

2009 Audit Plan

City of Sioux Falls

Presented by

Internal Audit

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Endorsed by

The Audit Committee of the City Council

Operational Audits

Operational audits involve an analysis of a department or division's operations including appraisals of the internal control structure, conformity with laws and policies, reliability of financial reporting, and effectiveness and efficiency in meeting organizational goals. Audit reports indicate how well activities are performed, make recommendations for improvements, and offer other conclusions drawn from audit work.

Employee's Retirement System/Firefighters' Pension

The Employee's Retirement System consists of two divisions: Police and General Employees. The system provides retirement benefits for participants and beneficiaries. The Firefighters' Pension Fund provides retirement benefits for participants and beneficiaries.

Water Reclamation

Water Reclamation is a division of the Public Works major organizational unit. Water Reclamation collects and treats wastewater generated by residential, commercial, and industrial dischargers before final discharge to the Big Sioux River.

Environmental Health

Environmental Health is a division of the Health major organizational unit. Environmental Health deals with all aspects of food preparation, handling, and storage. Environmental Health Specialists inspect day-care centers and hotels/motels. Environmental Health is actively involved in vector control and many other health-related areas.

Information Technology

Information Technology (IT) is a division of the Central Services major organizational unit. IT provides information technology services and support to all City major organizational units. The main focus of this audit will be to determine if general and application controls are operating effectively.

Compliance Audits

Compliance audits are performed to determine compliance with contractual terms and agreements.

Sioux Falls Convention Center Follow-up

This audit will be a follow-up of the internal audit performed in 2008 of Global Spectrum's agreement with the City of Sioux Falls to manage the Sioux Falls Convention Center. We will determine if audit recommendations were implemented.

Second Chance Rescue

Second Chance Rescue Center has a multi-year agreement with the City to provide facilities and equipment for an animal shelter. The City's Animal Control division brings stray animals to Second Chance.

Revenue/Cash Handling/Cash Receipts Audits

Each year Internal Audit selects 2 to 4 City divisions or major organizational units for an audit of revenue, cash handling and cash receipts. This year we will audit **Fire Rescue** and **Parks/Recreation**. We will audit internal controls over the collection of revenue, the handling of cash, and cash receipts. These audits will determine whether departmental written procedures are being followed by staff, cash is safeguarded, proper fees are being charged, and good business practices are being observed.

Process or Multi-Department Audits

Special Assessments

Special assessments are used to finance local improvements such as curb and gutters, sewers, and sidewalks. Special assessments are levied against the property benefiting from the improvements. The special assessment process involves several departments including Finance and Public Works/Engineering. We will determine if the special assessment process is efficient, effective, and in compliance with laws, rules, and policies.

Citywide Disbursements

Each year Internal Audit audits a sample of disbursements in the areas of salary and wages payments, retirement benefit payments, general disbursements, and miscellaneous payments to determine that these disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures.

Revenue Audit

Revenue audits are performed to ensure that the City is receiving all revenue lawfully entitled. Each year Internal Audit endeavors to audit a revenue source.

Cable TV Franchise Fee

Midcontinent Communications has the cable television franchise for Sioux Falls and remits a franchise fee to the City. The purpose will be to determine if the cable provider paid all franchise fees in accordance with the franchise agreements and the provider complied with all material franchise requirements.

Construction Contract Audits

These audits will be of specific construction contracts to determine that all work was properly performed and documented, the City was charged the contract price for all work performed, completion dates were met, the contract was properly let, change orders were properly executed, and pay requests were properly approved. We will attempt to audit all construction contracts let in 2009 for \$1 million and over. We will audit a small number of contracts below that threshold as available audit time permits.

Other Projects

2008 Comprehensive Annual Financial Report (CAFR) Review

The CAFR contains the audited financial statements of the City of Sioux Falls. A tremendous amount of information is contained in the CAFR. However, the CAFR is over 100 pages long and readers may find this document difficult to read and understand. Internal Audit will review and analyze the 2008 CAFR and present information to the City Council on financial trends and comparisons of financial information in the CAFR with benchmark cities in the upper Midwest. For this report, we will use methodology developed by the International City/County Management Association (ICMA) publication, *Evaluating Financial Condition: A Handbook for Local Government*. The City Council will be alerted to financial trends and conditions, both favorable and unfavorable.

Performance Measurement Assistance (ongoing from 2008)

The City of Sioux Falls began implementing a performance measurement system in 2008 for all City major organizational units (MOUs). An important element of a performance measurement system is the verification of performance measure data. A typical role for internal auditors is to provide that verification. The role of internal audit during this implementation phase will be to assist and consult with MOUs in developing their system of measuring performance. We will provide assistance in verifying that a sound system of internal controls is in place and do some limited verifications of data. In subsequent years, internal audit will do formal verifications of performance measures and make reports to the City Council. Results of assistance provided by Internal Audit will be reported to management via interoffice memorandum and will not be considered audits.

Follow-up on Status of Audit Recommendations

We follow up with management on the status of implementation of audit recommendations made in previous years. The City Council will be provided a report each year on the status of audit recommendations.

Fraud Hotline

A fraud hotline became available to City employees in 2008 for employees to report concerns about illegal, fraudulent, or unethical activities. Employees may report their concerns anonymously. The hotline is provided by a third-party provider who uses highly-trained operators to receive and screen reports. Internal Audit investigates any allegations of fraud. Other calls are directed to the appropriate City department for investigation. Internal Audit monitors the disposition of these investigations.

Special Project/Quick Response Audits

Approximately 10% of our available hours are unassigned hours and have been set aside to perform special projects, “quick response” audits, investigations, and other work requested by elected officials or City directors and authorized by the Audit Committee.

Routine Audit Work

Asset Verifications

This activity may include unannounced verifications of petty cash funds and change funds. It may include verifications of capital equipment/noncapital inventory. Results of asset verifications will be communicated via interoffice memorandum.

Anti-fraud Procedures

Internal Audit uses Computer Assisted Auditing Techniques (CAAT) and other specific audit techniques to look for indicators of fraud in accounts payable, payroll, purchasing, and other areas. We follow up on any suspicious transactions.

Vendor Contracts

We will periodically look at contract payments to vendors to determine whether vendors are invoicing the City (and the City is paying) in accordance with the vendor’s bid. The emphasis is on supplies and materials contracts.

Continuing Professional Development

Internal auditors are required to receive continuing professional education in order to comply with the Professional Standards of Internal Auditing. We are actively involved with the Sioux Falls chapter of The Institute of Internal Auditors (The IIA) to assist us in fulfilling this requirement. We also make use of conferences and web-based training as our training budget allows.