



**Annual Report
Fiscal Year 2013**

March 2014

Background

The City of Rapid City Common Council created an independent audit program to assist the Council in its policy making role and to help city managers carry out their administrative responsibilities by providing independent, objective information and assessment of city operations. As stipulated in the Rapid City Municipal Code, the COMPASS Independent Audit program adheres to the *Government Auditing Standards* issued by the Comptroller General of the United States. Rapid City Municipal Code 2.95.130 requires the Chief Auditor to submit an annual report to the City Council each year indicating audits completed in the preceding fiscal year, major findings, corrective actions taken by administrative managers, cost savings and avoidances (when possible), and significant findings that have not been fully addressed by management. This annual report provides information to the City Council and citizens about COMPASS Independent Audit's 2013 activities.

Audit Committee

The COMPASS Audit Committee oversees the independent audit program. The audit committee is composed of two city council members appointed for a term of one year and three citizens-at-large appointed for staggered three year terms. All members are appointed by a majority vote of the City Council. The committee meets at least once each quarter to review and approve audit reports and recommendations and to approve and amend the annual audit plan. Committee members have relevant backgrounds in accounting, business and government.

Audit Staff

Audit staff conducts compliance, operational and performance audits of City agencies, activities and programs. The audit staff includes a Chief Auditor and a Staff Auditor. During 2013 audit staff held undergraduate and graduate degrees in Accounting, Political Science, and Public Administration.

Professional Organizations and Continuing Education

Audit staff hold memberships in several professional organizations that provide opportunities for continuing education and for maintaining proficiency and knowledge of current issues affecting government and the auditing profession. COMPASS Independent Audit maintains memberships in the following organizations: Association of Local Government Auditors (ALGA), Institute of Internal Auditors (IIA) and Government Finance Officers Association (GFOA).

These organizations help provide professional training for audit staff. In 2013 audit staff completed a total of 85 hours of continuing professional education (CPE). Generally, 40 hours of CPE must be completed by an auditor each year to meet government audit standards requirements.

Organizational Independence

Government auditing standards require that an organization's auditing activity be independent. The City's auditing function is independent of the agencies and activities it audits. This is achieved by the placement of COMPASS Independent Audit under the City Council. The Chief Auditor is hired by and reports to an audit committee. The audit committee members are appointed by the City Council. The agencies and activities audited are under the direction of the Mayor.

2013 Audit Work

During 2012 the Chief Auditor completed a comprehensive city-wide risk assessment. The risk assessment gathered input regarding potential audit topics from department directors and managers, the City Council, and the COMPASS Audit Committee. In addition, several audit topics were brought forward by interested citizens. The risk assessment was used to develop the 2013-2014 Audit Plan. The COMPASS 2013-2014 Audit Plan was approved by the COMPASS Audit Committee at its December 17, 2012 meeting. This two-year audit plan was subsequently approved by the City Council on January 7, 2013. The plan provides a general program to guide the work of audit staff in 2013 and 2014.

The audit topics approved for the two year period include:

- A contract audit of the Rapid City Regional Airport's rental car and parking agreements.
- Cash handling/revenue audits in the Library Department's North Library and City/County Library East at the Western Dakota Technical Institute, Parks and Recreation Department's aquatics and tennis facilities, the Public Works Department's Water Reclamation Division and Utility Maintenance Division and the Civic Center ticket trust.
- Operational audits of the Finance Office and Information Technology Division.
- Special area audits of City fees, facilities management, fleet management and purchasing/procurement.

The audit plan and accompanying work program are designed to be flexible to take into consideration extenuating circumstances and changing City needs.

Audit staff presented one audit completed in 2012 to the audit committee and City Council in the first quarter of 2013. The second audit from the 2012 approved audit plan was completed in June 2013. In addition, three audits and one audit follow-up project were started in 2013. Of the audits started in 2013, two were completed as described below.

Although the City-Wide Cash Handling Audit was completed in 2012, it was approved by the COMPASS Committee in March 2013 and released to the public by the City Council in April 2013 so information from that audit is included in this report. Audit staff also completed work on the City Wide Charge Account, Airport Car Rental and Parking Contracts and City Wide Cash Handling II audits in 2013.

The City Wide Charge Account audit assessed the adequacy and use of internal and management controls over the City's current vendor charge account program. It also presented information on possible alternative methods to procure goods and services. The Airport Car Rental and Parking Contracts audit evaluated airport department and concessionaire compliance with contract requirements. The City Wide Cash Handling II audit completed our work to review internal controls over cash handling at all sites in the City where employees receive and process cash payments by reviewing cash handling practices at the outdoor aquatics and tennis facilities, the two branch libraries, the utility maintenance office and the water reclamation administrative office.

The City Wide Charge Account Audit was presented to and approved by the COMPASS Audit Committee in August 2013. The Airport Car Rental and Parking Contracts Audit and the City Wide Cash Handling II Audit reports were presented to the COMPASS Audit Committee and approved by the committee in January 2014. Both audits have been submitted to the City Council.

Significant Findings

In each of the audits discussed below auditors found areas where City managers can improve internal and management controls. In some cases suggestions were made to improve current processes or operational procedures.

City-Wide Cash Handling and City Wide Cash Handling II Audits

These audits identified several areas related to internal controls that could be strengthened. Our findings focused on risks in these areas: policies and procedures; fund documentation; receipts; segregation of duties; safeguards over assets; management oversight; and training. Specifically the reports addressed the following findings:

- The City has a written policy for petty cash funds but lacks city-wide written guidelines for cash handling and change funds. A number of departments did not have written policies and procedures. The policies and procedures established by individual departments often were inadequate to provide good internal control over cash handling.
- The Finance Office did not have a complete and accurate record of the outstanding petty cash and change funds used by departments.
- A number of departments did not have a process to review for missing, voided or canceled receipts.
- A number of departments had not established proper segregation of duties over cash handling functions.
- Safeguards for cash assets were not in place at all cash handling sites and in some instances where safeguards were available they were either inadequate or not in use.
- Management oversight of cash handling practices was significantly lacking at sites throughout the City.
- Initial and ongoing training for employees with cash handling responsibilities needs to be developed and provided.

City Wide Charge Account Audit

This audit identified several areas related to internal controls that could be strengthened. Our findings focused on risks in these areas: policies and procedures; vendor requirements; and City identification. Specifically the report addressed these findings:

- City charge account program internal controls are not adequate to minimize the risk of loss or misuse.
- The City lacks a mechanism to ensure vendors meet minimum requirements to adequately control city charge accounts.
- The City does not issue identification to all employees.

Airport Car Rental and Parking Contracts Audit

Generally the Rapid City Regional Airport and the concessionaires that provide rental car and parking services at the airport are in compliance with the terms and conditions specified in the respective contracts. The following issues were identified in this audit:

- Rental car concession and lease agreements did not reflect the current practice for reconciling the minimum annual guarantee payments.
- The credit card service fee paid to the parking concessionaire was established through an informal agreement instead of a formal contract.

- The parking contractor was not providing all the required information for the credit card service fee.
- Written policies and procedures had not been developed for the contract monitoring process.

Actions Taken by Management

In the four audits discussed below auditors made a total of 20 recommendations to improve controls and operations. City managers in the departments audited agreed to implement all recommendations. As of the date of this report many of the audit recommendations have been implemented and managers are in the process of implementing several others.

City-Wide Cash Handling and City Wide Cash Handling II Audits

In the City-Wide Cash Handling and City Wide Cash Handling II audits, we made recommendations to improve internal controls in the following areas:

- Guidelines for and development of written policies and procedures;
- Documentation for change and petty cash funds;
- A process to monitor missing, voided or canceled receipts;
- Segregating duties or implementing mitigating controls;
- Safeguards (physically securing assets and endorsing checks);
- Consolidating payments at the Finance Office when possible;
- Receiving and processing water/sewer tap fees at the utility maintenance facility;
- Management oversight; and
- Developing and providing cash handling training.

Directors in City departments for which audit recommendations apply have implemented many of our recommendations. The Finance Office is in the process of developing guidelines for effective written policies and procedures for cash handling which departments can use to create policies and procedures or strengthen existing practices. Our recommendation for developing and providing training on effective cash handling practices to city employees has not been implemented.

City Wide Charge Account Program Audit

In the City Wide Charge Account Program audit, we made recommendations for improved internal and management controls in the following areas:

- Developing and implementing written policies and procedures governing use of the City Charge Account Program;
- Establishing a vendor registration process;

- Improving controls over purchases by developing policies and procedures governing vendor participation in the charge account program; and
- Issuing City identification to employees.

The Community Resources department is in the process of researching options for issuing City identification to employees. The Finance Office agreed to implement recommendations concerning written policies and procedures and vendor requirements for the City's charge account program. The Finance Officer estimated these recommendations would be implemented between September 2014 and March 2015.

Airport Car Rental and Parking Contracts Audit

In the Airport Car Rental and Parking Contracts Audit, the Chief Auditor made recommendations concerning:

- Minimum annual guarantee payment reconciliation process changes;
- Reporting of credit card sales and payment of credit card service fees; and
- Written policies and procedures for contract monitoring.

Airport management agreed to implement all five audit recommendations.