

MINUTES

Thursday, December 2,
2010

Audit Committee Meeting 4:00 PM at Carnegie Town
Sioux Falls City Council Hall
235 West Tenth Street



Members Present: Anne Opegard, Council Member Greg Jamison, Council Member Jim Entenman, Council Member Sue Aguilar, and Council Member Rex Rolwing.

Members Absent: Brad Whitsell, and Joe Marsh.

Staff Present: Debra A. Owen, City Clerk/Chief of Council Operations, and Tamara Jorgensen, CMC, Assistant City Clerk.

Guests: Jeff Weber, Tim Buseman, Kenny Anderson, Jr., Lee Anderson, Tom Huber, Doug Barthel, Greg VandeKamp and Beth Wischmeyer.

1. Call To Order

Greg Jamison chaired the meeting and called the meeting to order at 4:00 p.m.

2. Welcome new Committee members, Aguilar and Rolwing

Jamison introduced and welcomed City Council Member Sue Aguilar and City Council Member Rex Rolwing to the Audit Committee.

3. Review and approve minutes from last committee meeting 09/21/10

A motion was made by Jamison and seconded by Rolwing to approve the minutes. Jamison called for a voice vote. All members present voted yes. **Motion Passed.**

4. Review audit report: 10-10 Sanitary Landfill

Discussion and review were held regarding this audit including the following Opportunity for Improvement and Management's Response (shown below):

Opportunity for Improvement: We recommend that Public Works management request action by the City Council, per South Dakota statute

34A-6-63.1, to allow City Purchasing to negotiate with vendors to purchase certain Landfill wastes.

Management Response: Thank you for your professionalism, courtesy, time and efforts regarding the internal audit that was recently conducted at the Sioux Falls Regional Sanitary Landfill. We are always looking to strengthen our division of Public Works and your input is appreciated. We will continue to work with the City Council and the Internal Audit team to improve our services which provide a better quality of life for citizens of the City and regional area of Lake, Lincoln, McCook, Minnehaha and Turner counties.

The Landfill division of Public Works agrees with the Opportunity for Improvement finding of the audit. This has been discussed internally within Public Works Administration and the City Attorney's office has been contacted regarding this matter. We will ask for a legal review of this matter and will draft a resolution or ordinance as recommended in the audit. We anticipate bringing this action before City Council for action before March 31, 2011. I (Sanitary Landfill Superintendent) will serve as the contact person for this matter. Feel free to contact me by phone or e-mail as needed.

Once again, thank you for your review of our division and your continued efforts to improve the City of Sioux Falls services.

A motion was made by Aguilar and seconded by Oppegard to approve this audit. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

5. Review audit report: 10-05 Pawn Shop Reimbursement

Internal audit performed this special audit at the request of Council Member Kenny Anderson Jr. The following portions of the report were reviewed and discussed:

The Fund

After multiple visits with the owners and/or managers of three of the larger pawn shops in town, it's very apparent that they would prefer to have the fund reinstated. Research reveals that the use of such a reimbursement fund is very rare on a national basis. The vast majority of communities have never had such a mechanism for paying pawn shops for confiscated items. The net effect of not having such a fund is that the courts determine both the legal ownership of the property and the compensation, if any, for the pawn shops and for the original owners/victims.

We recommend and favor this practice because it places the burden of determining the custody of the property and any compensation upon the court system.

Communication

Once the practice ended of having SFPD officers stopping by the individual pawn shops each week to collect the pawn cards, the personal contacts and the one-on-one relationships between the shops and the SFPD may have diminished. For information management purposes, the Leads on Line reporting system has been beneficial for the SFPD by decreasing the inherent costs in obtaining and tracking pawn property information. A major benefit is the availability of an accurate and extensive national database.

When property is either put on hold at a pawn shop or confiscated, the current procedure allows for very little follow-up communication as to the property status.

We recommend that the SFPD initiate and maintain a spreadsheet that lists the pertinent property information for each pawn shop and most importantly, the current status of the property. This information should be made available to the pawn shops through a password protected SFPD website that the pawn shops can log on to at any time. Since the property is either put on hold or confiscated by the SFPD, it's incumbent upon the department to make this information available to the pawn shops in a readily available and concise manner. This proposed spreadsheet must be accurately maintained from hold or seizure to final disposition of the property through court proceedings. The availability and accuracy of the pawn information will require detailed interaction with the Minnehaha County State's Attorney's Office. With the introduction of a new "on hold" procedure, as described in the next paragraph, the number of pawn properties to be tracked will be greatly reduced.

"On Hold" Procedures

One problematic procedure has been the length of time that some properties have been kept on hold. To remedy this, the SFPD has recommended a holding period not to exceed ninety days, unless extended by court order. Upon cause, these hold orders will be placed upon the property by electronic or written notification. The hold order notification will include a detailed description of the property, the name and agency of the Law Enforcement Officer placing the hold order and the date and time of the notification. Hold orders may be removed prior to the ninety day expiration by the originating agency. If the ninety day holding period has expired without being extended, the hold shall be considered expired and no longer in effect. The pawn shop is then able to freely market the property.

The SFPD has also proposed that the following businesses be subject to the same ordinances, practices and procedures as the pawn shops: Precious Metals and Gem Dealers, Licensed Secondhand Stores and Licensed Gun Dealers.

Internal Audit strongly supports these SFPD recommendations. If enacted through a revised ordinance, these SFPD proposed "On Hold" procedures and

expanded business involvement will positively affect the administration of the related properties while enabling the private businesses to market their properties with minimal delay.

We further recommend that the SFPD submit their proposed revised ordinance to the City Council by March 1, 2011.

A motion was made by Entenman and seconded by Rolfing to approve this audit. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

6. **Audit projects from 2010 Annual Audit Plan, Arterial Street Program and Facility License Reversion: consideration of postponing or cancelling.**

Facility License Reversion: After discussion, Oksol will be contacting the legislative audit to see if the State Health Department can perform this audit function as they have access to the records.

A motion was made by Rolfing and seconded by Aguilar to approve Oksol moving forward in this manner for this item. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

Arterial Street Program: After discussion, it was determined that this item would be audited in 2012.

A motion was made by Entenman and seconded by Aguilar to move this audit to the 2012 schedule. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

7. **Review proposed 2011 Annual Audit Plan**

The following items are audits requested by the City Council. The information was reviewed and discussed. Proposed action to be taken follows the item in *italics*.

- Railroad relocation fund: *Discussion held regarding getting information from the State regarding activity on this fund and the current status. Finance stated they could provide a worksheet on this fund and what has been spent by the city. Internal Audit can also perform an audit on this information along with a combination of the other reports available from the Federal Agency. Oksol was directed to obtain this information from Pierre and then review the information. He is to bring this information forward to a future Audit Committee Meeting for review. The Audit Committee requested to review this information as soon as possible.*

A motion was made by Entenman and seconded by Oppeward to add this item to the 2011 Audit Plan as a special audit. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

- Community Development: specifically, the Neighborhood redevelopment program:
This will be the first year for this audit.

A motion was made by Roling and seconded by Aguilar to add this item to the 2011 Audit Plan. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

- Arena follow-up: *This would be a follow-up work for an audit conducted in 2008. This report is available on the city's website.*

A motion was made by Roling and seconded by Entenman to add this item to the 2011 Audit Plan. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

- City agreements adhering to city/state law: *The city has a lot of agreements. Entenman stated that members of the committee would like to see highly visible contracts get reviewed for compliance issues such as insurance requirements and any other compliance issues. The high profile contracts can be on a revolving scale so that the same contracts are not reviewed every year (top 20-24 on a four year rotation, etc.) The Audit Committee would like to know how this rotation is going to be arranged.*

- A motion was made by Roling and seconded by Aguilar to add this item to the 2011 Audit Plan. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

- City agreements/contracts and payment of fees to the City treasury: *An example stated was the Convention Center. State Law and City Ordinances reference fees that go to the City treasury. Oksol spoke to Deene Dayton in Pierre and forwarded a memo to the audit committee and fiscal committee about discussions and proposed recommendations. Discussion was held regarding what goes into the operational funds. A copy of the memo is shown below:*

SUBJ: Receipts paid into municipal treasury

1. There has been recent discussion with the Fiscal Committee about a proposal by the Administration to change the way money from fees is handled. Currently, the City charges a ticket fee for tickets on all paid admissions to events at the Sioux Falls Arena, Convention Center, and baseball (Fighting Pheasants) stadium. The details are found in section 15 ½-7 of City ordinance. The change proposed would allow the operators of the facilities (SMG

in the case of the Arena and Global Spectrum for the Convention Center) to collect these fees per the terms of the management agreements. Essentially, the operators would collect these fees as they do now but not remit them to the City Finance office. They would be retained in the operating accounts for each facility and the City would retain ownership rights to these accounts.

2. The question came up during discussion with the Fiscal Committee about internal control. At the time I indicated to the Committee that since the City retains the right to audit and retains control of the account that was less of an issue. I did say that, in my opinion, we should just leave things the way they are currently. The Council Chief of Operations pointed out to the Committee that under **South Dakota Codified Law 9-22-1**, we (the City) would not be able to change the way these receipts are handled. SDCL 9-22-1 reads *“Receipts paid into municipal treasury-Funds designated by annual appropriation ordinance. All money belonging to the municipality derived from taxation, licenses, fines, forfeitures, the operation of waterworks or other public utility owned or operated by it, or from any other source, shall be paid into the municipal treasury, and the governing body by the annual appropriation ordinance shall designate to what fund or funds such money shall be applied.* City Ordinance Section 2-52 has almost identical language.

3. I spoke with Deene Dayton at South Dakota Legislative Audit to get his opinion on this situation. Mr. Dayton is the Director of Local Government Assistance and has been a tremendous resource to local governments in South Dakota for years. Mr. Dayton said in the opinion of Legislative Audit, the law is a good law. However, he said the actual way the fees are handled is not the issue. Whether the facility operator actually sends a physical check to the City Finance office or not is not the issue. From his perspective the two main issues are as follows: **A) Accurate Financial Reporting:** these fees must be accurately reported on the City’s monthly and annual financial reporting. Whether or not a physical check comes from SMG or Global, Finance must maintain general ledger accounts for these revenues. **B) Internal Control:** someone must be checking on these management companies to have some assurance that the correct fees are being collected from customers and properly reported. (Finance and Internal Audit both agreed that no matter how these fees are handled, we are relying upon a third-party to collect and report the fees.) Mr. Dayton said someone should be periodically verifying that these fees are being properly collected, whether that is an accountant in the Finance office or an internal auditor.

4. I agree with Mr. Dayton’s opinion. **The way the money is handled is not so much the issue.** The **general ledger accounts must be maintained** and the fees reported there. I found three general ledger accounts where these fees are currently reported: 100-1201-346-3001 Arena ticket fees (\$258,571 anticipated in 2010 budget); 100-6404-346-3003 Stadium ticket fees (\$29,000); and 250-6701-346-3002 Convention Center ticket fees (\$10,000). **Regular monitoring of these fees should occur.** In past years, Internal Audit has audited the collection of these fees as part of our contract audit work. For example, we reviewed the baseball stadium fees in 2004, the Arena in 2008, and the Convention Center

in 2008. Either Finance or Internal Audit should probably be reviewing these fees on a yearly basis. Internal Audit is starting a new protocol for Contract/Agreement monitoring in 2011. **I would suggest that we add reviewing ticket fee collection and reporting to our procedures for monitoring.**

- A motion was made by Roling and seconded by Aguilar to add this item to the 2011 Audit Plan. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

Oksol will add the items discussed to the 2011 Audit Plan. A resolution will need to be voted on at a City Council Meeting in January to adopt the plan.

- A motion was made by Aguilar and seconded by Roling to approve the draft 2011 Audit Plan. Jamison called for a voice vote and all members present voted yes. **Motion Passed.**

8. Discussion: notifying City employees when audit reports are completed via City intranet

Discussion was held regarding proposed methods for communicating audit results to city employees. Most employees have access to InSite but do not always have the time to review the information. Owen reminded the committee that the audit meeting minutes and reports are also available on the city's website at www.siouxfalls.org. Opegard suggested that management review the audit results with their employees. The Internal Auditors will encourage management to review results with their employees.

9. Upcoming external audit of City financial statements by Eide Bailly

Oksol stated he would like to invite Dean Buckneburg, partner with Eide Bailly, to come to the Audit Committee Meeting in January to discuss the preliminary plans for the 2011 Audit. Eide Bailly starts the audit work in the last week of January/first week of February. This will give the committee the opportunity to discuss any concerns about what is going to be covered, etc.

A letter from Eide Bailly was distributed and discussed. The letter illustrates Eide Bailly's responsibilities under U.S. Generally accepted auditing standards and OMB Circular A-133.

Oksol stated that this is the last year of a multi-year agreement with Eide Bailly for audit services. He asked the Audit Committee if they want to disperse a new RFP for services for future years. Discussion was held regarding government auditing being a very

specialized area. There may not be a lot of vendors that are qualified to perform the necessary tasks.

10. Open discussion

Oksol will be ordering a GFOA guidebook for the members of the Audit Committee.

Oksol would like the next Audit Committee Meeting to occur the first or second week of January. Assistant City Clerk Tamara Jorgensen had volunteered her assistance in organizing the 2011 audit committee meeting calendar and will begin working on setting up the future meetings.

After recent media stories about changes to the employees' pension plan, some employees contacted Oksol for more information requesting input on what was happening. Oksol attended a Board of Trustees meeting and discussed the processes that need to occur before pension changes can occur. Oksol will continue to attend Board of Trustees meetings to monitor changes. There are union votes required, etc. before changes can happen. The Board of Trustees is 'brainstorming' ideas at this time.

11. Executive session

A. Personnel issues under SDCL 1-25-2(1)

A motion was made by Opegard and seconded by Council Member Aguilar to go into Executive Session at 5:00 p.m. to discuss personnel issues under SDCL 1-25-2(1).

A motion was made by Council Member Aguilar and seconded by Council Member Roling to go out of Executive Session at 5:04 p.m.

12. Adjournment

A motion was made by Jamison and seconded by Roling to adjourn the meeting at 5:04 p.m. All members present voted yes. **Motion Passed.**

Tamara Jorgensen, CMC

Assistant City Clerk