

AGENDA	Monday, March 13, 2017
Audit Committee Meeting	4:00 PM
Sioux Falls City Council	Carnegie Town Hall
	235 West 10th Street

1. Call To Order
  
2. Introduction of New Internal Auditor, Jenn Tanno
  
3. Approval of Minutes
  
- A. Meeting of Wednesday, January 11, 2017
  
4. Reports and Updates
  
- A. Review Follow-up to Fuel Control Audit Report
  
- B. Update on external audit of City s 2016 financial statements
  
- C. Review 2017 Annual Audit Plan
  
5. Continuing Education / Training
  
- A. The Institute of Internal Auditors Sioux Falls Chapter Spring Seminar in Sioux Falls
  
- B. The Institute of Internal Auditors 2017 Leadership Academy in Orlando, Florida
  
- C. Association of Local Government Auditors 2017 Annual Conference in Atlanta, Georgia
  
6. Open Discussion
  
7. Adjournment

Date: 2017-03-13  
SIRE Meeting ID: 2554  
Meeting Type: Committee Meeting  
Subtype: Audit Committee  
YouTube:<https://youtu.be/zPMoTeK10KU>  
Agenda Item: Not Assigned  
Item ID: 83030

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

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# MINUTES

Wednesday, January 11, 2017

Audit Committee Meeting

4 PM

Sioux Falls City Council

Carnegie Town Hall  
235 West 10<sup>th</sup> Street

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**Members Present:** Jason Forbes, Arnold Martens, Rex Rolfing, Greg Neitzert, Rick Kiley

**Members Absent:** Seth Peterson, Michelle Erpenbach

## 1. Call To Order

Committee Chair Rex Rolfing called the meeting to order at 4 p.m.

## 2. Approval of Minutes

A. Meeting of Thursday, January 5, 2017, at 4 p.m.

A motion was made by Committee Member Rick Kiley and seconded by Committee Member Arnold Martens to approve the minutes of the meeting of Thursday, January 5, 2017, at 4 p.m.

Committee Chair Rolfing called for a voice vote and all members present voted yes.

**Motion Passed.**

## 3. Open Discussion

There was none.

## 4. Executive Session

A. Discussing the qualifications, competence, performance, character or fitness of any public officer or employee or prospective public officer or employee. The term "employee" does not include any independent contractor. (SDCL 1-25-2(1)).

A motion was made by Committee Member Rick Kiley and seconded by Committee Member Jason Forbes to enter executive session at 4:01 pursuant to SDCL 1-25-2(1) for the purpose of discussing the qualifications, competence, performance, character or fitness of any public officer or employee or prospective public officer or employee. The term "employee" does not include

any independent contractor.

Vote to enter Executive Session: Roll Call: Yeses, Jason Forbes, Arnold Martens, Rex Roling, Rick Kiley, 4. Noes, 0.

**Motion Passed.**

At the time the committee entered executive session, a message was placed on the video recording indicating the committee is currently in executive session. Item #5 begins at video time stamp 10:56.

Committee Member Greg Neitzert arrived at 4:02 p.m.

A motion was made by Committee Member Rick Kiley and seconded by Committee Member Jason Forbes to exit executive session at 4:10 p.m.

Committee Chair Roling called for a voice vote and all members present voted yes.

**Motion Passed.**

**5. New Business**

- A. A Motion to Appoint Kimberly Schroeder as the Internal Audit Manager, Pursuant to Section 32.022 of the Sioux Falls Code of Ordinances, Effective January 16, 2017.

A motion was made by Committee Member Jason Forbes and seconded by Committee Member Rick Kiley to appoint Kimberly Schroeder as the Internal Audit Manager, pursuant to section 32.022 of the Sioux Falls Code of Ordinances, effective January 16, 2017.

Vote to appoint: Roll Call: Yeses, Jason Forbes, Arnold Martens, Rex Roling, Greg Neitzert, Rick Kiley, 5. Noes, 0.

**Motion Passed.**

**6. Adjournment**

Committee Chair Rex Roling adjourned the meeting at 4:12 p.m.

Thomas M. Greco  
City Clerk

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**Internal Audit Report 16-05**  
**Follow-up to Fuel Control Audit**  
**February 2017**



City of Sioux Falls  
Internal Audit Department  
Carnegie Town Hall  
235 W. 10<sup>th</sup> Street  
Sioux Falls, SD 57117-7402  
[www.siouxfalls.org/council/internal-audit](http://www.siouxfalls.org/council/internal-audit)

## **FOLLOW-UP TO FUEL CONTROL AUDIT INTERNAL AUDIT REPORT 16-05**

### **INTRODUCTION**

The Internal Audit department performed a Fuel Internal Control Audit in 2011. As a result of the audit, three recommendations were noted. This audit is to follow-up on the status of the prior audit recommendations, to determine if there are opportunities for improvement, and to determine whether outside agency billings are proper.

### **BACKGROUND**

The City of Sioux Falls (City) spends over a million dollars each year on fuel purchases in order to operate its vehicles and equipment. The Fleet Division (Fleet), which is part of the Public Works department, manages the fuel operations for the City with the exception of diesel fuel used by the Fire department and Sioux Area Metro (SAM). The City also sells fuel to the Sioux Falls School District, Minnehaha County, Metro Communications, Great Plains Zoo & Delbridge Museum, and Southeast Technical Institute.

The Fleet Division maintains four, self-service pump stations at the following locations throughout the City: Street/Fleet Facility (Street), Sioux Falls School District (School), Parks and Recreation Maintenance Facility (Parks), and Sioux Falls Regional Sanitary Landfill (Landfill). All four sites have unleaded fuel dispensers. The Street, Parks, and Landfill sites have diesel fuel dispensers and the School site is the only site that has an E-85 fuel dispenser. The Street and Landfill locations also have a bulk truck which they use to transport fuel from the fueling site to vehicles in the field.

The fuel sites are controlled using a commercial system from Petro Vend, which requires the use of two access cards, one for the vehicle and one for the operator. The cards correspond to a specific vehicle and a specific employee. Some smaller equipment such as chain saws, weed eaters, and mowers are primarily fueled through the use of miscellaneous fuel cards.

Fuel purchases are tracked in the Fleet software system (HTE). Fleet uses the Phoenix fuel management system to track fuel dispensed. Phoenix is not integrated with the City's other information systems. Therefore, Fleet staff must send weekly transaction data to the Information Technology (IT) department who imports the data into HTE in order for departments and external entities to be properly charged for their fuel consumption. At month-end, the Finance department staff must convert and import the HTE data into MUNIS, the City's financial reporting software. As of December 1, 2016, the Fleet department implemented a new software system, AssetWorks. This system will replace HTE. The Fleet department also uses Veeder-Root to monitor fuel tank inventory levels.

Fuel purchases and costs are reported within the Fleet Revolving Fund, an internal service fund used to account for the costs of supplying automobiles and fuel to City departments or other governmental units. Charges are billed to departments or other governmental units on a cost-plus basis to defray administrative costs, equipment maintenance, and depreciation costs. Fleet currently charges all City departments and external entities for the cost of the fuel used plus a 6 percent markup fee to cover some of the operating costs. The below chart includes total fuel purchased, total markup fee revenue collected, and total gallons sold for the last 3 years.

<b>Year</b>	<b>Fuel Purchased*</b>	<b>Markup Fee Revenue*</b>	<b>Gallons Sold*</b>
2014	\$ 2,866,000	\$ 172,000	904,000
2015	\$ 2,038,000	\$ 122,000	948,000
2016	\$ 1,479,000	\$ 89,000	945,000

\*Rounded to the nearest thousand.

**OBJECTIVES**

The objectives of this audit were to:

1. Determine the status of audit recommendations made in the November 2011 Fuel Internal Control Audit Report.
  - a. Fuel inventories should be adjusted each month after the fuel inventory reconciliations have been completed and all overages and shortages have been thoroughly reviewed.
  - b. Fleet staff should update the fuel card system database. To aid in this process, Fleet should not grant an employee fuel card or a vehicle fuel card without the employees immediate supervisors' approval and should be contacted by Human Resources when an employee is terminated or transferred to a new department.
  - c. The City should comply with State Law by including the fuel bids in the minutes of the City Council as well as making sure the records are submitted to the City Clerk's office for retention (SDCL 5-18C-6).
2. Determine if the City is using leading practices or if there are opportunities for improvement.
3. Determine if outside agencies, such as the Sioux Falls School District and Minnehaha County, are properly billed for their use of City fuel.



**SCOPE AND METHODOLOGY**

The scope of this audit focused on the review of the recommendations made in the 2011 audit report and the review of outside agency fuel billings for accuracy. The audit period covered activities and transactions that occurred from January 1, 2016 to September 30, 2016. Our audit work included the following:

- Interviews with Fleet and Finance management and staff.
- Review of written policies and procedures and South Dakota Codified Laws.
- Review of the 2011 Fuel Internal Controls Audit report recommendations.
- Review of financial data, specifically the Fleet Fuel Inventory account.
- Reconciliation of the Fleet Fuel Inventory account.
- Analytical review of the fuel card database.
- Testing of a randomly selected sample of City Council meeting minutes for fuel bids.
- Detailed testing of a randomly selected sample of outside agency billings for their use of City fuel.

**RESULTS**

**Follow-up of Prior Audit Recommendations**

**AUDIT FINDING 1:**

Fuel Inventory

We performed an analytical review of the Fleet Fuel Inventory account. Based on this review, we determined that a proper fuel inventory reconciliation is not being completed on a monthly basis.

The City has a non-integrated fueling system. A fuel inventory reading is taken each month and then reconciled to the amount recorded in the HTE fuel inventory account within the Fleet Revolving Fund. When the City implemented their new financial software system (MUNIS) in 2014, fuel inventory continued to be reconciled to HTE on a monthly basis. However, inventory was not reconciled from HTE to MUNIS (see audit recommendation 1 below). This resulted in the following adjusting journal entries to be made in order for fuel inventory to be properly reported on the 2016 year-end financial statements for the Fleet Revolving Fund:

	<u>Debit</u>	<u>Credit</u>
Miscellaneous Expense – Inventory Adjustment	\$210,696.58	
Fuel Inventory		\$210,696.58
<i>To decrease fuel inventory due to an error that went unnoticed in 2014.</i>		

	<u>Debit</u>	<u>Credit</u>
Miscellaneous Expense – Inventory Adjustment	\$253,186.05	
Fuel Inventory		\$253,186.05
<i>To decrease fuel inventory to agree with the amount shown on the sub-ledger.</i>		

**AUDIT FINDING 2:**

Fuel Card System Database

We performed an analytical review of the fuel card database and determined the database is in need for multiple updates and corrections. We noted instances where driver and vehicle fuel card information is missing or inaccurate, employees have two or more active fuel cards, terminated and inactive, temporary employees have active fuel cards, etc. However, towards the completion of the audit field-work, the IT and Fleet department began a thorough review of the fuel card database in order to get it updated and “cleaned up”. This process needed to be completed in order for the Fleet department to implement their new software system, Asset Works, on December 1, 2016. See audit recommendation 2 below.

Fuel Bid Compliance

We reviewed a random sample of fuel bids and determined they are properly included in the minutes of the City Council and retained on file by the City Clerk’s Office as required by SDCL 5-18-6.

**Leading Practices**

The Fleet department charges a markup of 6% to all of its fuel customers. However, this is not a best practice and is not recommended as it does not consider the fluctuation in fuel prices and it could cause the Fleet Revolving fund to be largely over or under funded. Therefore, we recommend that the cost of managing the fuel sites should be calculated and a fixed markup applied based on the forecasted use. See audit recommendation 3 below.

**Opportunities for Improvement**

A monthly fuel usage report should be sent to all City departments and external entities detailing how much total fuel was purchased for each vehicle or for each person. This information provides the customer with a better understanding of what they are being charged for. In turn, it provides the reviewer of the report with an opportunity to identify fraud, waste, or abuse of City fuel.

The City invested in the Petro-link Wireless Fuel Control System in 2013, but we were informed that is currently not being used as it is not working properly. With the use of this system, the vehicle identification number and the odometer reading can be automatically captured through the use of RFID (radio frequency identification) technology. This allows for accurate data to be captured without driver intervention and vehicle fuel cards would no longer need to be used. It is also an opportunity to prevent fraud, as it precludes the vehicle fuel card from being removed and used to fill a personal vehicle.

Based on discussions with management, we noted that bulk truck fuel transactions are manually logged and entered into the fleet software system. Any time there is a need for manual transactions the risk of error increases. Therefore, management

may want to consider how the department can gain efficiencies in capturing the bulk truck fuel transactions to ensure they are properly reflected in the fleet software system.

### **Outside Agency Billings**

We reviewed a sample of outside agency billings and determined that the agencies are properly billed each month for the amount of City fuel they use.

## **AUDIT RECOMMENDATIONS**

We made the following recommendations which address the above referenced results.

- 1) We recommend that a fuel inventory reconciliation be completed and documented each month between the fuel tank readings, the fuel software system, and the financial reporting software system (MUNIS). Any significant overages or shortages should be thoroughly reviewed by the appropriate personnel.

*Management's Response: Although fuel inventory was being accounted for and billed within the subsidiary ledger, monthly reconciliations to the internal service fund balance sheet should have been performed to accurately report inventory assets. With the implementation of the new fleet management system on December 5, 2016, the City is in the process of interfacing the fleet fueling system (Phoenix) with the fleet management software (AssetWorks). AssetWorks is the system of record for fuel transactions and inventory. As of software implementation, Finance has implemented a new procedure for reconciling fuel inventory between the fuel monitoring system (Veeder-Root), AssetWorks and MUNIS monthly. Any manual adjustments made will be reviewed by management.*

*Management Representative Responding: Tom Huber, Assistant Finance Director  
Date of expected implementation: December 31, 2016*

- 2) We recommend that Fleet Management establish adequate controls to ensure the fuel card database is accurate and up-to-date. This includes ensuring there is a formal policy in place over the administration of employee and vehicle fuel cards.

*Management's Response: Management concurs with this finding. Adequate controls have been established to ensure the fuel card database is accurate and up-to-date at all times. A formal policy for the issuance of fuel cards has been completed.*

*Management Representative Responding: Morgan Jackson, Fleet Manager  
Date of expected implementation: February 1, 2017*

- 3) We recommend that Fleet Management conduct an analysis to determine the costs of managing and maintaining fuel operations and develop a fixed markup fee that reflects these costs. City departments and external entities should be charged this markup based on forecasted use.

*Management's Response: Management concurs with this finding. The markup fee is set at ten cents per gallon. This fee has always been communicated to all users and this will continue to be Fleet's practice.*

*Management Representative Responding: Morgan Jackson, Fleet Manager  
Date of expected implementation: February 1, 2017*

## **CONCLUSION**

The City implemented various improvements to the fuel operations after the 2011 audit and the independent evaluation performed by Mercury Associates, Inc. in 2015. However, the implementation of the above recommendations will strengthen controls further to prevent fraud, waste and abuse and will provide assurance that fuel inventory is properly reported on the annual financial statements. We would like to thank Fleet and Finance management and staff for their assistance during this audit.

## **AUTHORIZATION**

The Sioux Falls City Council approved this audit by resolution in January 2016 as part of the 2016 Annual Audit Plan. This audit was initially approved as part of the 2015 Annual Audit plan, but not started in 2015. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

## **AUDIT STANDARDS**

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

## **STATEMENT OF INDEPENDENCE**

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

## **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**

Ashley Stroschein  
Internal Auditor

DRAFT

Date: 2017-03-13  
SIRE Meeting ID: 2554  
Meeting Type: Committee Meeting  
Subtype: Audit Committee  
YouTube:<https://youtu.be/zPMoTeK10KU>  
Agenda Item: Not Assigned  
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Kimberly Schroeder, CIA  
Internal Audit Manager

As required by the Internal Audit Charter the 2017 Audit Plan was approved by the City of Sioux Falls Audit Committee on March XX, 2017



Internal Audit's mission is to help the City achieve the highest efficiency and effectiveness with integrity.

We continuously collect information about risks facing the City from a variety of sources including the City Council, City Administration, and the public.

We assessed this information to identify audit topics which are prioritized based on resources, timing, audit coverage, and other factors and then included them in this Audit Plan.

**Committee Members**

- Councilor Rex Roling, Chair
- Councilor Michelle Erpenbach
- Councilor Rick Kiley
- Councilor Greg Neitzert
- Jason Forbes
- Arnold Martens
- Seth Peterson

Internal Audit Department  
Sioux Falls, South Dakota  
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**2017 AUDITS**

	Audit Title	Department	Preliminary Objective
<b>High Level Audits</b>			
1	Ambulance Service Contract	Health	How does the City ensure compliance with the terms of the contract?
2	Maintenance of Administrative Instructions	Citywide	Are the City's policies and procedures documented and relevant to City operations? Are responsibilities defined that allow for proper succession?
3	Fee Waivers	Citywide	How much money is waived each year and how are those decisions made?
4	Water Utility Management	Public Works - Water	Is the City's water utility effectively and efficiently managed to respond to current and future needs?
<b>Process Audits</b>			
5	Public Information Requests	Attorney, Citywide	Does the City follow open records laws and provide requested information in an efficient and timely manner?
6	Septage Hauler Rates	Public Works - Water Reclamation	Are the City's rates fair and equitable to users while still being sufficient to cover the true cost of the services being provided?
<b>Resource Audits</b>			
7	Cash Handling: Sioux Falls Area Humane Society	Police	Does the SFAHS properly account for all the cash it receives on behalf of the City?
8	Preventative Maintenance	Facilities Management	Is preventative maintenance performed and adequately monitored to extend the useful lives of City owned assets?
9	Motor Vehicle Fee Revenue	Finance	Is the City receiving the correct distribution of revenue from the State?
<b>Analysis / Follow-Up</b>			
10	Follow-up of Audit Recommendations	Multiple	Has City management implemented changes that were agreed to in recent audits?
11	Fraud Risk Analysis	Risk Management, Citywide	Does the City actively detect, deter, and prevent fraud before it occurs?
12	Financial Condition Analysis	Finance, Citywide	How does the City's financial performance compare to other cities in our region?
<b>CARRYOVER AUDITS FROM 2016</b>			
<b>High Level Audits</b>			
13	Accounts Payable	Finance, Citywide	Are systems and procedures in place that ensure risks are assessed and mitigated through proper internal controls?
<b>Resource Audits</b>			
14	Cable TV Franchise & Open Video System License Fees	Finance	Are fees properly calculated and collected in a timely manner?