

# Internal Audit 2015 Annual Report



City of Sioux Falls  
Internal Audit Department  
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[www.siouxfalls.org/council/internal-audit](http://www.siouxfalls.org/council/internal-audit)

## **2015 ANNUAL REPORT INTERNAL AUDIT**

As required by our Internal Audit Charter, this is Internal Audit's annual report to the Audit Committee about our 2015 activities. It is also intended to provide information to the City Council and the citizens about how Internal Audit performs its work.

### **City of Sioux Falls Internal Audit Mission, Vision, Goals and Objectives**

#### **Mission**

To help the City achieve the highest efficiency and effectiveness with integrity

#### **Vision**

To be a highly respected service division and a catalyst for positive change

#### **Goals and Objectives**

Complete all projects and audits in the Annual Audit Plan

Follow up and resolve any audit issues and findings from previous years by determining the status of management actions to specific audit recommendations

Respond to special request projects as approved by the Audit Committee

Complete continuing professional education (CPE) as required by professional audit standards

Schedule and pass a peer review of the Internal Audit office every five years

#### **Internal Audit Staff**

The professional staff of the Internal Audit office as of December 2015 consisted of:

Internal Audit Manager: Rich Oksol, CPA, CGAP

Internal Auditor: Kim Schroeder, CIA

Internal Auditor: Ashley Stroschein

*CPA=Certified Public Accountant*

*CGAP=Certified Government Auditing Professional*

*CIA=Certified Internal Auditor*

## Professional Credentials

Auditors in the Internal Audit office maintain relevant certifications and are members of several professional audit and accounting associations. The professional associations providing the certifications have rigorous standards and minimum requirements that include comprehensive written exams for technical knowledge and skills and verified education and experience requirements. The certifications also carry stringent ethical standards.

## Professional Organizations and Memberships

Professional associations provide opportunities for networking with other accounting and audit professionals. They also provide opportunities for continuing education and for maintaining proficiency and knowledge of current issues affecting the government and auditing professions. Internal Audit maintains either a group or individual membership in the following organizations:

- Association of Local Government Auditors (ALGA)
- Institute of Internal Auditors (IIA)
- South Dakota CPA Society

These organizations are instrumental in helping provide professional training for Internal Audit. The Internal Audit Manager and staff completed a collective total of 106 hours of continuing professional education (CPE) in 2015. Generally, 40 hours per year of CPE must be completed by an auditor to maintain certification(s).

## Organizational Independence and Objectivity

Professional auditing standards require that the internal audit activity should be independent, and internal auditors should be objective in performing their work.<sup>1</sup>

Internal Audit is independent of the departments and organizations it audits, both in appearance and in fact. This is achieved by the placement of the office under the City Council. The Internal Audit Manager is appointed by and reports to an Audit Committee. The committee members are appointed by the City Council. The departments audited are under the direction of the Mayor.

Objectivity is a state of mind and is defined as freedom from bias. The Internal Audit Manager conducts and documents annual training with staff auditors on the importance of objectivity in performing audit work. Auditors are not assigned to audit work in which they believe they would be unable to make objective professional judgments.

## Audit Committee

The Audit Committee of the City of Sioux Falls oversees Internal Audit. They meet four to six times per year at public meetings to review/approve reports and the annual audit plan. They also receive reports from the City's external audit firm. The committee reviews the City's annual financial

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<sup>1</sup> *International Standards for the Professional Practice of Internal Auditing, attribute 1100*

statements and audit-related matters. The committee is made up of three citizens and four council members. Committee members include accounting, business, and audit professionals.

At the close of 2015 the committee members were:

Citizen members

Jason Forbes, term July 2014 to May 2017

Arnie Martens, term May 2013 to May 2016

Seth Peterson, term September 2014 to September 2017

Council members

Rex Roling (Chair)

Michelle Erpenbach

Rick Kiley

Dean Karsky

## **2015 Audit Work Accomplished**

The 2015 annual audit plan was approved by council action on December 16, 2014. The following audit projects were included in the plan:

Revenue audits

- Cable Television Franchise Fee
- Public Facility Ticket Fee

Special area audits

- Accounts Payable
- Police Crime Lab (evidence room)
- Information Technology
- Affordable Housing
- Storm Drainage
- Follow up to Fuel Control Audit
- Construction Contracts

Other

- Follow-up on Status of Audit Recommendations

Consultation

- REMSA/Ambulance Service Franchise Agreement

Analysis

- Energy Savings Projects
- Adaptive Traffic Control Systems

All audit projects were completed and reviewed by the City's Audit Committee in 2015 with the following exceptions:

- Cable Television Franchise Fee
- Accounts Payable
- Information Technology

- Storm Drainage
- Follow-up to Fuel Control Audit
- Construction Contracts
- Analysis of Energy Savings Projects
- Analysis of Adaptive Traffic Control Systems

The Storm Drainage audit is in progress as is the Construction Contracts audit. The other 2015 audits and projects will be carried forward into the 2016 Annual Audit Plan.

#### Special requests in 2015

The Audit Committee has a protocol to review and approve requests for internal audit for projects that are not in the Annual Audit Plan. The following special requests were approved by the Committee in 2015:

- Transit
- Accounts Receivable Citywide
- Sanitary Landfill Cash Controls

The Transit audit was completed in 2015. The other two special request audits are in progress and will likely be completed in early 2016.

Twelve audit recommendations were made in 2015 to improve controls and operations. Audit clients concurred with all audit recommendations.

The Internal Audit Manager tracks audit recommendations to ensure they are carried out effectively and timely. An annual report is made on this follow-up to past audit recommendations.

## **Frequently Asked Questions**

### **Who gets audited?**

All City of Sioux Falls departments/divisions and business processes are eligible to be audited. Outside entities and contractors doing business with the City may be audited.

### **Who audits the Internal Auditors?**

To comply with professional internal audit standards, Internal Audit is required to undergo a Peer Review by other auditors every five years. Internal Audit underwent a Peer Review performed by the Association of Local Government Auditors in October 2014. The Internal Audit office was deemed to be in full compliance with the *International Standards for the Professional Practice of Internal Auditing*.

### **What is the difference between external auditors and internal auditors?**

External auditors are not City of Sioux Falls employees. External auditors perform, under contract with the City, an annual audit of the financial records of the City and the Federal single audits. The External

Auditors provide an independent opinion on the City's financial statements and whether they conform to Accounting Principles Generally Accepted in the United State of America. The City is required by law to have an annual independent financial audit and annual Federal single audit.

Internal Auditors are City employees. Their placement within the City organization allows them to operate with a high degree of independence. Internal Audit focuses on accountability, internal controls, and improving effectiveness and efficiency of City operations.

### **How are audits selected?**

The Internal Audit Manager is responsible for developing a risk-based annual audit plan which is presented to the Audit Committee for discussion and endorsement. The annual plan is then presented to the City Council and approved by resolution. The planning process provides for both legislative (City Councilors) and executive (Mayor) input. Management (City Directors) is also asked for suggestions and assists in the risk assessment of their areas of responsibility. Risk factors considered include:

- Large dollar expenditures or revenue.
- Suspected or potential fraud or error.
- Opportunities for increased revenue, cost savings, or improved service.
- Amount of change in a department including management turnover and increased responsibilities or new programs.
- Amount of currency, checks, and credit card payments processed by a department.
- Complexity of operations.
- Impact of department operations on the health and safety of citizens.

The Internal Audit Manager assesses audit resources available for the coming year and develops a proposed annual audit plan to provide as broad of coverage as possible and address the areas of greater risk and management interest.