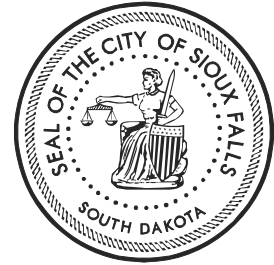


MINUTES

Wednesday, January 3, 2007



Audit Committee

7:00 p.m. – 8:05 p.m.
Carnegie Town Hall
235 West Tenth Street

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

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

Guests: Mayor Dave Munson. Chief of Staff Jodi Schwan. City Directors: Doug Barthel, Randy Bartunek, Judy Buseman, Gary Colwill, Mike Cooper, Mark Cotter, Sally Felix, Mike Hall, Jennifer Holsen, Don Kearney, Rick Larsen, and Eugene Rowenhorst.

1. Welcome and Call To Order

- Lead Internal Auditor Rich Oksol called the meeting to order. Introductions were made between the Audit Committee, Staff and City Directors.

2. Information Exchange with City Directors

- The purpose of this meeting was to enhance communication with the City Directors regarding the audit scope, procedures and components. Open communication and questions were encouraged to inform and update the city directors on the auditing process. The following information, concerns and questions were discussed during this meeting:

History

An inquiry was made as to how the Audit Charter was designed and why the scope of discovery was so broad. Using examples from other cities (the same size as Sioux Falls), the audit Committee designed the Audit Charter. The charter is general by design in order to eliminate the need for amendments later on.

The Audit Committee was formed in response to recommendations received by the independent outside auditor, Eide Bailly, LLP, and the legislative audit on the City of Sioux Falls. The Legislative Audit stated that an internal audit function was missing as a key component to the full structure of the city and that this function should be listed under the City Council.

Eide Bailly, LLP

The internal auditing function does not replace the outside audits currently conducted by Eide Bailly, LLP. Eide Bailly, LLP. may rely on some documentation from the internal auditors but, because of recent discrepancies items such as the Enron, etc., professional standards have increased for contract testing of agencies. Eide Bailly, LLP will not be changing their processes or procedures at this point in time. Both entities will work together to ensure that standard practices are met.

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Audits

Discussion was held regarding the need for both financial and non-financial audits. The Directors have an understanding of how a financial audit works but would like additional understanding on the processes regarding a non-financial audit. Non-financial audits look primarily at processes and procedures to review controls as they exist in the department. Recommendations can be made on where improved controls are needed. At this point in time, a process has not been developed for conducting non-financial audits.

The Lead Internal Auditor will meet with each director and conduct an interview regarding the department information. Input is requested from the Directors on the processes and a risk assessment is done. The Audit plan is then determined by the department assessment.

The plan is reviewed with the director before the audit actually begins with the knowledge that the director will know in advance the 'what, when and why' the audit will be conducted. In addition, a schedule of the audits that will be conducted will be released giving the directors ample notice before an audit is conducted. The Lead Internal Auditor has access to (and will utilize), proven examples and processes from other cities that have been successful. Examples of audits conducted in other cities will be distributed at this meeting so the director has an idea of what to expect.

During the auditing process and review, recommendations and timeline plans can be made to improve or correct items. This process can occur before the final audit report is submitted to the Audit Committee. The report will reflect any recommendations and corrective actions that have been taken in the final report. The Lead Internal Auditor will meet with the director to conduct an 'exit' conference. This collaborative approach is an opportunity to discuss the outcome and the facts of the audit. The director has the opportunity to disagree with the report with the Audit Committee making the decision as to what information is contained in the final report. All responses will be a part of the final report.

After the Audit Committee has approved the work plan for the year, it will be brought before the City Council at a City Council Meeting for adoption. The work plan has to be approved by the City Council before any further action can be taken. As this work plan will be distributed via a Resolution, it is considered public information and all departments will receive the same information at the same time. There will also be extra time available throughout the year for the Internal Auditors to perform 'special request' audits by request.

Special Audits

Special audits will only be performed when needed or requested. Such audits can be requested by the director if there is an area that may need immediate attention. These audits will be known as 'quick response audits'.

Auditing Contractors

Some audits will be conducted on outside entities that have been hired to manage assets of the city. The Audit Committee has access to volumes of professional reference guides to utilize as a tool to determine if contractors are conducting business in a prudent way.

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Confidentiality

The Audit Committee assured the group several times that all aspects of the audits are confidential until they are presented to the entire City Council at a City Council Meeting. After that point in time, the results are considered public information. The level of confidentiality is determined at the time of the interview process.

Naturally, there are concerns regarding access to sensitive areas, particularly in the legal and law enforcement departments. These areas should be identified, addressed and discussed during the pre-audit interview. There are going to be areas in both of these departments that access will need to be restricted and these needs will be handled on a case by case basis.

There may be isolated instances where an identified risk cannot be rectified immediately due to budgetary or other concerns. Although it will not be standard in every audit, there may be times when the City Attorney's office will be approached and counsel is requested. In these situations, the level of confidentiality may be altered.

Public Relations and Media

An educational approach will be utilized to inform the Media that the Audit Resolution listing simply illustrates the areas in City government that are going to be reviewed this year. While understanding that no one has control over how the media will use the information received, it will be presented in the same format as other ordinances and resolutions.

3. Adjournment at 8:05 p.m.

Tamara M. Jorgensen
Assistant City Clerk