

City of Fayetteville Staff Review Form

D. 1
Enact Article XXIV Audit Committee
and Internal Auditor
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City Council Agenda Items
and
Contracts, Leases or Agreements

9/4/2012

City Council Meeting Date
Agenda Items Only

Vicki D. Deaton Internal Audit Internal Audit/General Government
Submitted By **Division** **Department**

Action Required:

Staff recommends approving the proposed ordinance, Article XXIV Audit Committee and Internal Auditor, into Chapter 33 Departments, Boards, Commissions and Authorities of the Code of Fayetteville.

<u>N/A</u> Cost of this request	<u>N/A</u> Category / Project Budget	<u>N/A</u> Program Category / Project Name
<u>N/A</u> Account Number	<u>N/A</u> Funds Used to Date	<u>N/A</u> Program / Project Category Name
<u>N/A</u> Project Number	<u>N/A</u> Remaining Balance	<u>N/A</u> Fund Name

Budgeted Item Budget Adjustment Attached

Vicki D. Deaton 8/14/12 Previous Ordinance or Resolution # Res 134-00
Department Director Date

[Signature] 8/14/12 Original Contract Date: _____
City Attorney Date Original Contract Number: _____

Paul a. Behn 8-17-2012
Finance and Internal Services Director Date

Received in City Clerk's Office 08-14-12 P01:54 RCVD
King J.

[Signature] 8-20-12
Chief of Staff Date

Received in Mayor's Office ENTERED
8/16/12

[Signature] 8/21/12
Mayor Date

Comments:

CITY COUNCIL AGENDA MEMO

To: Mayor Lioneld Jordan and the City Council

From: Vicki D. Deaton, Internal Auditor VAD

Date: 8/7/12

Subject: Proposed Ordinance to enact Article XXIV Audit Committee and Internal Auditor into Chapter 33 Department, Boards, Commissions and Authorities of the Code of Fayetteville

PROPOSAL: Chapter 33 of the Code of Fayetteville details the establishment, administration, duties and responsibilities of various City boards, commissions, and committees. The Audit Committee was established in 2000 by Resolution No. 134-00. The resolution detailed the purpose, composition, meetings, and responsibilities and duties of the Audit Committee. This important committee and its work should be enacted into the Fayetteville Code to continue the City's efforts for transparency and accountability.

Alderman Ferrell requested that steps be taken to document the organizational structure of the Internal Audit Division and to empower the division to report directly to the City Council if audit, financial or accounting problems are not being timely and properly addressed. The proposed ordinance includes a section which approves and adopts the City of Fayetteville Internal Audit Division Charter. The Charter details the purpose, scope, authorities, organization and independence of the division. This is intended as another layer of security to ensure accountability and transparency in the City.

RECOMMENDATION: Staff recommends approving the proposed Ordinance to enact Article XXIV Audit Committee and Internal Auditor into Chapter 33 Department, Boards, Commissions and Authorities of the Code of Fayetteville.

BUDGET IMPACT: The ordinance will have no impact on the City budget.

ORDINANCE NO. _____

**AN ORDINANCE TO ENACT ARTICLE XXIV AUDIT COMMITTEE AND
INTERNAL AUDITOR INTO CHAPTER 33 DEPARTMENTS, BOARDS,
COMMISSIONS AND AUTHORITIES OF THE CODE OF FAYETTEVILLE**

WHEREAS, on October 3, 2000, the City Council passed and Mayor Hanna signed Resolution No. 134-00 to establish the Audit Committee and prescribed its duties and responsibilities; and

WHEREAS, the Audit Committee has admirably accomplished its vital purpose to advise the City Council and ensure all necessary audit functions, internal controls and compliance with governmental financial requirements continue to be fully achieved; and

WHEREAS, this important committee and its work with the City's Internal Auditor should be enacted into the Fayetteville Code to continue the City's efforts for transparency and accountability.

**NOW, THEREFORE BE IT ORDAINED BY THE CITY COUNCIL OF THE
CITY OF FAYETTEVILLE, ARKANSAS:**

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby enacts Article XXIV **Audit Committee and Internal Auditor** into Chapter 33 **Departments, Boards, Commissions and Authorities** into the Code of Fayetteville as shown below:

"XXIV Audit Committee and Internal Auditor

"§33.360 Establishment and Purpose

The Audit Committee which was established by Resolution No. 134-00 remains established pursuant to this Article. Its purpose remains to serve in an advisory capacity between the City Council, the independent auditor, the Internal Auditor and City Administration concerning financial accounting and reporting, audit functions, internal

controls and compliance with governmental regulations. The Audit Committee shall ensure the independence of the independent auditor, the ability and responsibility of the Internal Auditor to report any concerns about finances or accounting to the Audit Committee, Administration and City Council, the integrity of the Administration and the adequacy of public disclosures. The Audit Committee shall, in conjunction with the external auditors, review the City's financial reports and information, the City's system of internal financial and accounting controls, and the City's compliance with governmental laws and regulations regarding financial matters.

§33.361 Composition and Term

The Audit Committee shall include one City Council member appointed by the Mayor and three citizens of Fayetteville, at least one of which shall be a Certified Public Accountant. The three citizens shall serve three year terms of office.

§33.362 Meetings

The Audit Committee shall meet at least three times annually, one of which must be with the independent auditor, Internal Auditor, and Administration to discuss the independent auditor's report and findings following its audit of the City.

Section 2: That the City Council of the City of Fayetteville, Arkansas hereby enacts **§33.363 Responsibilities and Duties** as previously required in Resolution No. 134-00 and shown in Exhibit A attached.

Section 3: That the City Council of the City of Fayetteville, Arkansas hereby enacts **§33.364 Internal Auditor** as shown below:

“§33.364 Internal Auditor.

The City of Fayetteville Internal Audit Division Charter (attached) is approved and adopted. Any amendments to such Charter must be approved by the Audit Committee with the revised Charter provided to the City Clerk. The desire and intent of the City Council is that the Internal Auditor shall report directly to the City Council if the Internal Auditor believes any audit, financial or accounting issue is not being properly and timely addressed by the Audit Committee, independent auditor or administrator.”

Section 4: That the City Council of the City of Fayetteville, Arkansas hereby revokes all previous ordinances and resolutions concerning the formation and duties of the Audit Committee to the extent that they conflict with this ordinance.

PASSED and **APPROVED** this 4th day of September, 2012.

APPROVED:

ATTEST:

By: _____
LIONELD JORDAN, Mayor

By: _____
SONDRA E. SMITH, City Clerk/Treasurer

EXHIBIT "A"

§33.363. Responsibilities and Duties.

To fulfill its responsibilities and duties the Audit Committee shall:

- (A) Review the Charter periodically and update as conditions dictate;
- (B) Serve on the review committee to select the independent auditors. On an annual basis, the committee should review and discuss with the auditors all significant relationships the auditors have with the City to determine the auditor's independence. The annual independence review should include a review of all non-audit related consulting fees for nature of services and effect on independence; a review of any and all relationships between members of the audit firm and employees of the City; the obtaining of a formal written statement from the auditors as to their compliance with professional guidelines relating to independence; and discussion with the auditors regarding the firm's own internal controls over monitoring independence;
- (C) Review the City's annual financial statements and related financial information, including any certification, report, opinion, or review rendered by the independent auditors and any changes in accounting principles or the application thereof;
- (D) Review the performance of the independent auditors. Annually, clarify with the independent auditors that the auditors are ultimately accountable to the City Council and that the City Council has ultimate power in the appointment or removal of the independent auditors;
- (E) Periodically consult with the independent auditors, outside the presence of management, regarding internal controls and the completeness and accuracy of the organization's financial statements and related disclosures;
- (F) In conjunction with the external auditors, review with financial and accounting personnel and the Internal Auditor the adequacy and effectiveness of the accounting and financial controls of the City, including controls over data processing activities and functions. Approve recommendations for the improvement of such internal control procedures;

- (G) Establish regular reporting to the Audit Committee by management, the Internal Auditor and the independent auditors regarding any significant judgments made in financial management's preparation of the financial statements and the view of each to the appropriateness of such judgments; and
- (H). Following completion of the annual audit, review with management and the independent auditors financial statements and supplemental disclosures required by generally accepted accounting principles;
1. The City's Comprehensive Annual Financial Report, including the financial statements and supplemental disclosures required by generally accepted accounting principles;
 2. Significant transactions not a normal part of the City's operations;
 3. Selection of, and changes, if any, during the year in the City's accounting principles or their application;
 4. Significant adjustments proposed by the independent auditor's conclusions regarding the reasonableness of those estimates;
 5. Any disagreements between the independent auditor and management about matters that could be significant to the City's financial statements or the auditor's report;
 6. Difficulties encountered in performances of the audit;
 7. Evaluate the cooperation received by the independent auditor during its audit including its access to all requested records, data and information. Also, elicit the comments of management regarding the responsiveness of the independent auditor to the City's needs. Inquire as to whether there have been any disagreements with management that, if not satisfactorily resolved, would have caused the independent auditor to issue a nonstandard report on the City's financial statements.

- (I) Advise the City Council on any issues reported by the Internal Auditor and recommendations to improve or correct any situations brought to the Committee's attention by the Internal Auditor;
- (J) Perform any other activities consistent with the City's governing law, as the City Council deems necessary or appropriate.

City of Fayetteville Internal Audit Division Charter

Introduction:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Fayetteville. It assists the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the City's risk management, control, and governance processes.

Role:

The City of Fayetteville Internal Audit Division is established by the City Council, and its responsibilities are defined by the Audit Committee of the City of Fayetteville and the City Council as part of their oversight function.

Policies and Procedures:

The Internal Audit Division will adhere to City of Fayetteville policies and procedures, and specifically Policy and Procedure IC-01, Internal Auditing Procedure, and the City of Fayetteville Internal Audit Standard Operating Procedures. The Internal Audit Division will apply the *International Standards for the Professional Practice of Internal Auditing* as possible in a single staff Internal Audit Division.

Authority:

Authority is granted for full, free, and unrestricted access by the Internal Audit Division to any and all City of Fayetteville records, physical properties, and personnel relevant to any function under review. All City of Fayetteville employees are requested to assist the Internal Audit Division in fulfilling its role. The Internal Audit Division shall also have free and unrestricted access to the City Council and the Audit Committee.

Documents and information given to the Internal Audit Division during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Organization:

The Internal Audit Division shall report administratively to the Mayor for assistance in establishing direction, support, and administrative interface; and functionally through the Audit Committee to the City Council for strategic direction, reinforcement, and accountability. The Internal Audit Division shall meet with the Audit Committee at least four times annually.

Independence:

All Internal Audit Division activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing,

or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

The Internal Audit Division shall have no direct operational responsibility or authority over any of the activities reviewed. Accordingly, the Division shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

Audit Scope:

The scope of the Internal Audit Division encompasses the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the City's stated goals and objectives. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the City is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing specific operations at the request of the Audit Committee, the City Council, or management, as appropriate.
- Monitoring and evaluating the effectiveness of the City's risk management system.
- Reviewing the quality of performance of external auditors and the degree of coordination with the Internal Audit Division.
- Reviewing the internal control statement by senior management, contained in the Letter of Transmittal of the Comprehensive Annual Financial Report, and the related opinion and comments by the attest auditor for audit planning.

Audit Planning:

Annually, the Internal Audit Division shall submit to senior management, the Audit Committee, and the City Council, a summary of the audit work plan and budget for the following fiscal year. The audit work plan is to be developed based on a prioritization of audit tasks using a risk-based methodology. Any significant deviation from the formally approved work plan shall be communicated to senior management, the Audit Committee, and the City Council through periodic activity reports.

Reporting:

A written report will be prepared by the Internal Audit Division and issued through the Mayor and/or his designee following the conclusion of each audit. All reports will be distributed to the Audit Committee, and as appropriate or as instructed by the Audit Committee, to the City Council. Other than these groups, reports will be distributed to City management and staff as determined by the Internal Audit Division.

The Internal Audit Division may include in the audit report the auditee's response and corrective action taken or to be taken in regard to specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed.

Periodic Assessment:

The Internal Audit Division should periodically assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the Internal Audit Division to accomplish its objectives. The result of this periodic assessment should be communicated to senior management, the Audit Committee, and the City Council.

Approved this _____ day of _____, _____.

Finance and Internal Services Director

Mayor

Chief of Staff

City Council Representative to the Audit
Committee

Chairman of the Audit Committee

Internal Audit Division Director

