

AGENDA	Tuesday, May 13, 2014	
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

3. City Council Open Discussion

4. Presentations

A. Presentation of Three Internal Audit Reports: Family Day Care Registration, Convention & Visitor Bureau BID; and Follow-Up to Status of Audit Recommendations by Rich Oksol, Internal Audit Manager

5. Adjournment

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

Date: 2014-05-13
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Meeting Type: Informational Meeting

YouTube:<https://youtu.be/hvHZBsHI3bs>
Agenda Item: Not Assigned
Item ID: 71367

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

Internal Audit Report 14-02
Convention & Visitors Bureau BID
February 2014



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

CONVENTION & VISITORS BUREAU BID INTERNALAUDIT REPORT 14-02

INTRODUCTION

The City of Sioux Falls (City) collects approximately \$1.5 million in BID occupancy tax per year, and the Convention & Visitors Bureau (CVB) receives 99% of these funds. The BID revenue represents approximately 60% of the total revenue of the CVB. The CVB was created in December of 1973. Their mission is to market the City as a one-of-a-kind visitor destination, and to provide premier visitor services, and increase visitor spending, in order to enhance economic impact throughout the community. The Bureau is funded by the 1% room tax and Business Improvement District (BID) tax of \$2 per room per night.

BACKGROUND

The CVB Business Improvement District was established by City Ordinance 78-10 and includes all commercial transient lodging facilities located within the city limits of Sioux Falls excluding any hotel/motel properties with less than 40 rooms. The BID tax took effect January 1, 2011 and is remitted monthly to the City Finance Department; each hotel is self-reporting the tax due based on their occupancy statistics. The City collects a 1% administrative fee and forwards the remaining balance to the CVB.

Three Year History of BID Tax (Calendar Year)

	2011	2012	2013
BID Tax Revenue	\$1,408,076	\$1,560,034	\$1,682,930
Rooms Sold	704,038	780,017	841,465
1% Administrative Fee	\$14,081	\$15,600	\$16,829

Each year the CVB prepares an annual budget for the use of the occupation tax collected by the BID. Before becoming effective the budget must be presented to and approved by the CVB executive committee and the Sioux Falls City Council. Proceeds are used to market and promote the visitor industry in the City and the lodging facilities within the district in accordance with the approved budget pursuant to SDCL Chapter 9-55.

Three Year History of BID CVB Expenses

	2011	% of Total	2012	% of Total	2013	% of Total
Program Administration - Salaries & Benefits	\$280,000	35.3%	\$387,191	21.7%	\$584,136	31.2%
Sales Development	\$311,056	39.2%	\$717,809	40.2%	\$775,448	41.4%
Tourism Development	\$201,916	25.5%	\$680,097	38.1%	\$515,406	27.5%

The Sioux Falls CVB is staffed with 13 full-time employees, which is comparable to the average staff size of 12 in our comparison cities. To accomplish their mission the CVB staff members attend numerous trade shows and advertise through various venues. The CVB also offers assistance to convention, sporting, and tourism related event coordinators through; site selection and site inspection, event and itinerary assistance, accommodation bids and arrangements, vendor contracts, and professional registration assistance.

OBJECTIVES

We audited the Convention & Visitors Bureau BID to determine:

1. The adequacy of accounting and management internal controls,
2. The adequacy of internal controls over expenditures and whether any improprieties have occurred.
3. What performance measures are currently in place and areas where performance measures could be implemented?

SCOPE AND METHODOLOGY

The scope of this audit included a review of internal controls over expenditures of BID tax revenue by the CVB as well as controls over the collection of BID tax by the City's Finance Department. The audit period was from October 1, 2012 through September 30, 2013 which coincides with the CVB's fiscal period. We examined original documents, performed analytical procedures, and held meetings with staff and management. We also reviewed historical information from the prior three years in the City's computerized financial system.

RESULTS

This is the first audit of the Convention & Visitors Bureau BID. The timing of the audit is appropriate as the tax has been in place for three years.

Our review found the following:

1. There are currently no written procedures in place to define the responsibilities of the City and the CVB in regards to managing the BID Tax Revenue. Also no written procedures are in place to document standard collection procedures for past due accounts.
2. The BID tax is being collected as outlined in City Ordinance. The Finance Department is tracking the monthly remittals and preparing the deposits timely. No verification of the accuracy of the remittals is being completed.
3. We noted that the CVB is using the funds for their intended purpose and keeping proper accounting records for their expenses, however there are currently no written policies or procedures over expenditures. Additionally, there is no written Travel & Entertainment Policy.
4. The CVB presents results and their budget to the City Council annually during the budget hearings. Performance measures are presented in the CVB's annual report however the report includes too many measures and the methodology to calculate them and their descriptions are unclear.

As the result of our detailed testing we made the following recommendations that will strengthen internal controls over the administration of the BID tax revenue as well as the internal controls over the CVB's expenditures of those funds. We also noted areas for improvement in the annual reporting process as recommended below.

RECOMMENDATIONS

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

Recommendation 1

The Finance Department should establish written procedures which spell out the duties and responsibilities of the finance staff as well as the CVB staff. Written procedures are an essential element in the overall internal control system. They establish accountability, responsibility and consistency in procedures throughout the organization. Written procedures provide standardization to finance staff for managing the collection of the BID tax and collecting past due accounts. With 47 hotels in the BID district consistency is essential.

Management's Response: General expectations of both the CVB and the Finance Department have been communicated to the CVB. The Finance Department will work with the CVB to formalize these expectations and work with the City Attorney's Office to develop written procedures regarding collection of the BID tax.

Recommendation 2

The Finance Department should establish procedures to verify the accuracy of the BID tax remittals. This can be accomplished through analytical analysis or random verifications of remittals to the underlying business records. Verification is essential to ensure that the proper amount of tax is collected.

Management's Response: Finance will establish procedures to verify the accuracy of the BID tax remittals. Random selection and verification of remittals will be made.

Recommendation 3

We recommend that the CVB document their procedures regarding the approval of BID expenditures and define what are considered allowable costs. Additionally, the CVB should develop a travel and entertainment policy which outlines the allowable travel and local entertainment expenses. This policy should establish specific limits on amounts, timing of travel, and should also address purchases of alcoholic beverages. The policy should require detailed receipts and documentation of business purpose for payment or reimbursement.

Management's Response: The CVB will take the necessary steps to document procedures regarding the approval of BID expenditures and define what are considered allowable costs. The CVB will develop a travel and entertainment policy which outlines the allowable travel and local entertainment expenses.

Recommendation 4

The City of Sioux Falls and the CVB should establish an agreement which requires the CVB to report certain performance based measures annually to the Sioux Falls City Council and management. These performance measures should be relevant and easily understood. They should be accurate and reflect actual performance.

Management's Response: City staff will work with the CVB to establish agreed upon performance measures that can be reported to the City Council and City management on a regular basis.

CONCLUSION

The implementation of the BID occupational tax appears to be successful. Current administrative processes are performed properly and internal controls are adequate. Establishing written documentation of these procedures will help strengthen these controls. The CVB staff appears to be experienced and dedicated to enhancing the economic impact of the visitor industry in the City. Communication between the City and the CVB appears to be open which is necessary to facilitate tax collection and subsequent use of the funding. We would like to thank the Finance Department and CVB management and staff for their cooperation and assistance during the audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2013 as part of the 2014 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

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

Kimberly Schroeder
Internal Auditor

APPENDIX

Comparison Cities

Cedar Rapids, Iowa
Des Moines, Iowa
Duluth, Minnesota
Fargo, North Dakota
Lincoln, Nebraska
Omaha, Nebraska
Rapid City, South Dakota
Rochester, Minnesota
Saint Paul, Minnesota
Sioux City, Iowa

Date: 2014-05-13
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The following document(s) are public records obtained from the
City of Sioux Falls.

Internal Audit Report 14-03
Family Day Care
March 2014



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

FAMILY DAY CARE INTERNAL AUDIT REPORT 14-03

INTRODUCTION

The City of Sioux Falls (City) Health Department oversees the registration and renewal process for Family Day Care providers operating within city limits. Each provider is required to renew their registration every calendar year in order to continue to be an active provider.

BACKGROUND

The City Health Department Family Day Care registration process was established by City Ordinance 28-12. Per the ordinance, a provider must be registered if they are providing family-like care in a dwelling, occupied as a residence located in Sioux Falls. The regulation is for the care of 12 or less children of more than one family, other than the provider's own children. The provider's own children under the age of 6 are counted as part of the day care.

The registration process includes a registration fee, a minimum of two inspections, \$300,000 worth of liability insurance, background checks, proof of education, and a master list of all children and parental contact information. In February 2014 there were 337 active registered providers in Sioux Falls.

Inspections are completed by the Health Department prior to the provider opening and within 30 days of the provider actively watching children. They are also completed if a complaint is received against the provider. Complaints are followed up in person by an inspector within 72 hours. There were 14 complaint inspections completed in 2013. If a violation of municipal code is found, the inspector may issue the provider a citation and/or cease and desist order if the safety of the children is at risk.

The City has two inspectors that are responsible for completing the Family Day Care inspections as well as various other types of inspections for The City. At this time there is no procedure for completing random unannounced inspections on all active registered providers. Any provider that has not received a complaint and was actively providing service prior to 2008 would likely not have had an inspection done. The State of South Dakota (State) does have a registration process in place that requires each provider to have one random inspection every two years. But, City registered providers are not required to register with the State.

OBJECTIVES

We audited the Health Department, Family Day Care registration process to:

1. Determine if the City's processes relative to inspections and complaints are effectively managed and comply with existing law.
2. Evaluate management information to determine if the department effectively monitors the program renewal process.
3. Define how The City finds/prevents unregistered day cares from providing service.

SCOPE AND METHODOLOGY

The scope of this audit included a review of the Health Department's policy and procedure manual and City Ordinance in relation to the Family Day Care registration process. We examined listings of providers from the SWEEPS software system as well as paper provider files for completeness. We also reviewed the inspection process during a ride-along with one of the Family Day Care inspectors.

RESULTS

Our review of the Health Department's Family Day Care registration program found the following:

1. If a provider was operating prior to 2008 and no complaint has been filed against them, it is likely that they have never received an inspection. There is no policy in place that requires all active providers to be inspected periodically.
2. There are currently no written procedures in place to complete a secondary file review of newly registered or renewed provider files for completeness of paperwork based on what is required in City Ordinance 28-12.

RECOMMENDATIONS

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

- 1) It is our recommendation that the Health Department implement a policy to perform random unannounced inspections on all active registered providers in the Sioux Falls area. But, Internal Audit acknowledges that due to the number of staff that would be required to complete inspections on all active providers this may be difficult to implement.

Management Response: In 2008 the Council adopted ordinance allowing for inspections of Family Day Care Homes. Since that time a program was developed in the Health Department whereby inspections are conducted prior to the opening of a Family Day Care Home, within 30 days after the care of children begins and in response to citizen complaints. In addition a process allows for further inspections in response to repeat complaints regarding a provider. Health Department Management and Staff agree that random routine inspections of Family Day Care Homes would be ideal, however; there are items to consider:

- a. With the number of registered daycare homes at >340, management agrees with the auditors that additional staffing would be needed to fully implement unannounced inspections for all day care providers.*
 - b. If this level of oversight is recommended, consideration should be placed in analysis of other municipal and state day care registration/licensing processes in the region, including how to best implement program enhancements that are complimentary and not duplicative of State programs.*
 - c. City ordinance does not currently require routine inspections.*
- 2) It is our recommendation that the Health Department implements a policy for a periodic secondary file review on all active public and private provider files for completeness.

Management Response: Currently there is a secondary file review document at the front of each provider file folder. This review document is used to monitor the contents of the file and is a quick reference for file completeness. The items the auditor found to be missing in the files were notation items on individual documents. These notations will be added to the file review document. The Public Health Manager will do a follow up audit to assure that this work flow change addresses Auditor's Recommendation #2.

CONCLUSION

The implementation of the City of Sioux Falls Family Day Care registration process appears to be successful. Current administrative processes for completion of pre-opening, new facility and complaint inspections are performed properly. Follow-up on late renewals is completed in a timely manner by inspectors. The inspectors appear to be experienced and dedicated to performing the Family Day Care inspections amongst the other inspections their job requires. We would like to thank the Health Department management and staff for their cooperation and assistance during the audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2013 as part of the 2014 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

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PERFORMED BY

Jessica Bickett
Internal Auditor

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

Internal Audit Report
Follow-up on Status of Audit Recommendations
April 2014



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

FOLLOW-UP ON STATUS OF AUDIT RECOMMENDATIONS INTERNAL AUDIT REPORT

INTRODUCTION

Our Internal Audit Charter requires that we follow-up on the status of past audit recommendations. Additionally, this follow-up is required by professional internal auditing standards.

OBJECTIVES

Our purpose in performing a follow-up review of audit recommendations is to determine the status of corrective actions agreed to by management.

SCOPE AND METHODOLOGY

The scope of this report focused on audit recommendations from 2012 internal audit reports. When internal audit reports contain recommendations, department directors provide a response to these recommendations and this is included in the final audit report. They will typically include information about corrective actions taken in regard to recommendations with which they concur. Important points are as follows:

- Management self-reports 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.
- 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, department management 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.

RESULTS

2012 AUDIT REPORTS

POET Landfill Gas Contract

No audit recommendations.

City-wide Fees

- Adopt a city-wide fee policy.

Status: Not implemented. Discussion with various City managers occurred but decision was made not to do this. (A policy does exist for enterprise funds.)

- Fees should be consolidated in ordinance.

Status: Implemented. After recodification process was completed in 2013, there is a section in City Code listing all fees and where in code they can be located.

- All fees approved in ordinance should be in one section of the City's website for ease in locating them.

Status: Implemented. Information Technology developed a search feature on the City's website to facilitate quick location of fees.

Overtime (Fire Rescue)

No audit recommendations.

Quality of Life Bonds

No audit recommendations.

Wayne Township Fire Service Agreement

- Fire Rescue should request assistance from City Attorney's office to negotiate with Wayne Township board on past credits for amounts paid.

Status: Implemented

- Fire Rescue should request assistance from City Attorney's office to negotiate with Wayne Township and write a new amendment to agreement so that going forward a simpler method of calculating the charge for fire rescue services can be used.

Status: Implemented. New agreement 2013-0048 was approved in 2013 and uses a much simpler method of calculating the annual fee for services provided to the Township.

Light and Power

- Expenses not related to maintaining the electrical power transmission system such as street light maintenance and repairs should be paid out of the General Fund rather than the Light Enterprise Fund.

Status: Implemented

- Management should implement a formalized policy for inventory (supplies and materials.)

Status: In progress

- Management should work towards a formalized work order system to help improve management of projects and inventory.

Status: In progress

- All Light division trucks should be equipped with laptop computers.

Status: In progress; audit recommendations two through four are dependent on evaluation and purchase of a new work order system. Internal Audit will monitor progress.

- City should consider other network providers for remote access for Light vehicles so equipped. Current service was observed to be slow.

Status: Not implemented; current provider is the only service that allows access to our system drives.

Purchasing and Procurement

- Quotes obtained by departments for supplies and materials should be entered into the appropriate area of H T E software system; contract and agreement numbers should also be entered.

Status: Implemented

- All billings to the City for employee physicals including Transit system employees should be in accordance with the rates of the City's agreement with Sanford/OCC Medical.

Status: Implemented

Fraud Risk Assessment

Eleven action steps were identified for Internal Audit to perform to address identified fraud risks.

- Continue cash handling audits.

Status: Ongoing

- Conduct unannounced cash counts in City departments.

Status: Ongoing

- Conduct fraud awareness training for City Employees.

Status: Implemented; a consultant from Eide Bailly provided training to managers in August 2013.

- Develop and implement appropriate anti-fraud measures for organizations outside City governance framework that receive City funding.

Status: In progress/ongoing

- Publicize availability of the fraud, waste and abuse hotline to City employees.

Status: Implemented

- Identify all City bank accounts as to purpose, financial institution, who has signature authority, and who reconciles the account.

Status: Implemented

- Employee dishonesty insurance meets minimum requirements of State law. However, the amount of coverage has not changed in many years. Can/should the amount of coverage be raised?

Status: Not implemented. Internal Audit Manager met with City Attorney and City Risk Manager. It was determined that the way State law is written, no such increase is permitted.

- Complete a segregation of duties checklist for critical functions such as payroll, treasury and investment, and financial statement preparation.

Status: In progress

- Tone at the Top: monitor any trends in City employee perceptions via the annual employee survey (anonymous.) Tone at the Top is a term that refers to employees' perception of management's actions as they relate to ethical behavior.

Status: Ongoing

- Ethics training: last city-wide ethics training for employees was over five years ago. Training is overdue.

- Status:** In progress; Internal Audit Manager has met with City Attorney. It is anticipated that such training for employees will occur by the end of 2014.
- Update list of where all revenue enters the City: type of revenue and exactly where, how often and what form it comes in.
Status: In progress

Library

- All fees, fines and card renewals need to be entered into the Horizon Library system.
Status: Implemented

Water

- There is a lack of segregation of duties in the water purification supplies and materials inventory. We recommend management develop and implement a compensating control.
Status: Implemented
- A more formal water valve exercising program should be developed and implemented.
Status: In progress

Ryan White Title III Grant

- Management should communicate the policy for issuing invoice numbers with all applicable employees.
Status: Implemented
- Review with applicable employees the current procedure for tracking unique identifiers in management of this grant.
Status: Implemented
- A periodic review of grant expenditures should be done to ensure duplicate invoice numbers are not being used and that no gaps exist.
Status: Implemented
- Management should review with staff the importance of accuracy in keying invoice numbers in grant expenditures.
Status: Implemented

Utility Billing

- A policy should be established to require documentation when checks and cash totals do not reconcile to the prior day's activity summary.
Status: Implemented

External Audit of 2011 Financial Statements Performed by Eide Bailly (completed in 2012)

- The City should implement a process to better identify the correct amount of expenditures to be reported in the Schedule of Expenditures of Federal Awards (SEFA) and to implement a review process to establish that expenditures are accurately reported on the SEFA.
Status: Implemented

AUDITS PRIOR TO 2012

Street

- Management should consider installing Global Positioning System (GPS) technology on Street division equipment.
Status: Ongoing evaluation by management of feasibility. Internal Audit will continue to monitor
- Management should perform another analysis of leased versus City-owned motor graders to determine if the City has the optimum mix.
Status: Management indicated they will perform this analysis after the April 2014 snow gates vote. Internal Audit will continue to monitor.

Transit

- Fixed route fares have not been increased since 1995. The General Fund continues to fund an ever increasing percentage of Transit expenses. Management should determine whether a fare increase should be proposed.
Status: Ongoing, not implemented. Management indicated that a study of the Transit system will begin in 2013. The Transit system (particularly Paratransit) is being evaluated by a task force involving management, city council members, and stakeholders. Internal Audit will continue to monitor.

CONCLUSION

Overall, management has made progress in addressing issues raised by Internal Audit.

AUTHORIZATION

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PERFORMED BY

Rich Oksol, CPA, CGAP
Internal Audit Manager