

## Meeting Minutes

### Audit Committee

Monday, October 12, 2009

3:00 p.m.

#### **1. Opening Remarks/Roll Call**

Chairman Williams called the meeting to order at 3:02 p.m.

##### **Present:**

Rick Williams, Chairman  
Barbara Chick

Preston Edwards

##### **Staff:**

Bill Dollar  
George Kauffman  
Craig Hametner  
Michelle Taylor

Bryan Bradford  
Steve Anderson  
Elizabeth Romero

##### **Visitors:**

Terry Kile – Deloitte  
Mike Edmonds – Peer Review  
Jason Hadavi – Peer Review

#### **2. Consider approval of the minutes from the meeting of August 24, 2009.**

Motion was made to approve the August 24, 2009 minutes by Preston Edwards  
Motion seconded by Barbara Chick  
Motion was approved

#### **3. Deloitte Presentation**

Before the Deloitte presentation, Craig introduced Peer Reviewers, Mike Edmonds and Jason Hadavi.

Craig presented Terry Kile with Deloitte. Terry is the Partner in Charge for this year. Terry rotated this year with Reem. Terry presented to the Committee the Scope Letter for this year. It tells the scope of the audit, significant risks, which are commercial paper, transactions entered by GP&L and password controls for certain IT functions. It also explains the plan of adopting a control-reliance strategy. Materiality which is the amount they use as their basis for planning

their audit of the City's financial statements. He also mentioned that they will be using Internal Audit's staff assistance to perform certain audit procedures depending on their availability and they also will meet with the Audit Committee at the end of their audit.

Chairman Williams had a question in regards to the finding that was found last year concerning GP&L transactions and asked if they would bring in an expert dealing with electric utilities. Terry stated that electric utilities are not unusual for their firm and they deal with lots of them. He stated had this been purely a utility audit, they would have stated the same things. Anytime you enter into contract or contract negotiations for purchase or sell of power those types of things are complicated and do require special attention as opposed to testing a bank reconciliation but their firm has dealt with these types of audits and do have the expertise.

Terry then presented the second matter that he wanted to discuss with the Audit Committee which is the subject of fraud. As they look at fraud, they are considering three things: intentional misstatement of the financial statements, misappropriation of assets, and waste and abuse or kickbacks. He asked the Audit Committee three questions:

1. How do you see your role as City Council in deterring the risk of fraud in the City? Chairman Williams stated that meetings like the Audit Committee keep them informed and they also pay close attention to what Deloitte found last year. They are also undergoing a SOX review. They approve the Annual Audit Plan. Follow-ups are also very important and now more of those are done where that was not the case before.

Bryan also stated that a very strong message is sent to the organization when departments are fully aware that all audit reports are going to Council.

Councilmember Chick also stated that it is important to Council for there to be policies and procedures in place to where an employee knows that if they followed the policies and procedures, that they will not be in trouble nor will their integrity be questioned.

2. Where do you see the biggest risks for a fraudulent action to occur? Chairman Williams stated they rely on staff, Deloitte, Risk Assessments and the City Auditor to determine where something needs to be looked at.
3. Have there been any issues this year that you are aware of? Chairman Williams stated there are no issues that they are aware of for this year.

Bill stated they now have a new process where the Audit Hotline is used with a review process before too much time is spent by the Internal Audit staff.

George stated the city-wide risk assessment is one of the deterrence's in knowing that somebody is looking at all departments and identifying the risk areas and identifying the internal controls.

Craig also mentioned the first Fraud Training class he developed where he will go over the Fraud Policy, Fraud Triangle, Internal Control Framework and case studies on frauds that have occurred in other municipalities. This class is considered an anti-fraud control.

#### **4. FY10 Annual Audit Plan**

Craig presented the FY10 Annual Audit Plan to the Audit Committee. He stated he developed it based on the Department's Risk Assessment, re-examined the Deloitte Fraud Risk Assessment and considered input from the SOX consultant. He covered the audits that were selected for FY10 which are:

- Police Peripheral Inventory
- Fleet Services
- Wastehauler Franchise Fees
- Sox Study – Testing Presence of Controls
- American Recovery and Reinvestment Act Audit
- IT Access Controls to the Financial Accounting System
- Contract Compliance for 217 N. Fifth St and 717 State St.
- Accounts Receivable/Cash Handling Audit

He explained the required hours for the FY10 audit plan which are:

- The above audits - 4,260 hours
- Requested Audits - 350 hours which could be added for additional audits
- Investigations, Special Projects or Requests, Advisements, Risk Assessment Annual Audit Plan - 500 hours
- External Audit Assistance - 300 hours
- Follow-up Audits - 500 hours
- FY09 Audits that need to be completed in FY10 - 300 hours

Total - 5,860 hours.

Craig talked about the KRAFT retention agreement in regards to compliance that Bryan had asked him to look into. Craig stated that he did look into that, but the first time that compliance could be checked is next year and he would gladly put it into next year's Audit Plan.

Chairman Williams asked if the ARRA was part of the Single Audit Plan, but Craig stated that Internal Audit is not performing the Single Audit. Deloitte is the one who looks at the Single Audit. ARRA has additional accountability and transparency issues to audit.

Bryan asked if Craig would look at the Fire Department Peripheral Inventory if it is found that there are problems in the Police Department because there is a lot of inventory in the Fire Department. Craig stated that could be something where some of the additional flexible hours could be used.

Chairman Williams also asked about the Firewheel Follow-up audit. Craig stated that according to Bryan, there are still some bugs in the system and at this time does not know when that audit will be done, perhaps after the first of the year. Craig also stated that there are some additional things that Bryan wanted audit to look at such as the financial statements which is the reason for the 250-hours.

Chairman Williams stated that he will present the FY10 Annual Audit Plan to the full Council.

#### **5. Follow-up – Detention Center Investigation**

The Audit Committee had no questions in regards to the Follow-up Detention Center Investigation.

#### **6. Adjournment**

The meeting was adjourned at 3:43 p.m.