

# Internal Audit 2016 Annual Report



City of Sioux Falls  
Internal Audit Department  
Carnegie Town Hall  
235 W. 10<sup>th</sup> Street  
Sioux Falls, SD 57117-7402  
[www.sioxfalls.org/council/internal-audit](http://www.sioxfalls.org/council/internal-audit)

## **2016 ANNUAL REPORT INTERNAL AUDIT**

As required by our Internal Audit Charter, this is Internal Audit's annual report to the Audit Committee about our 2016 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 2016 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 129 hours of continuing professional education (CPE) in 2016. 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 periodic 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 City's external audit firm, Eide Bailly LLP, audits the City's financial statements on an annual basis.

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

The Committee is made up of three citizens and four City Council members. Committee members include accounting, business, and audit professionals.

At December 2016 the committee members were:

#### Citizen Members

Jason Forbes, term July 2014 to May 2017  
 Arnie Martens, term June 2016 to May 2019  
 Seth Peterson, term September 2014 to September 2017

#### Council Members

Rex Roling (Chair)  
 Michelle Erpenbach  
 Rick Kiley  
 Greg Neitzert

## **2016 Audit Work Accomplished**

The 2016 annual audit plan was approved by City Council action on January 12, 2016. The following audit projects were included in the plan:

#### Revenue audits

- Cable Television Franchise Fee

#### Special area audits

- Accounts Payable
- Construction Manager at Risk
- Citywide Cash
- Information Technology
- Affordable Housing
- Follow up to Fuel Control Audit

#### Other

- Follow-up on Status of Audit Recommendations

#### Analyses

- Energy Savings Projects
- Adaptive Traffic Control Systems

#### Special requests in 2016

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 request was approved by the Committee in 2016:

- Sioux Falls Development Foundation

All audit projects in the 2016 Annual Audit Plan were completed in 2016 with the following exceptions:

- Cable Television Franchise Fee
- Accounts Payable

- Analysis of Energy Savings Projects
- Follow up to Fuel Control Audit (all audit work completed; management is reviewing the results)

#### Audits approved and started in prior years and completed in 2016

- Storm Drainage (2015)
- Citywide Accounts Receivable (2015)
- Landfill Cash (2015)
- Construction Contracts (2014)

Seventeen audit recommendations were made in 2016 to improve controls and operations. Audit clients concurred with all audit recommendations.

The Internal Audit Manager tracks audit recommendations and follows up with City managers to ensure these recommendations are implemented. An annual report is made on the status of prior year audit recommendations.

#### Ongoing Audit Activities

Internal Audit continued developing ongoing audit activities in the areas of payroll, accounts payable, purchasing and procurement, and miscellaneous areas. The purpose is to look for possible indicators of fraud, inefficiencies, or noncompliance with policies and procedures. See page six of this report for results of these ongoing activities.

## Accounts Payable

### Tests/Activities and results

- 1) Duplicate Payments to Vendors: Used data analytics to review payments to vendors from January through September 2016. No duplicate payments were detected.
- 2) Benford's law analysis: Benford's law, also called the first-digit law, is used by auditors to review large numbers of data to detect unusual patterns that may be either error or fraudulent. Analysis was performed on accounts payable invoices from September through December 2016. No unusual patterns were detected.

## Payroll

### Tests/Activities and results

- 1) Two or more direct pays going into one bank account: Two or more direct pays going to one bank account could be a potential indicator of a "ghost" employee payroll fraud scenario. However, there are legitimate situations where this occurs such as a married couple who are both employees and sharing one bank account. We reviewed City payroll as of 08/11/2016 and noted no situations that were fraud situations.
- 2) Missing social security number for active full-time or temporary employees: We reviewed all active employees as of December 2016 and noted that no employee records were missing social security numbers.
- 3) "Impossible" social security number for active full-time or temporary employees: We reviewed all active employees as of December 2016 and noted that that there were no employees with "impossible" social security numbers per information from the Social Security Administration web site. This analysis was discussed with Human Resources
- 4) Proper deductions for employees on South Dakota Employee Retirement System (full-time employees hired on or after 07/01/2013 are on the SDERS instead of the City of Sioux Falls Pension System): We reviewed all active full-time employees hired after this date and determined that all employees were correctly coded as being part of the SDERS and had the proper deductions for their contribution. These results were discussed with Human Resources.

## Purchasing & Procurement

### Tests/Activities and results

- 1) Requisitions/purchase orders: Reviewed 29 requisitions from 2015-2016 to determine if requisitions were properly processed according to policy. No discrepancies noted.
- 2) Contracts: Reviewed 32 City contracts from 2015-2016 to determine if they were properly advertised, the low bidder awarded, and whether contracts were properly approved. No discrepancies.

## Miscellaneous

### Test/Activity and results

Missing Money website: We identified two unclaimed properties belonging to the City of Sioux Falls. We notified Finance department for staff to claim this property.