

2008 Audit Program

City of Sioux Falls

Presented by

Internal Audit

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Endorsed by

The Audit Committee of the City Council

Audits

Accounts Payable

To evaluate controls over the accounts payable process citywide

Payroll

To evaluate controls over the payroll process citywide

Sioux Falls Convention Center Management Contract

This audit will evaluate compliance of Global Spectrum in their contract with the City of Sioux Falls to manage the Sioux Fall Convention Center. 2007-2008 is the first year of the contract.

Revenue/Cash Handling/Cash Receipts

Each year Internal Audit will select 3 to 5 City divisions or offices for an audit of revenue, cash handling and cash receipts. This year we will audit Building Services, Siouxland Libraries, Sanitary Landfill, and Public Health. We will audit internal controls over the collection of revenue, the handling of cash, and cash receipts. Last year's citywide audit of cash handling was an overview of cash handling in all the City offices. These audits will go into more detail to determine that departmental written procedures are being followed by staff, cash is safeguarded, proper fees are being charged, and good business practices are being observed.

Budget Adjustments/Transfers of Appropriations

To determine that all budget adjustments and transfers of appropriations were properly done in accordance with the City Charter and Executive Orders

Water Distribution

Evaluate controls over the water distribution system

Revenue Sources-Property Taxes

Each year Internal Audit will endeavor to audit a revenue source to ensure that revenue sources are maximized and protected against loss. This year we will look at the City's share of property taxes. We may test the timeliness with which recently annexed properties have been added to the City's tax base. We may look at property tax exemptions to determine if they were properly done and whether properties in the city limits have been properly included in the property tax base.

Transit Management Contract

To evaluate compliance of Laidlaw Transit Services in their contract with the City of Sioux Falls to manage the transit system and also to evaluate their performance in comparison to other transit system operations

Municipal Golf Courses

To evaluate compliance of Dakota Golf Management in their contract with the City of Sioux Falls to manage the three municipal golf courses: Elmwood, Kuehn, and Prairie Green

Sioux Falls Arena Management Contract

To evaluate compliance of SMG, Inc. in their contract with the City of Sioux Falls to manage the Sioux Falls Arena

Disbursements

Each year Internal Audit will audit a sample of disbursements in the areas of salary payments, retirement benefit payments, general disbursements, and miscellaneous to determine that these disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures.

Donated Money

The City of Sioux Falls from time to time receives cash donations from families, individuals, and organizations that are intended to be spent for a specific municipal purpose. These amounts can be relatively minor or quite large. The City shows these donations as restricted cash in their financial statements. This audit will verify that these donations are properly accounted for, restricted, and disbursed for the appropriate purpose.

Surplus Auction Sale

To evaluate controls over the City's annual surplus auction sale

Specific Construction Contracts

Last year Internal Audit performed an audit of the process of administrating construction contracts. These audits will be of specific construction contracts to determine that all work was properly performed and documented, the City was charged the contract price for all work performed, completion dates were met, the contract was properly let, change orders were properly executed, and pay requests were properly approved. We will attempt to audit all construction contracts let in 2008 for \$1 million and over. We will audit a small number of contracts below that threshold as available audit time permits.

Other Projects

Performance Measurement Assistance

The City of Sioux Falls is implementing a performance measurement system in 2008 for all City major organizational units (MOUs). An important element of a performance measurement system is the verification of performance measure data. A typical role for internal auditors is to provide that verification. The Government Finance Officers Association (GFOA) recommends that governments exercise caution in the first year of performance measure when performing data verification. The role of internal audit during this first year will be to assist and consult with MOUs in developing their system of measuring performance. We will provide assistance in verifying that a sound system of internal controls is in place and do some limited verifications of data. In subsequent years, internal audit will do formal verifications of performance measures and make reports to the City Council. Results during this first year will be reported to management via interoffice memorandum and will not be considered audits.

Follow-up on Status of Audit Recommendations

We follow up with management on the status of implementation of audit recommendations made in previous years. The City Council will be provided a report each year on the status of audit recommendations.

Internal Control Guide

Continue updating and disseminating a citywide internal control guide

Fraud Hotline

A fraud hotline available to City employees will be in operation sometime in 2008 for employees to report concerns about illegal, fraudulent, or unethical activities. Employees may report their concerns anonymously. The hotline will be provided by a third-party provider who uses highly-trained operators to receive and screen reports. Internal audit will investigate any allegations of fraud.

Unassigned Audit Hours

Approximately 10% of our available hours are unassigned hours and have been set aside to perform special audits, “quick response” audits, investigations, and projects requested by elected officials or City directors and authorized by the Audit Committee.

Routine Reviews and Procedures

In addition to planned audits, Internal Audit may review the following functions or processes that are smaller in scope than an audit, but are still important.

Asset Verifications

To determine whether monies collected City-wide are accounted for and adequately safeguarded. This activity may include unannounced verifications of petty cash funds, change funds etc.

To determine whether assets acquired with City funds are properly accounted for. This activity may include counts of supplies and materials inventories with a comparison to the perpetual (computer) records. It may include verifications of capital equipment/noncapital inventory. It may also include unannounced verifications of non-capital equipment considered “portable and attractive” such as audio/visual equipment, tires etc.

The results of assets verifications will be communicated via interoffice memorandum.

Vendor Contracts

To determine whether vendors are invoicing the City (and the City is paying) in accordance with the vendor’s bid and/or contract. The emphasis is on supplies and materials contracts.

The results will be communicated via interoffice memorandum.

Review of Revenue Accounts from Previous Year

In January we will review any revenue accounts from the previous year that significantly under perform; that is, the City received 50% or less of the anticipated (budgeted) revenue. We will consult with Finance and other major organizational units to determine the cause.

Anti-fraud Procedures

Use Computer Assisted Auditing Techniques (CAAT) and other specific audit techniques to look for indicators of fraud in accounts payable, payroll, purchasing and other areas. Follow up on any suspicious transactions.

Continuous Monitoring

Historically, internal auditors have tested controls on a retrospective and cyclical basis, often many months after business activities have occurred. Continuous monitoring is a modern auditing technique that typically uses technology to identify certain transactions for further examination in real time or near real time. Continuous monitoring changes the audit approach from periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions.

In 2008, we will begin developing continuous monitoring procedures in certain areas. For example, each week we may use data extraction software to identify accounts payable transactions over a certain dollar threshold. These transactions would be further examined to ensure documentation is complete, the accounting information appears correct, and all authorizations are in place. Other areas of continuous monitoring may include accounting journal entries and payroll disbursements over a certain dollar threshold.

Continuing Education

In order to comply with the professional standards of internal auditing, auditors are required to complete an average of 40 hours of continuing education or professional development each year. This will be accomplished through a combination of local seminars, out-of-state training, web-based training, and self-study courses.