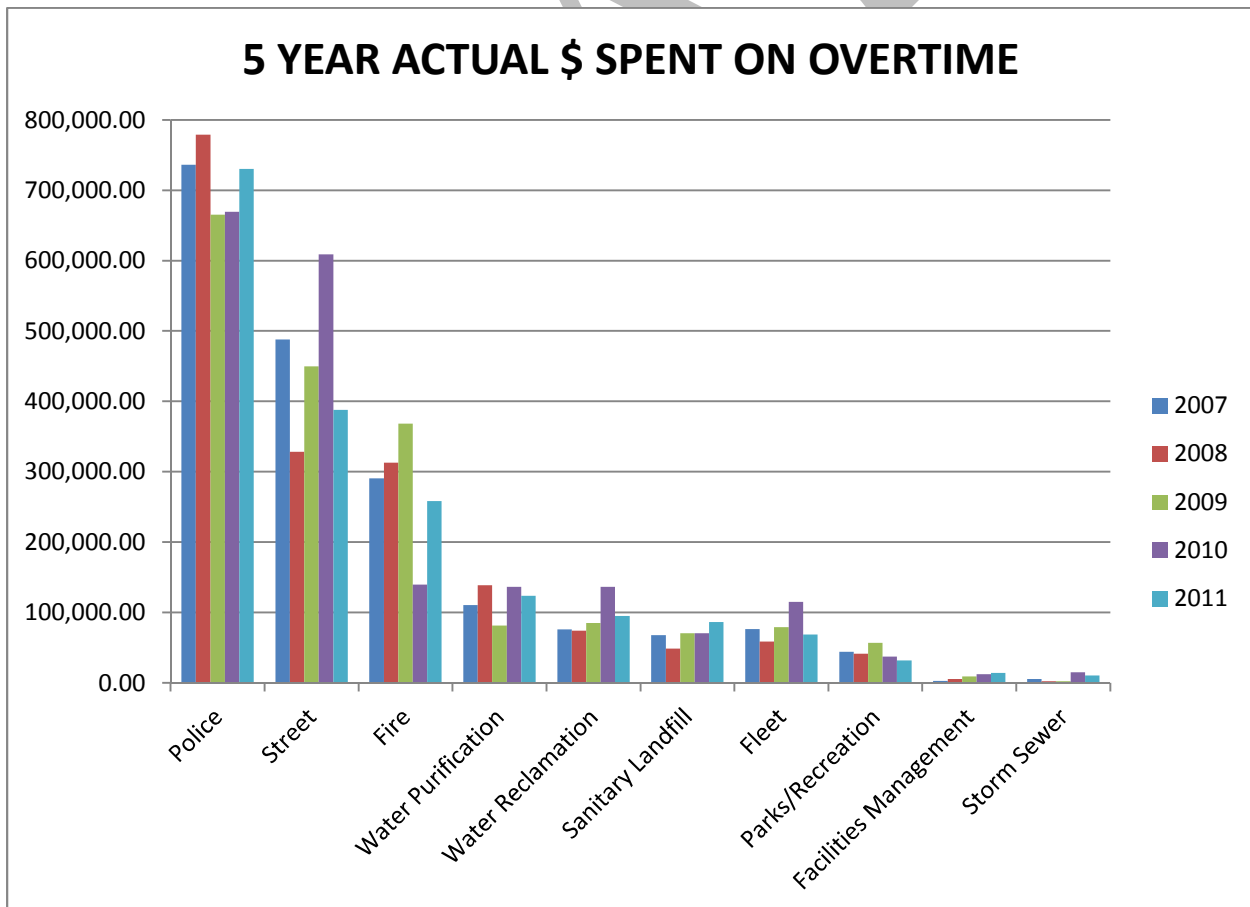
In 2011, the City paid \$1,840,600 in overtime to eligible City employees. This was the lowest overtime payment of the previous five years. The City continues to look for ways to decrease the amount of overtime worked by employees.



Fire has taken steps to reduce their overtime in the past three years. From a high of \$368,362 in 2009, Fire has decreased their overtime in 2010 and 2011. However, 2011's total of \$258,418 was unexpectedly high due to Fire personnel being deployed to Dakota Dunes for the flooding relief effort. Fire personnel assigned to Dakota Dunes earned \$169,289 of the 2011 total. In total, thirty-four firefighters rotated in and out of Dakota Dunes from June 2, 2011 through August 25, 2011.



Fire’s overtime has stayed at about the third highest of all City departments. However, they also have roughly 100 more overtime eligible employees than most of the departments that have less overtime. The graph below shows the five year history of the actual dollars spent on overtime. Only the top 10 departments based on overtime dollars spent are listed on this graph.



We have included at the end of the report additional graphs for further City-wide overtime data trending.

## **OBJECTIVES**

We reviewed Fire Department overtime to determine the following:

1. Obtain an understanding of the management controls of overtime,
2. Determine when and how employees earn overtime,
3. Verify that the process for approving and recording overtime was proper,
4. Evaluate actual vs. budgeted overtime for all departments for the previous five years.

## **SCOPE AND METHODOLOGY**

The scope of this audit included a review of Fire Department overtime procedures. We also reviewed a sample of overtime hours worked from January 2011 thru April 2012. We examined original documents, performed analytical procedures, and held meetings with Fire personnel. We also reviewed records in the City's computerized financial system. Finally, we reviewed audit reports from other government entities and media articles related to governmental-entity overtime.

## **RESULTS**

**We found that Fire has established strict procedures for the use of overtime. We also found that Fire is in compliance with those procedures. It appears that Fire overtime is well regulated, thus we do not have any recommendations for improvement.**

We found that Fire personnel earn overtime only after first receiving approval to work extra time beyond their normally scheduled hours. A Battalion Chief is required to sign off on overtime prior to any Fire employee being allowed to work it. Fire uses an electronic time-keeping system which has different levels of permissions which gives the system security. Only the Battalion Chiefs have access to approve overtime requests. To verify this, we tested a statistical sample of Fire employee overtime. We found that the Battalion Chiefs did authorize all of the overtime.

We reviewed the different instances that might require overtime to be worked. We found that Fire personnel might be authorized to work overtime if they were on scene at an emergency and needed to stay to complete their duties. Another instance would be if there was an open shift and an employee was authorized to pick it up. Last year had the unique situation of Fire employees being dispatched to Dakota Dunes to assist with the flood recovery effort. Fire essentially had to add another shift of workers to cover this effort without hiring any full-time or temporary employees. This caused Fire to accumulate over twice as much overtime as would have happened had this deployment not happened. In this situation, Fire was reimbursed for their contributions to the flood clean up effort.

We examined the process used to approve and record overtime. We found that the electronic timekeeping system works efficiently. It appears that sufficient security levels are in place to diminish the chances of employee abuse of overtime because of the electronic timekeeping system.

We compared the actual overtime to the budgeted overtime for the previous five years for all departments. We noted that overtime for the City as a whole was under budget in four of the five years reviewed. The only exception was 2011 when the City as a whole was over budget by \$55,000 or 3% of budgeted overtime. Fire as a sole department had the opposite trending. Four out of the five years reviewed saw Fire over budget with 2010 being the only year they were under budget. However, Fire's overall department expenditures did not exceed their appropriation in any of the five years reviewed.

### **CONCLUSION**

The Fire Department has made significant changes to their overtime policies and procedures. Their overtime usage has been reduced over the past five years because of these policies and procedures. All departments are doing a better job of reducing overtime. We commend City staff and management for their efforts to effectively manage overtime.

### **STATEMENT OF INDEPENDENCE**

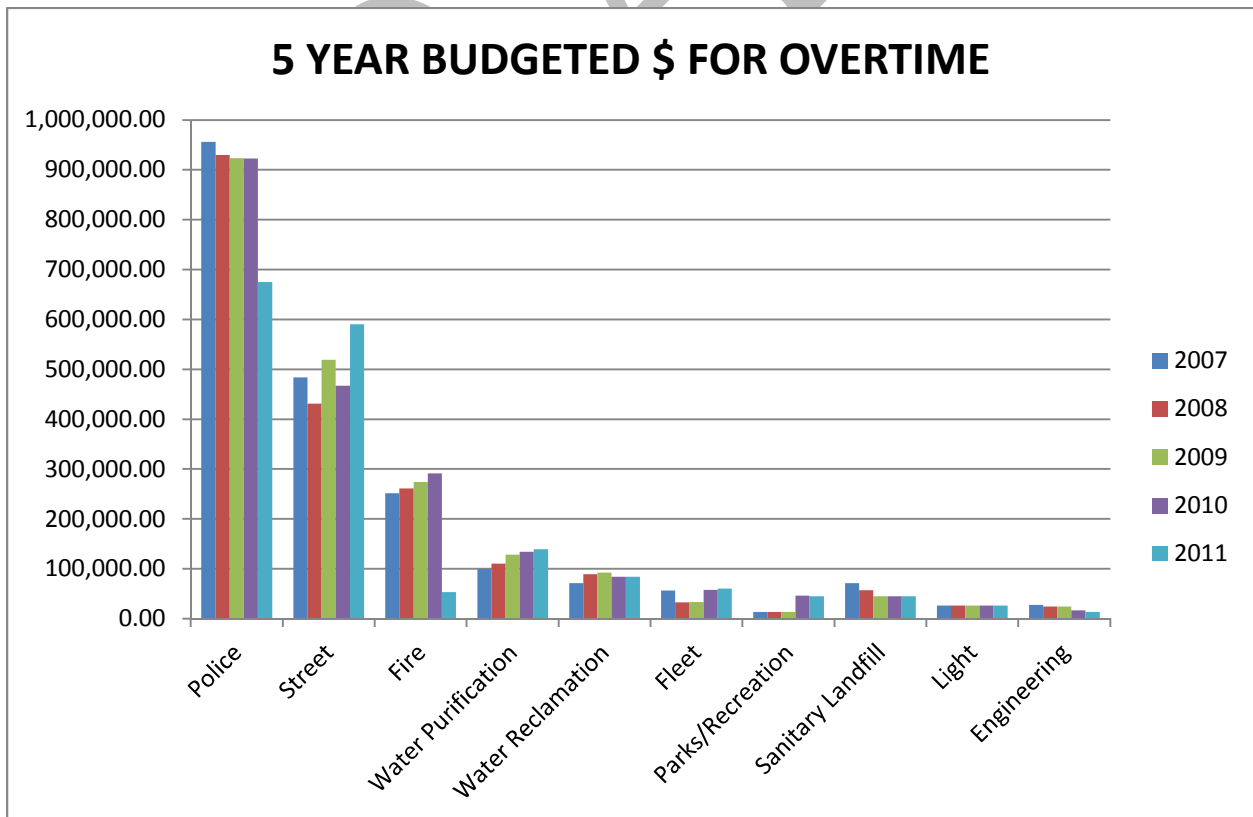
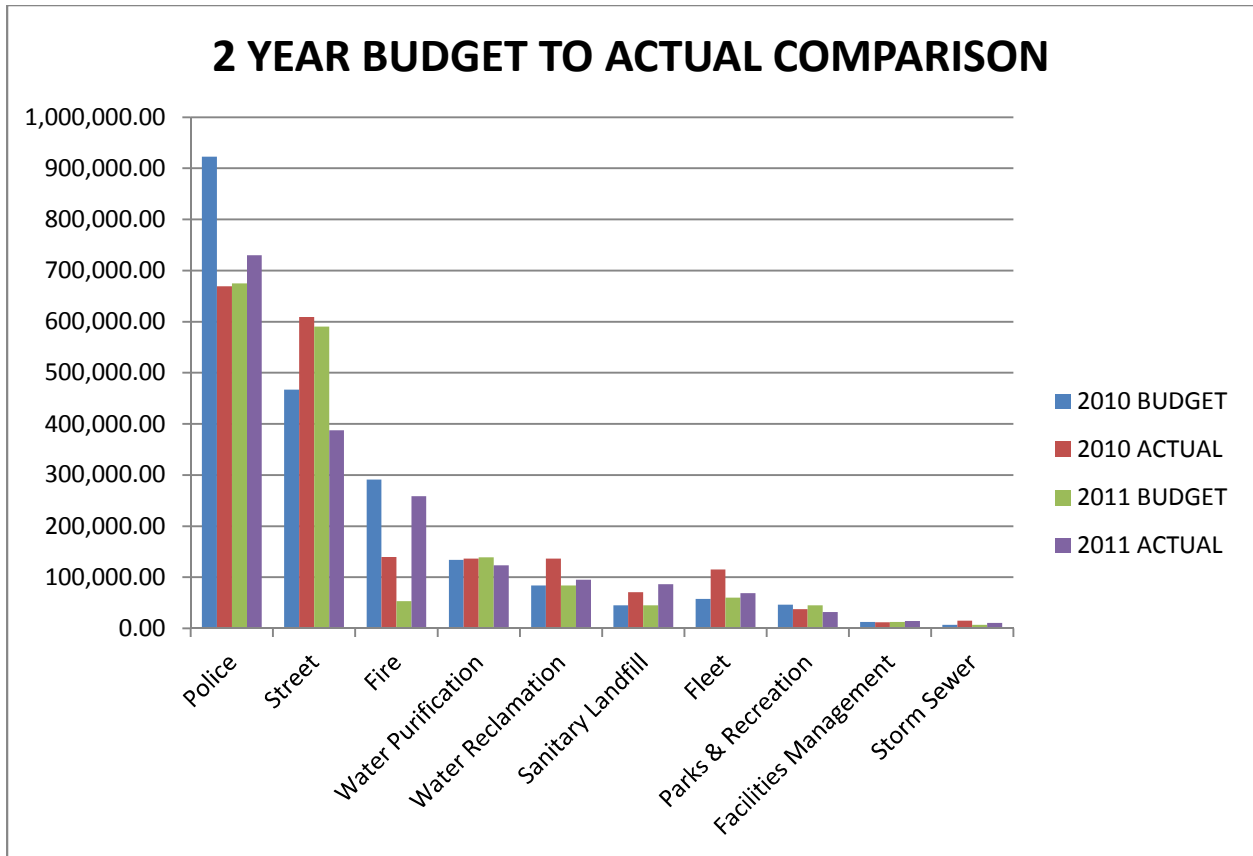
Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Lead Internal Auditor is accountable to an Audit Committee appointed by the City Council per City ordinance 120-05.

### **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.





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# Wayne Township Agreement May 2012



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

## **INTRODUCTION AND AUTHORIZATION**

This audit project was not listed on the 2012 Annual Audit Plan. The Audit Committee approved this as a special request project at their April 6, 2012 meeting. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 104-06.

## **BACKGROUND**

Wayne Township is a township of approximately 22 square miles located west of the Sioux Falls city limits. In November 2004 the City Of Sioux Falls and Wayne Township entered into a joint cooperative agreement for the City to provide fire and rescue services to the approximately 1,300 residents of the township. Prior to this agreement, the township maintained a volunteer fire department to provide such services. As part of the agreement, the township deeded its fire station property near 12<sup>th</sup> and Marion Road to the City and turned over all its fire equipment including a tanker and a rescue truck. Wayne Township agreed to annual payments to the City based upon a formula involving the property –tax derived portion of Sioux Falls Fire Rescue’s annual budget and the population of the township compared to the city. Wayne Township’s western limit is highway 17. The southern limit is 57<sup>th</sup> street. The northern limit is Benson Road and the eastern limit is the city limits of the City of Sioux Falls.

## **OBJECTIVES**

Review agreement 04-1441 between Wayne Township and the City of Sioux Falls to determine:

1. What revenue has been received by the City of Sioux Falls for the purpose of providing fire and rescue services to Wayne Township.
2. What is the basis of claim by the Wayne Township supervisor that the township should receive credit for the fire insurance premium tax and credit for their portion of the fire tax levy.
3. If the method of calculating the annual bill for fire rescue services is in accordance with section five of the agreement.

## **RESULTS**

### **Objective One: Revenues received by the City**

In South Dakota county auditors send payments to certified fire departments in their county in the form of **fire tax levies** and the **fire insurance premium tax**. The **fire tax levy** is a tax levy that appears on property owner’s annual property tax bill. Revenue from this levy is paid in two installments each year to certified fire departments (whether volunteer or professional) in the county. We noted that the City of Sioux Falls is unique in that Sioux Falls property owners are not levied this tax. Sioux Falls Fire Rescue is funded primarily from the sales tax and city portion of the property tax. The **fire insurance premium tax** is collected by the State of South Dakota and distributed to the county auditors. County auditors distribute these funds to fire departments in their county based upon two factors: population served and valuation of property.

Early in this agreement<sup>1</sup> the Wayne Township supervisor asked Minnehaha County to send their share of the fire tax levy and the fire insurance premium tax directly to the City of Sioux Falls. The following table summarizes these payments:

<u>Fire Tax Levy</u>		<u>Fire Insurance Premium Tax</u>
2005	\$ 7,383	\$ 3,504
2006	15,516	3,959
2007	16,479	3,999
2008	18,191	4,629
2009	17,970	4,197
2010	19,096	4,240
2011	19,400	3,723

Sioux Falls Fire Rescue calculated what Wayne Township owed the City each year for fire rescue services. An invoice was sent to the township splitting the amount calculated into two equal payments. The following table summarizes these invoices and payments received:

<u>Invoice</u>	<u>Date</u>	<u>Billed</u>	<u>Payment received</u>	<u>Date received</u>
88662	06/02/05	\$23,760	\$23,760	06/15/05
92418	11/02/05	27,103	27,103	01/04/06
99286 <sup>2</sup>	08/07/06	24,380	24,380	08/10/06
103802	01/09/07	25,533	25,533	01/12/07
109944	09/12/07	25,533	25,533	09/12/07
113289	12/31/07	18,396	18,396	12/31/07
117511	07/11/08	18,396	18,396	06/11/08
123680	03/13/09	21,034	18,396	09/10/08
123803	03/25/09	18,396	21,034	03/20/09
130499	12/18/09	19,933	19,933	12/28/09
134418	06/25/10	19,933	19,933	06/29/10
139524	01/12/11	8,456	8,456	01/14/11
143546	07/22/11	8,456	8,456	08/02/11

The net amount due the City included a credit for the fire tax levy that the City was receiving directly from the Minnehaha County Auditor's office but **not** the amount of the fire insurance premium tax.

**Objective two: Township contends they should receive credit for fire insurance premium**

The Wayne Township supervisor contends that the township should receive a dollar for dollar credit for the fire insurance premium tax received by City. This averages approximately \$4,000 per year. See table at the top of this page. When calculating the annual charge, the practice of the City was to deduct this amount from Fire Rescue's annual operating budget to arrive at a net

<sup>1</sup> May 31, 2005

<sup>2</sup> Adjusted billing

operating budget figure. The township supervisor contends that this method dilutes the amount of revenue received by the City on behalf of the township and this money is “simply lost”.

The original agreement is silent about the fire insurance premium tax. In the past, both sides (Wayne Township and Sioux Falls Fire Rescue) appeared to be content not to consider this when the annual charge was calculated. A complication we noted is that Minnehaha County is figuring Wayne Township’s portion based on a population of 1,303. This was the population of the township when the agreement was signed in 2005. However, the population of Wayne Township is now 1,009 because of annexations by the City. Therefore, the amount of the Township’s fire insurance premium tax may be overstated.

Fire management has pointed out that credit for payments from the County (fire insurance premium and fire tax levy) will not be an issue going forward because the Wayne Township supervisor has directed the County Auditor’s office to send these payments directly to the Township. Additionally, Fire management would argue that the Township’s ISO<sup>3</sup> rating was recently upgraded to an 8B from a 9 resulting in a cost savings to residents and business on the fire portion of their insurance.

**We concluded there is merit to both arguments.** We propose a compromise on this issue by both sides. See recommendation one on page five of this report.

**Objective three: calculation of annual bill in accordance with section five of agreement**

We reviewed section five of the agreement which describes how the annual bill for service will be calculated. We also reviewed the calculation of bill for two years (2005 and 2009) to determine if the method used was in accordance with the method described in the agreement.

The agreement makes reference to the number 0.426 percent and indicates that this is the population of the township divided by the combined population of the City and the Township. According to the 2005 CAFR<sup>4</sup> the population of Sioux Falls was 144,600. The Township’s population in 2005 is 1,304 as described in the agreement. Therefore the number should have been 1,303 divided by the sum of 144,600 plus 1,303 or .009.

It may have been the intention of the drafters of the agreement that the 0.426 percent was the portion of the Sioux Falls Fire Rescue budget derived from the property tax. However, conversations with Fire management indicate that no one is sure where the 0.426 number came from. Usually, the portion of the Fire Rescue operating budget derived from property tax is around 35 percent.

A complication to this issue involves an amendment to the agreement that was drafted but never officially agreed to by both parties. We observed this document and noted that neither the Mayor nor the Wayne Township supervisor had signed it. Nevertheless, this draft contained a

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<sup>3</sup> Insurance Service Office: some insurance companies use the ISO rate to calculate insurance premiums. The ISO rating is ten-point scale with 10 being the worst rating and 1 being the best.

<sup>4</sup> City of Sioux Falls Comprehensive Annual Financial Report

modified formula for calculating the annual charge. This new formula was used for years after 2005 and both parties to the agreement appeared to accept it even if the amendment was never ratified. The new formula shows that the Township is billed for their portion of the property tax derived portion of Sioux Falls Fire Rescue operating budget based upon the population of the township compared to the City. The township was given credit for their portion of the fire tax levy that the City received directly from the County Auditor. **Our conclusion in regard to this audit objective is that the original agreement is confusing in its description of how the annual charge is to be calculated. A modified formula was used and accepted for many years but this was never officially agreed to by both parties.**

## **RECOMMENDATIONS**

- 1. Recommendation one:** Sioux Falls Fire Rescue should request assistance from the City Attorney's office in negotiating with the Wayne Township board. This negotiating should be with the full three-person board. The Township supervisor requests a credit of \$28,151 for the fire insurance premium tax distribution (see table on page three of this report.) We recommend a compromise of the last three years for the fire insurance premium. This figure would be \$12,160. The Township supervisor also contends they should receive a credit of \$4,329 in misapplied tax levy from prior years. We would concur with this. Therefore, the total would be \$16,489. The supervisor is claiming an additional credit of \$19,400 for fire tax levy received by the City in 2011. Our review of the City's general ledger indicates that the City received these amounts from the County: \$9,700 on 05/24/2011 and \$9,700 on 11/07/2011. However, our review of the 2011 invoice for fire rescue services indicates a credit a \$19,096.<sup>5</sup> This was wrong by the difference between \$19,400 and \$19,096. Therefore, we recommend an additional credit of \$304.
- 2. Recommendation two:** Fire management should request assistance from the City Attorney in drafting a new amendment to this agreement. This amendment should contain a simpler method of calculating the annual charge for fire rescue services. While a flat rate is the simplest, we suggest a formula based upon the number of calls for service. For example, a new amendment might call for a charge of \$1,100 per call for service. If there were 32 calls for service in 2012, the Township would be billed \$35,200 in 2013 (32 calls times \$1,100) for the previous year service. As more parts of the Township are annexed over time by the City, presumably the number of calls would decrease at the same time that the township's revenue from the fire tax levy and the fire insurance premium tax declines.

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<sup>5</sup> If the current board supervisor is claiming that the amount received for the 2011 fire tax levy should be applied to the 2012 bill for service this would mean that the Township owes the City for an additional year of fire tax levy payments (1/2 year at 2004's rate to pay for half of 2005 contract and 1/2 year of fire tax levy at 2005's rate to pay for the other half due of the 2006 contract.)

### **RESPONSE FROM MANAGEMENT**

The following response to these recommendations was provided by Fire Chief Jim Sideras:

*I have reviewed the audit conducted of the agreement between Wayne Township and Sioux Falls Fire Rescue (SFFR). I concur with the findings and SFFR will follow both recommendations as outlined in the audit.*

*If you have any additional questions, please refer them to Pat Warren, Administration Division Chief, he will oversee the implementation of the recommendations.*

### **CONCLUSION**

In hindsight this agreement would have benefitted from a simpler method of calculating the annual charge for fire rescue services. The drafted amendment should have been ratified by both parties and the issue of the fire insurance premium tax should have been clearly addressed. We appreciate the cooperation of both parties to this agreement during the course of this special audit.

### **SCOPE AND METHODOLOGY**

We reviewed this agreement since the inception of the agreement in 2005. We reviewed documents supplied by both parties, conducted interviews, performed recalculations and reviewed the City's financial records including general ledger accounts.

### **STATEMENT OF INDEPENDENCE**

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### **PERFORMED BY**

Lead Internal Auditor Rich Oksol, CPA. CGAP