

INTERNAL AUDIT COMMITTEE MEETING
December 7, 2006 8:00 AM Mayor's Conference Room
Minutes

Members present: Bob Yates, Chairman; AD Caldwell, Councilman; Clark Nicholson, member; Lynn Stokes, Internal Auditor

Others present: Wilbur Berry, Debbie Frasier, Eric Synder.

Bob Yates opened the meeting by welcoming Lynn Stokes to her first official audit committee meeting.

Agenda Item 1: Proposed Audit Committee Changes

The committee discussed the proposed changes to the city code that David Haines, City Attorney, had prepared regarding the audit committee. (See attached). The section on term limitations will need to be clarified since nothing is said about the length of time the city council representative will be on the committee or about how long the term will be for the council member who will begin in January 2007. Additional language is also needed to exempt the time served by members prior to January 2007. It is the committee's hope that members who have been serving on the committee during the past year will be willing and able to continue for at least the next year. Lynn will follow up with David Haines concerning this and also see if the new wording can be ready by the time of the next F&A Committee meeting so that all of the changes can be presented to City Council in January.

Agenda Item 2: Hotline Issues

The committee discussed hotline procedures and hotline information distribution. It was decided that written procedures should be developed and that Lynn would do this by the next committee meeting. It was recommended that the procedures reflect that the internal auditor use professional judgment about what hotline items come before the audit committee. Issues that are clearly outside internal audit responsibilities will be reported to the appropriate department head or HR if it is an employee issue.

For informing employees of the availability of the hotline as a resource, it was recommended that posters be placed in all departments and that the hotline cards and/or a letter be included in employee check stubs for one pay period. Lynn will follow up on this possibility.

Agenda Item 3: Direction for the Coming Year

Lynn presented the idea of the CSA (Control Self Assessment) approach to internal control for the City. This approach is recommended by the IIA and the AICPA for all entities. It is required for entities affected by the Sarbanes Oxley Act of 2002. Since municipalities will soon be required to implement some aspects of the Act, Lynn recommended that she or the various department heads gain adequate training to implement the CSA approach in all departments of the City. It was decided that Lynn would look into getting the appropriate training for herself first and then go from there. As internal auditor, Lynn's assistance to departments would be limited to helping the

departments identify internal control weaknesses and other risks to achieving departmental goals and objectives. She would not be able to implement or be responsible for the procedures decided upon to implement the controls in the departments without compromising her independence.

Under the agenda item of possible audit areas, Wilbur Berry presented several areas he would like to see the internal auditor address in the coming months.

1. He would like the total cash handling function located on the first floor of the city building assessed since it has had a significant turnover in personnel over the last year and some reports are not reaching him in a timely manner. It also appears some cash is not being deposited in a timely manner. He wants to know what is being done that doesn't need to be and what needs to be done that is not currently being done.
2. He would like to see some surprise cash counts carried out by internal audit on all locations. He is willing to devote staff to help do this.
3. There are problems with the bank reconciliations not being adequate or timely.
4. There are issues with the accounts payable part of Munis not providing the AP department with an easy way to know what accounts have been paid and are ready for posting.
5. There are issues with the drug fund where some confiscated inventory may not be receiving adequate control.
6. The fixed asset system needs to be evaluated.

The committee decided that Lynn would spend the next 60-90 days assessing the cash areas. This would serve a two-fold purpose by allowing Lynn to become knowledgeable about City procedures and software and also by providing a service to the finance department. The remaining areas may be rotated with other audits over the next twelve months. Lynn should come up with a preliminary audit plan for the next year allowing time in the plan for special request audits and training and other non-audit functions.

The committee briefly discussed the pending ethics policy that is before the council. It was agreed that an ethics policy is meant to set the tone from the top by showing no favoritism and making impartial business decisions. It has been rumored that the internal auditor could become the implementation officer for the ethics code. That possibility was discussed and it was agreed that ethics decisions are outside the scope of internal audit. Compliance to the code could, however, be audited.

The idea of holding executive/management sessions during our audit committee meetings was addressed. According to an AICPA publication about/for audit committees this is recommended and when possible should be done in private in order to foster open communication between management and the audit committee. It would involve inviting department heads and or other individuals in executive positions to attend an audit committee meeting and engaging them in discussion about the risks within their departments. The committee agreed this might be a good idea although all City committee meetings must be open to the public unless there are legal issues. Then the City attorney would have to be present in order to have a private meeting.

Agenda Item 4: Administrative Issues

The approval of the internal auditor's leave and expenses are currently being done within the mayor's department and the legal department. The mayor has approved Lynn's leave and the City Clerk has approved Lynn's expenses. At issue is the wording in the City code that the internal auditor would report functionally and administratively to the audit committee. The committee thought this arrangement was satisfactory unless the internal auditor met with resistance on either issue in the approval process.

Future notification of committee meetings will be by email with a possibility of using the Outlook meeting scheduler to enable members to easily respond.

Other Discussion

Wilbur informed the committee that the independent auditors, WLW, were requesting payment for extra time required for the FY2004 audit as a result of having to restate some of the City's financial statements as directed by the State. WLW said they worked an additional 17.5 hours on this effort and were asking an additional \$2500. Wilbur felt the rate for the 17.5 hours was higher than the rate that was paid for the rest of the audit. He requested that the audit committee approve payment for the 17.5 hours at the original rate. The total would calculate to be about half of \$2500. Discussion followed. The engagement letter with WLW says "if significant additional time is necessary, we will discuss it with you and bill for the additional work at the completion of the audit." Wilbur said no discussion took place. He was just billed the extra. The committee decided the City should pay the additional fee at the rate that the original audit was paid.

The meeting was closed with AD Caldwell bidding his farewell to the committee and with Bob Yates thanking him for his service and input on the audit committee.

Submitted by

Lynn Stokes

Date