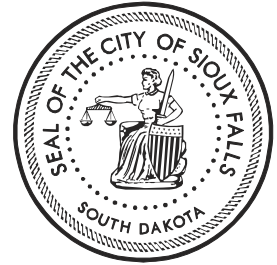


MINUTES

Wednesday, December 6, 2006



Audit Committee

7:00 p.m. – 8:10 p.m.
Carnegie Town Hall
235 West Tenth Street

Members Present: Bob Jamison, Kevin Kavanaugh, Anne Oppegard, Paul Reiter, and Brad Whitsell.

Staff Present: City Clerk, Debra A. Owen; Lead Internal Auditor, Rich Oksol; and Assistant City Clerk, Tamara M. Jorgensen.

Guests: Ty Inglis, Partner, EideBailly
Kristina Feaster, Sr. Associate with EideBailly

1. Welcome and Call To Order

- Lead Internal Auditor Rich Oksol called the meeting to order.

2. Approval of Minutes from 11/08/06 Meeting

- The minutes were approved by the Audit Committee with no recommended changes.

3. Discussion with Ty Inglis of EideBailly

- Introductions were made featuring Ty Inglis – Partner and Kristina Feaster, Sr. Associate with Eide Bailly. Afterwards, a copy of the Audit Committee ordinance and organizational chart were distributed to Ty Inglis for his records and review.
 - Mr. Inglis gave an overview of how auditing were done in the past with the City of Sioux Falls and what changes/updates had taken place after the new Financial Director was hired. Some changes included changing the deadline for financial reports to February 15th. Compliments were given to Tom Huber and his accounting staff at being able to produce complete financial statements to the external auditors in the tight timeframe.
 - Kristina and Ty explained that they have changed their practices to much more of an interim approach. For the last few weeks Christine has done interim approaches on receipt and disbursement testing, inventory and fixed asset accounts at some departments, reviewing and testing invoices, and she is now working on testing the construction in progress in account by doing samples and testing on those accounts.
 - Discussion was held regarding risk assessments and audit standards. Rich Oksol will be given access to risk assessment information to determine the most important areas for his reviews.
 - Internal control procedures need to be accessed and improved. One suggested opportunity of improvement is the invoice processing that is done differently by each individual department.
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- Discussion was held regarding the necessity for honest, open communication before, during and after the audits are performed. Direct access between Eide Bailey and the internal audit function is necessary so that processes are not duplicated. Rich explained his process for conducting interviews, determining areas of need, proper documentation and follow up with department Directors. This process will include copies to Eide Bailey of all completed audits.
- The Audit Committee is responsible for engaging the annual audit, per the ordinance, to maintain the separation of legislative and administrative controls. Audits need to be as independent as possible as dictated in the internal audit standards.
- A question was asked regarding the 2005 recommendation that was made by Eide Bailly that the City of Sioux Falls “step up” its internal audit function. The documentation stated that the internal audit procedures were not fully developed. This information came from a collaboration of opinions from both the Sioux Falls and Minneapolis representatives. The information stated that with cities of this size (and the accounting staff of this size), it was important to improve the Internal Audit process. It was noted that shortly after this information was released, additional staffing was hired. The reports also stated that it was very important that it was not a good practice for the internal auditors to report to the Finance department because of a possible conflict of interest.
- Discussion was held about receiving information regarding Continuing Educational classes. A schedule will be forward to Rich Oksol for his use.

4. Taping of *Inside Town Hall* on 12/12/06.

- Discussion was held regarding the information that would be covered in the 15 minute time slot for a taping of Inside Town Hall. The information covered should include non technical language of what an internal audit function is, why it exists, and how it is performed. Participation should be limited to 2-3 people, with 2 being preferred. Reid Holsen likes to have ‘talking points’ ahead of time so that the questions can be set up in advance. It was determined that Rich Oksol and Anne Oppegard would participate in the Inside Town Hall Taping.

5. Hiring Second Auditor Update

- Rich informed the Committee that the second auditor position has been posted on the City's website along with publication in the Sioux Falls Argus Leader. The closing date for this position is Friday, December 15, 2006, at 5:00 p.m. Rich sent a notice to the Sioux Falls Chapter of the Institute of Internal Auditors stating that there was a job opening and directing interested parties to go to the Sioux Falls website and apply online or to go directly to Human Resources.
- The screening process was discussed. This position will be appointed but non-exempt. The Audit Committee would like for Rich to interview the initial group of candidates and then, after it is narrowed down to one or two, the Audit Committee would like to participate in the process.
- Rich will request information from the Director of Human Resources regarding the procedures and processes for ‘appointed’ positions and will forward the information to the Audit Committee.

6. Update on Meeting between Directors and Lead Internal Auditor

- There was a meeting between the City Directors and the Lead Internal Auditor on Friday, December 1, 2006, in the Mayor’s conference room. All departments were represented.
- A power point demonstration was given to the Directors (a copy was supplied to the Audit Committee).

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- Rich stated that he will be meeting with each of the Directors for a one hour session in the next two months to go over a preliminary audit review.
- Rich explained at this meeting the scope of auditing, communication of what to expect regarding the reports with positive, open information regarding the audit process.
- Independence and objectivity are necessary at all times. The final reports are regarded as public information but will not be available until the information is reviewed and discussed between the Internal Auditor and the Director. There will be no surprises on the final reports. Directors will be given the opportunity to document disagreements if they choose to do so.
- Overall the meeting went very well and the questions were productive. Prior audit recipients expressed their positive responses to the audits that they had in the past. Discussion was held regarding the audit process, the structure and the need to be independent, professional and objective at all times.

7. Open Discussion

- Discussion was held regarding fraud risk assessments, the checklist for meeting with the Directors, and the policies/procedures for cash flow.
- Discussion was held regarding the contract term for Eide Bailey and the process/procedure for determining which auditors to use after the contract expires.
- Discussion was held regarding the level of confidentiality of the Audit Committee meetings and whether or not they are considered 'public meetings'. Information and feedback will be requested from the City Attorney's office regarding this subject.

8. Adjournment at 8:10 p.m.