

Internal Audit Report
Follow-up on Status of Audit Recommendations
April 2015



City of Sioux Falls
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FOLLOW-UP ON STATUS OF AUDIT RECOMMENDATIONS INTERNAL AUDIT REPORT

INTRODUCTION

Our Internal Audit Charter requires that we follow-up on the status of past audit recommendations. Additionally, this follow-up is required by professional internal auditing standards.

OBJECTIVES

Our purpose in performing a follow-up review of audit recommendations is to determine the status of corrective actions agreed to by management.

SCOPE AND METHODOLOGY

The scope of this report focused on audit recommendations from 2013 internal audit reports. We also reviewed recommendations from earlier reports that were considered in progress or not yet implemented in last year's report. When internal audit reports contain recommendations, department directors provide a response to these recommendations and this is included in the final audit report. They will typically include information about corrective actions taken in regard to recommendations with which they concur.

Important points are as follows:

- Some issues are not easily corrected nor are they always controllable by the departments. Corrective actions may take considerable time and effort to fully implement.
- In some cases, department management will assume the risk rather than try to mitigate it. If, in the judgment of management, the benefits of the corrective actions do not outweigh the costs, this may be a reasonable approach. If Internal Audit believed this approach subjected the City to serious risk, we would bring it to the attention of the Audit Committee for resolution.

RESULTS

2013 AUDIT REPORTS

Veolia Contract (Household Hazardous Waste)

- Next Request for Proposal (RFP) in 2013 should have specific language about quantities of materials.
Status: Implemented.
- Next RFP should have Case by Case items to be billed by actual cost of disposal plus an agreed upon percentage of markup or overhead.
Status: Implemented.

Street Division Purchasing

- All City and State contract numbers should be entered onto the appropriate area of the requisition when purchasing materials.
Status: No longer applicable with change in citywide financial software in 2014 and centralized purchasing in the Finance department also implemented in 2014.
- When Street Division rents space for storage of equipment, there should be a formal contract or agreement to establish price, terms, and liability.
Status: Implemented.

Emergency Medical Service (ambulance) Agreement

- City should go through the Request for Proposal process before award the next EMS franchise agreement.
Status: Implemented.
- City should hire a qualified consultant to assist with the RFP process.
Status: Implemented.

Water Reclamation-Industrial Billing

- Additional control(s) should be implemented to reduce errors in this highly manual process.
Status: Implemented.

City-Owned Real Estate

- City should implement a real estate asset management policy covering the acquisition, holding, and disposal of real property.
Status: Not implemented. Internal Audit will continue to monitor.
- Apply a strategic approach to management of real estate assets so that assets acquired achieve their public purpose.
Status: Not implemented. Internal Audit will continue to monitor.

Park and Recreation Cash Handling Follow-up

All recommendations from previous audit of cash handling in 2009 were determined to be implemented.

Overtime

- Greater management oversight needed so that Police department sergeants are not approving their own overtime.
Status: Implemented

Investment Policy

- City's investment policy should be updated and comply with current South Dakota Codified Law.
Status: Implemented

- Finance Director should complete written procedures for investment activities as required by policy.
Status: In progress. This should be completed in 2015. Finance management will send copy to Internal Audit Manager once completed.

Leaf Drop-off Cash Handling

- Enhance the physical security of cash kept overnight at drop-off locations.
Status: Implemented
- Management should review the daily car count and daily deposit to ensure that \$2 per car is being collected and any discrepancies are noted on the count sheet.
Status: Implemented

Downtown River Greenway

No audit recommendations.

2012 AUDITS

Light and Power

- Expenses not related to maintaining the electrical power transmission system such as street light maintenance and repairs should be paid out of the General Fund rather than the Light Enterprise Fund.
Status: Implemented
- Management should implement a formalized policy for inventory (supplies and materials.)
Status: Implemented. Light went live with inventory system in November 2014.
- Management should work towards a formalized work order system to help improve management of projects and inventory.
Status: Implemented. Light went live with new work order system in January 2015.
- All Light division trucks should be equipped with laptop computers.
Status: Implemented. Each line worker currently has an individual laptop tablet to manage work orders. Tablet also allows use of GIS maps to increase efficiency.
- City should consider other network providers for remote access for Light vehicles so equipped. Current service was observed to be slow.
Status: Implemented. Each tablet now has a hot spot device. This change plus some software adjustments has greatly improved service speed.

Fraud Risk Assessment

Eleven action steps were identified for Internal Audit to perform to address identified fraud risks.

- Continue cash handling audits.
Status: Ongoing
- Conduct unannounced cash counts in City departments.
Status: Ongoing
- Conduct fraud awareness training for City Employees.
Status: Implemented; a consultant from Eide Bailly provided training to managers in August 2013.

- Develop and implement appropriate anti-fraud measures for organizations outside City governance framework that receive City funding.
Status: In progress/ongoing
- Publicize availability of the fraud, waste and abuse hotline to City employees.
Status: Implemented
- Identify all City bank accounts as to purpose, financial institution, who has signature authority, and who reconciles the account.
Status: Implemented
- Employee dishonesty insurance meets minimum requirements of State law. However, the amount of coverage has not changed in many years. Can/should the amount of coverage be raised?
Status: Not implemented. Internal Audit Manager met with City Attorney and City Risk Manager. It was determined that the way State law is written, no such increase is permitted.
- Complete a segregation of duties checklist for critical functions such as payroll, treasury and investment, and financial statement preparation.
Status: Completed. Internal Audit and Finance met to discuss and review when new financial software was implemented in 2014.
- Tone at the Top: monitor any trends in City employee perceptions via the annual employee survey (anonymous.) Tone at the Top is a term that refers to employees' perception of management's actions as they relate to ethical behavior.
Status: Ongoing
- Ethics training: last city-wide ethics training for employees was over five years ago. Training is overdue.
Status: In progress; Internal Audit Manager has met with City Attorney. It was anticipated that such training for employees would happen in 2014. Internal Audit Manager will follow up with City Attorney in 2015.
- Update list of where all revenue enters the City: type of revenue and exactly where, how often and what form it comes in.
Status: In progress. Internal Audit Manager will meet with Finance management in 2015 to review.

AUDITS PRIOR TO 2012

Street

- Management should consider installing Global Positioning System (GPS) technology on Street division equipment.
Status: City hired Mercury Associates in 2014 to perform a fleet operations best practices assessment. Their report is due in May 2015 and should address the feasibility of this recommendation. Internal Audit will continue to monitor.
- Management should perform another analysis of leased versus City-owned motor graders to determine if the City has the optimum mix.
Status: The report from Mercury (see above) should address this recommendation. Internal Audit will continue to monitor.

Transit

- Fixed route fares have not been increased since 1995. The General Fund continues to fund an ever increasing percentage of Transit expenses. Management should determine whether a fare increase should be proposed. **Status:** Not implemented. Transit task force recommended in 2014 that a fare increase begin in 2015. City Council voted on 09/16/2014 to defer any increase until further study is done. Internal Audit will continue to monitor.

CONCLUSION

Overall, management has made progress in addressing issues raised by Internal Audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit work by resolution in December 2014 as part of the 2015 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

The City of Sioux Falls Internal Audit office follows the *International Standards for Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

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