

**Internal Audit Report 17-05**  
**Maintenance of Administrative Instructions**  
**January 2018**



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## **MAINTENANCE OF ADMINISTRATIVE INSTRUCTIONS INTERNAL AUDIT REPORT 17-05**

### **INTRODUCTION**

The Maintenance of Administrative Instructions Audit was included on the 2017 Annual Audit Plan. Written policies and procedures codify administration's criteria for executing the City's operations. Developing, documenting, and maintaining those policies and procedures is the responsibility of the administration. Thus, they should document business processes, personnel responsibilities, and departmental operations and promote uniformity in executing and recording transactions. The purpose of the audit was to review the policies and procedures, as well as the Executive Orders established by the City of Sioux Falls, to ensure they are maintained, accurate, and up-to-date. In addition, this audit included researching and reviewing industry leading practices to determine if there are any policies and procedures not currently in place by the City that are deemed necessary according to leading practices for governmental entities.

### **BACKGROUND**

City charter and ordinances grant authority to the Mayor to prescribe rules and regulations dealing with the administration of the City through Executive Orders. Executive Orders are developed by various City departments and reviewed by Human Resources, Finance, and the City Attorney's Office prior to being signed by the Mayor. There are currently 137 Executive Orders that establish clear expectations for City departments and employees to follow. Executive Orders are one piece of the City's system of established internal controls. Any City department that determines an Executive Order is needed may write and submit a draft that is signed by the department's director. Once approved, the Executive Order is uploaded to the City's intranet (InSite), which is viewable by all City employees.

Policies and procedures are internal documents that are specific to the day-to-day operations of individual departments. The need for policies and procedures to be developed and documented may result from new requirements relating to a process that that must be implemented or changes in external rules and regulations that the City must comply with. They are written by department staff and approved by the department's director. Each department is responsible for writing, approving, and maintaining their own policies and procedures. The City does not currently have a centralized process in place for maintaining written policies and procedures. Policies and procedures are another piece of the City's overall system of internal controls and are meant to guide employees and departments. Once approved, it is up to the individual department to determine how to store and make the policies and procedures available to appropriate City personnel.

The following table shows the number of Executive Orders and written internal policies and procedures we identified during the audit and the time period since they were last modified. From these, we selected a sample of each for review.

	<b>Total</b>	<b>5 - 9 Years Old</b>	<b>10+ Years Old</b>	<b>“No Date Listed”</b>
<b>Executive Orders</b>	137	25	31	0
<b>Policies &amp; Procedures</b>	273	35	9	23

## **OBJECTIVES**

The objectives of this audit were to:

1. Determine if the City of Sioux Falls’ policies and procedures are maintained, accurate and up-to-date.
2. Identify areas where written policies and procedures are not in place, but deemed necessary according to leading practices.

## **SCOPE AND METHODOLOGY**

The scope of this audit included a review of the City of Sioux Falls’ Executive Orders and departmental policies and procedures that were in place as of June 30, 2017. The departmental policies and procedures that were gathered include only those that address the following internal controls: segregation of duties, authorization and approval, reconciliation and review, physical security, access, management oversight, and critical job functions. Our audit work included the following:

- Interviews with department directors.
- Interview with City Clerk.
- Review of prior audit recommendations.
- Review of Executive Orders.
- Review of documented policies and procedures located on InSite/Shared Drive/City website and those received from department directors.
- Research of best practices regarding policy and procedure maintenance.
- Research of best practices regarding necessary policies and procedures to have in place for governmental entities.
- Detailed testing of a sample of Executive Orders.
- Detailed testing of a sample of City-wide departmental policies and procedures.

This report and its conclusions are based on information taken from judgmental samples of Executive Orders in addition to departmental policies and procedures. This does not represent an examination of all Executive Orders and all policies and procedures of the City of Sioux Falls.

## **RESULTS**

We interviewed management, reviewed a sample of Executive Orders and written policies and procedures, and researched best practices for policy maintenance.

We identified the following best practices for policy maintenance:

- Policies should be consolidated, maintained, and managed in a centralized location
- Policies should be kept current and changes should be communicated timely
- Policies should have an official custodian
- Employees should attest to policies and procedures that guide their job duties

### **Executive Orders**

Our testing found that Executive Orders are accurate, up-to-date, and regularly maintained. Following are the results of our testing.

- We found no references to employee names instead of job titles, no references to processes that are no longer followed, and no references to unnecessary requirements, incorrect fees, or conflicting information.
- We found one outdated reference in a document. This reference was to the AS400 software system which is no longer used by the City of Sioux Falls.
- Of the 137 total Executive Orders, 25 (18%) documents are more than 5 years old & 31 (41%) documents are more than 10 years old according to the dates listed on the footers located on each document.
- All Executive Orders are housed on InSite.
- There is a distinct review and approval process of the City's Executive Orders. Ultimately, the department that develops the Executive Order is responsible for reviewing and updating the document annually. All updates are reviewed and approved by Human Resources, Finance, and the Attorney's office.

### **Policies and Procedures**

We found that policies and procedures are accurate and up-to-date, with a few exceptions. We also determined that routine maintenance and employee access could be improved. Following are the results of our testing.

- We found no references to incorrect or outdated fees.
- We noted 6 documents that made references to specific employee names instead of job titles.
- We identified 4 documents that included either outdated references, outdated processes, unnecessary requirements, or conflicting information.
- Of the 273 total documents gathered, 35 (13%) documents are more than 5 years old and 9 (16%) documents are more than 10 years old.

- 23 documents did not have a date listed regarding when it was either created, last reviewed, or last updated.
- Policies and procedures are stored in different areas. Some departments store their policies and procedures on their own shared site on InSite and some departments store them on the department's shared network drive. In both situations, employees must be granted access to be able to view them.
- There is currently no overarching procedure for maintaining departmental policies and procedures. Each department is ultimately responsible for their own maintenance responsibilities and maintenance schedule. Maintenance of policies and procedures vary widely across all departments.

### **Leading Practices for Governmental Policies and Procedures**

The Government Finance Officers Association (GFOA) identifies specific policies and procedures that contribute to improved government management. These best practices are approved by the GFOA executive board and provide guidance to their more than 19,000 members. From the list of best practices, we identified 22 policies that governments should have in place. We determined that the City has adopted those 22 policies and they are documented through a combination of methods including City Ordinances and Resolutions, Executive Orders, Internal Policies and Procedures, and notes to the City's Comprehensive Annual Financial Report (CAFR).

The majority of the policies identified as necessary were financial in nature. The City has demonstrated good financial management practices with a strategic, long-term approach to financial management. These formal policies are key because they promote stability and continuity and manage risks, as well as define a shared understanding of how the City will manage its resources to provide the best value to the community.

The GFOA recommends that governments establish policies and procedures to encourage and facilitate the reporting of fraud, abuse, and questionable practices. The City does have a fraud hotline for reporting these matters and has provided ethics training. However, we feel this is an area where there is opportunity for improvement.

## **RECOMMENDATIONS**

We made the following recommendation to address the results above.

- 1) We recommend the City establish and document a plan for managing the approval, issuance, and revision of internal policies and procedures. This should include defining a custodian at the departmental level, requiring scheduled reviews that are dated and initialed to demonstrate completion, and requiring policies to be maintained in an easily accessible, centralized location.

*Management's Response:*

We agree with the recommendation made in internal audit report 17-05.

*Management Representative Responding:*

Bill O'Toole, Director of Human Resources

*Date of expected implementation:*

End of fourth quarter 2018

## **OPPORTUNITIES FOR IMPROVEMENT**

The following are opportunities for improvement that were identified during the course of the audit. These opportunities will provide oversight to the policy and procedure documentation processes.

City management should continue to work toward documenting, in writing, policies and procedures that guide specific job roles in the organization. Additionally, policies and procedures should be consolidated as much as practicable to eliminate duplication or unnecessary documents.

Management should consider adding an attestation section to the employee performance evaluation to obtain annual certification from employee's that they have been trained and understand departmental policies in addition to the certification that they have reviewed the Executive Orders identified in the policy review checklist.

The City should consider providing a formal ethics training for all employees on a recurring basis. The last citywide ethics training was conducted in December 2007. Additionally, the City's fraud hotline should be more publicized on the City's intranet so that all employees are aware of how to report fraudulent, illegal, or unethical activities.

## **CONCLUSION**

We determined that the City has done a satisfactory job of developing, documenting, and maintaining accurate and up-to-date policies and procedures and Executive Orders. The recommendation and opportunities for improvement identified during the audit will help make the maintenance of these documents more efficient and structured which will ultimately benefit the day-to-day operations of the City of Sioux Falls.

We would like to thank all of the City departments, as well as the City Clerk, for their assistance and cooperation provided during the audit.

## **AUTHORIZATION**

The Sioux Falls City Council approved this audit by resolution in April 2017 as part of the 2017 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**

This audit was conducted in accordance with the *International Standards for the 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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