

MINUTES

Wednesday, October 11, 2017

Audit Committee Meeting 4 PM

Carnegie Town Hall

Sioux Falls City Council 235 West 10th Street

Members Present: Arnold Martens, Seth Peterson, Rex Rolwing, Greg Neitzert (arr. 4:08 p.m.), Rick Kiley, Dean Buckneberg, Rose Grant

Members Absent: Michelle Erpenbach

1. Call To Order

Committee Chair Rex Rolwing called the meeting to order at 5 p.m.

2. Recognitions

A. Recognition of Service of Audit Committee Member, Seth Peterson

Committee Member Seth Peterson was recognized for serving on the Committee for the past three years.

B. Introduction of new Audit Committee Member, Rose Grant

Rose Grant was recently appointed to the Committee for a three year term. She is President and owner of Grant and Williams, Inc., a local CPA firm.

3. Approval of Minutes

A. Meeting of Thursday, June 29, 2017

A motion was made by Committee Member Arnold Martens and seconded by Committee Member Dean Buckneberg to approve the minutes of the meeting of Thursday, June 29, 2017.

Committee Chair Rex Rolwing called for a voice vote. All members voted yes.

Motion Passed.

4. Reports and Updates

A. Audit Report 17-02: Cable TV & OVS Audit Report

Kim Schroeder, Internal Audit Manager, discussed background information, objectives, and the scope and methodology of the audit. The City currently has a Cable System Franchise Agreement with Midco and an Open Video System (OVS) license with Clarity Telecom d/b/a Vast Broadband. Results of the audit focused on three areas: recalculation and payment of fees, insurance requirements, and contract monitoring. Midco identified a period from January 2011, through May 2015, when the franchise fee was calculated at two percent instead of two and a half percent on the Local Broadcast Transmission Fee. The issue was identified and corrected in May 2015. City ordinance defines the limitation for recovery of franchise fees as three years. Uncollected franchise fees for 2011, 2012, and 2013 were \$13,717.48 and for 2014 and January through May 2015, were \$12,046.48. The report also showed that proper coverage levels for certain required insurance are in place and policies are up to date with both franchises. The Cable TV and OVS franchise agreements are managed by Multimedia

Support with the assistance of the City's Finance and Legal Departments when needed. It is recommended that: 1) Midco remit the amount of uncollected franchise fees within the recovery period in the amount of \$12,046.48 and are to be remitted prior to December 31, 2017; and, 2) management and internal audit develop a plan for the routine review of revenue received from the Cable TV & OVS franchise agreements.

Discussion about the amount to be collected and the delay in reporting the uncollected franchise fees followed. Dan Nelson, representing Midco, explained how MIDCO identified the error and steps taken to address it.

A motion was made by Committee Member Arnold Martens and seconded by Committee Member Dean Buckneberg to approve and submit Audit Report 17-02: Cable TV & OVS Audit Report to the Council and Mayor.

Committee Chair Rex Rolwing called for a voice vote. All members voted yes.

Motion Passed.

B. Audit Report 17-03: Accounts Payable Audit Report

Ashley VanDeBerg, Internal Auditor, discussed background information, objectives, and the scope and methodology of the audit. The City's Accounts Payable (AP) process is centralized within the Accounting Division of the Finance Department. AP staff are responsible for the receipt and processing of invoices for payment, assisting in the resolution of vendor issues, check printing, and providing support to all City departments. They are also tasked with effectively managing and monitoring the recording of all expenditures within the City and providing assurance that all payments made by the City are financially accurate. The City uses the MUNIS software product to manage its financials. Results of the audit focused on four areas: vendor management, invoice handling, duplicate payments, and AP reconciliations. It was determined that several internal controls exist over the process of vendor setup, maintenance, and validation. It was also determined, based on a review of the Master Vendor File, that there are duplicate vendors, vendors with identical addresses, vendors with no activity during the past three years, and some vendor names are not in agreement with the Master Vendor File Naming Convention Policy. The Master Vendor File has not been thoroughly reviewed since the implementation of MUNIS in 2014 and there may be unnecessary access to the File. The audit found that adequate controls are in place to ensure payments are mathematically accurate, properly supported, authorized, and remitted in a timely manner. No duplicate payments were identified, which provides assurance that proper internal controls are in place to prevent duplicate payments to vendors. Reconciliations are materially accurate and properly completed each month. It is recommended that management ensure the Accounts Payable Policy and Master Vendor File Naming Convention Policy are consistently followed and duplicate vendor records should be corrected and the accuracy of vendor information should be verified. It is also recommended that management ensure proper segregation of duties exists by requesting those with unnecessary access to various accounts payable activities in MUNIS are deactivated. One opportunity for improvement is for management to establish, document, and implement a standardized invoice coding process for all invoices entered for payment.

Discussion about access to the Master Vendor File, the frequency of AP audits, and the opportunity for improvement followed. Tom Huber, Assistant Director of Finance, explained the steps being taken to manage access to the File.

A motion was made by Committee Member Seth Peterson and seconded by Committee Member Dean Buckneberg to approve and submit Audit Report 17-03: Accounts

Payable Audit Report to the Council and Mayor.

Committee Chair Rex Rolfing called for a voice vote. All members voted yes.

Motion Passed.

C. Update on audits currently in progress

Schroeder provided an update on the following audits: Maintenance of Administrative Instructions, Preventative Maintenance, Fee Waivers, Fraud Risk Analysis, Financial Condition Analysis, and the follow-up of prior audit recommendations.

5. Travel / Continuing Education Requests

A. Kim Schroeder and Ashley VanDeBerg, 2017 Audit & Assurance Update

This continuing education opportunity takes place in Sioux Falls and is free of charge.

B. Kim Schroeder, The Mid-America Intergovernmental Audit Forum

The conference is in Kansas City and offers seminars on performance auditing that are specific to governments in the midwest region.

A motion was made by Committee Member Rick Kiley and seconded by Committee Member Dean Buckneberg to approve the Travel and Continuing Education requests.

Committee Chair Rex Rolfing called for a voice vote. All members voted yes.

Motion Passed.

6. Discussion regarding the external audit of the City's financial statements

The committee discussed whether or not a Request for Proposals should be issued for the City external audit. Scott Rust, Purchasing Manager, provided information about the RFP process and recommended that if one is done it should be issued in late January or early February 2018.

A motion was made by Committee Member Greg Neitzert and seconded by Committee Member Rick Kiley to approve the issue of a Request for Proposals for auditing the City's finances beginning with the 2018 audit.

Committee Chair Rex Rolfing called for a voice vote. All members voted yes.

Motion Passed.

7. Open Discussion

Committee Member Greg Neitzert recommended that the Committee has a yearly discussion about the conduct of the City's external audit.

Committee Member Seth Peterson thanked the Committee for the opportunity to serve as a member.

8. Adjournment

Committee Chair Rex Rolfing adjourned the meeting at 4:49 p.m.

Thomas M. Greco

City Clerk