

AGENDA

Ad Hoc Audit Committee October 28, 2024 at 4:00 PM



Lansing City Hall, City Council Conference Room
124 W. Michigan Avenue, 10th Floor

To provide input or ask questions on any item that is listed on the agenda,
members of the public may contact the City Council at city.council@lansingmi.gov or (517) 483-4177 prior to the meeting.
To participate in public comment and view the meeting live: <https://www.lansingmi.gov/1212/Council-Committee-Meetings>

Councilmember Peter Spadafore, Chairperson
Councilmember Tamera Carter, Vice Chairperson
Councilmember Trini Pehlivanoglu, Member

1. **Call to Order**
2. **Roll Call**
3. **Minutes**
 - A. October 7, 2024
4. **Public Comment on Agenda Items (Up to 3 Minutes)**
5. **Discussion/Action:**
 - B. DISCUSSION - Annual Audit Plan as Proposed by Internal Auditor
 - C. DISCUSSION - Internal Auditor Audit Schedule
6. **Other**
7. **Adjourn**

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DRAFT



MINUTES
Ad Hoc Audit Committee
Monday, October 7, 2024 @ 3:00 p.m.
City Council Conference Room

CALL TO ORDER

Council Member Spadafore called the meeting to order at 3:00 p.m.

PRESENT

Council Member Peter Spadafore, Chair
Council Member Tamera Carter, Vice Chair
Council Member Trini Pehlivanoglu, Member

OTHERS PRESENT

Sherrie Boak, Council Office Manager
Charles Randall, Internal Auditor
Greg Venker, OCA
Lisa Hagen- Lawrence, OCA

Public Comment

No public comment at this time.

Discussion/Action:

Council Member Spadafore acknowledged the Committee and the experiences they will bring to the Ad Hoc.

DISCUSSION – Committee Charge

Council Member Spadafore noted this will be for the auditor to provide oversight to the Council and also to evaluate if this should be a standing Committee. There needs to be an annual audit plan by December 16, 2024, so there should be a brief housekeeping then work towards that goal.

DISCUSSION – Internal Auditor Duties

The Charter speaks to the Internal Auditor, and the only position the Council is required to hire. The Charter lists 9 duties of power, and he read them to the group 3-402 Powers and duties of Internal Auditor. This Committee role is to help set an audit schedule and see course of action. This would be to take the information and suggest policy changes if needed. There has been a change to allow the Internal Auditor have access, but there has been issue with annual audits, so this Committee can look into that. Regarding .4, it was not done at the end of the fiscal year, but it should be as item 1 on the list. Mr. Randall noted that the external audit has not been completed yet so it might not be done immediately. It was confirmed that should be discussed for a timeline. Regarding .6 will be addressed as soon as other items are accomplished.

DRAFT

Regarding .9, regarding the budget of the Internal Auditor it might need to be looked into, and if work is not able to be done on an annual basis this would address that.

DISCUSSION – Review of Previous Work of Audit Committee

Council Member Spadafore referred to the detailed audit plan from former auditor Eric Brewer, looking at where there were risks and something for the Committee to evaluate. Page 13 of the packet outlines risk of irregularities. It is not a suggestion to go through all of it, but for the files and public record.

OTHER

Mr. Randall spoke on the work in the packet, noting the review was a good background, and they should be aware that it identifies all the auditable units. Part of that he can break down and get a scope how large and small they are, what different risks are between them, and different criteria of each agency. Page 19 brings it together on where to focus on, which ones are high risk. Mr. Randall noted he had the same methodology; interview people to see what they think are high risk. Depending on defining what is an agency, but to look at each agency at a minimum level so they are aware he is looking at everyone. As far as his budget, different memberships he would want could total \$1,000 let alone continued education certifications.

Council Member Spadafore asked to set a schedule when to meet. He proposed once a month before Committee of the Whole, 4th Monday October 28th at 4 pm; November 18th at 4 pm; December 9th at 4 pm, then regroup for 2025.

Council Member Spadafore asked Mr. Randall to look at the packet items and put together a schedule for the Ad Hoc for their three set meetings; audit all departments, external audit, Capital Improvement Plan. In addition, the internal auditor would have meetings with others in the organization that might also bring up other things that come across the desk of the audit. Mr. Randall noted there is a normal review of the budget as well. Council Member Spadafore acknowledged that historically the auditor works with Council for their budget, and then during the budget season the auditor works with Council to delve deeper into the budget during the budget season. There will be a learning period over the next 6 months.

ADJOURN

Adjourned at 3:20 p.m.

Submitted by, Sherrie Boak,

Recording Secretary,

Lansing City Council

Approved by the Committee on



CITY OF LANSING

INTERNAL AUDITOR

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INTERNAL AUDIT – Crash Course

Why is there Internal Audit?

City Charter

401.1 - Staffed by **qualified** person.

401.2 - **Organizationally independent.**

402 – Powers & Duties:

.1 Evaluate planning and budgeting.

.2 Audit financial transactions. Allowed Access to Records

.3 **Reports Independently** following items to City Council, Mayor, City Clerk

(a) Testing criteria - **Examine finance items.** Assess **compliance with laws regulations**

(b) **Process Efficiency** - Use of resources

(c) **Meeting management expectations**

.4 Report annual analysis of **financial position** to public record

.5 Report review of **effective** administration and performance of agencies to City Council, Mayor, City Clerk

.6 Report any **irregularities or errors** to City Council & Mayor, Mayor respond w/n 30 days w/ action plan

.7 Evaluate **Capital Improvement Plan**

.8 **Not audit BWL**

.9 Have **adequate resources** to perform audits

403 - **Independent in fact**

404 - External audit report on internal audit activities / spending – **not exempt from external audit.**

Internal Audit Association (IIA) – Purpose Statement

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing is most effective when:

- It is performed by **competent** professionals...
- The internal audit function is **independently positioned with direct accountability to the board.**
- Internal auditors are **free from undue influence** and committed to making objective assessments.

Internal audit functions in the **public sector** are often required to focus on:

- **Compliance with laws and/or regulations.**
- Improve the **efficiency, effectiveness,** and economy of government processes and programs.
- Determining whether **public resources** are adequately safeguarded and used appropriately...

- Assessing whether an organization's **performance aligns with its strategic objectives and goals**

What is the Ad-Hoc Audit Committee's role?

City Resolution

Provide **guidance and oversight** to internal auditor as they:

Perform responsibilities

Create and review **audit plans**

Evaluate **financial** position of the City

Make recommendation to implement permanent Audit Committee

Report Annual audit plan & status of previous audit findings by December 16, 2024

Internal Audit Association (IIA) – Committee Charter

Provides independent oversight of organization's governance, risk management and internal control practices.

Where does all this fit into an organization?

Organizations are generally comprised of a governing body and an executive / management body. Here, City Council is the governing body while Mayor's Office is executive / management body.

The governing body ensures structures and processes are in place for accountability of organization objectives to stakeholders (citizens) and enable actions by management to achieve these organizational objectives. Colloquially, governing bodies should keep their "noses in, fingers out".

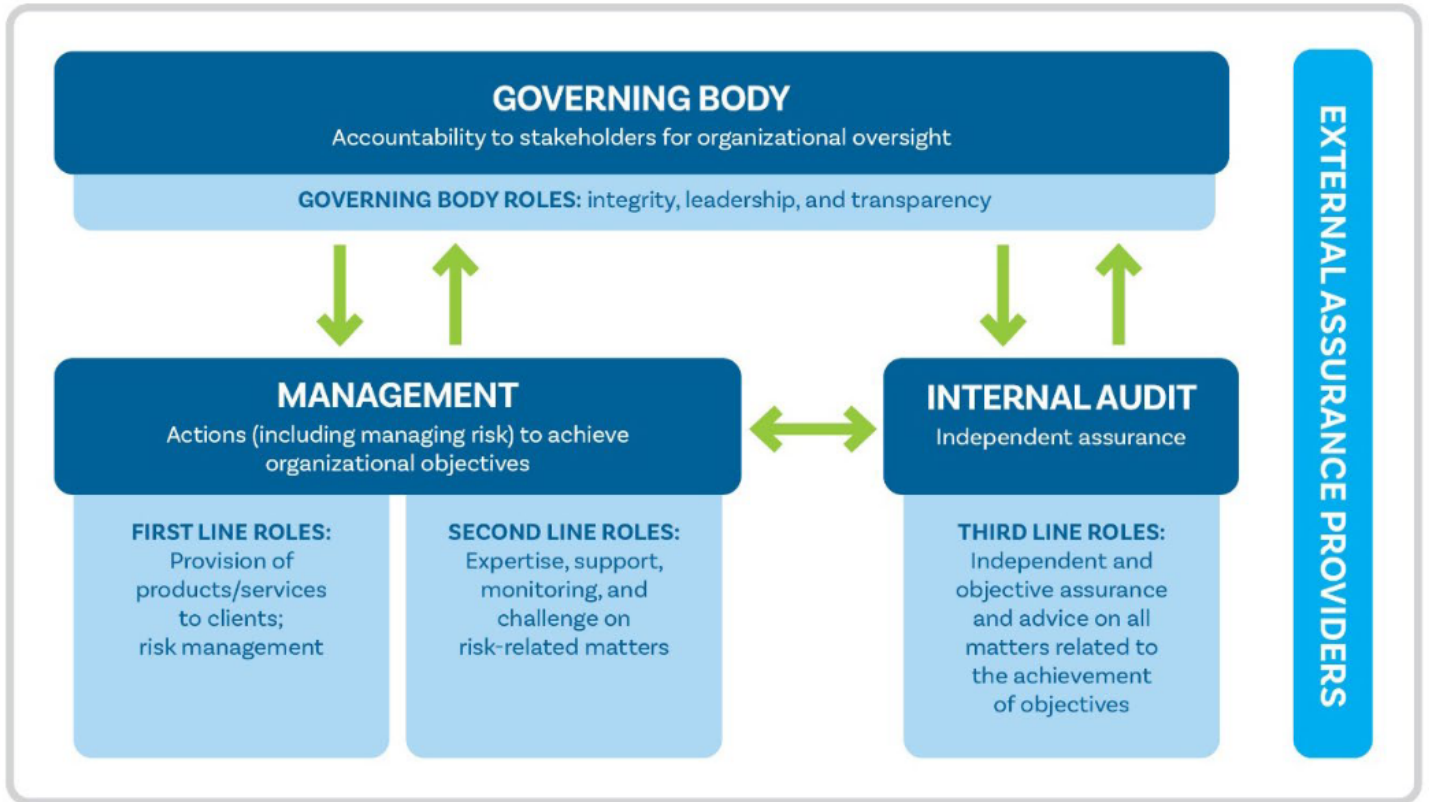
Management achieves organizational objectives by using a risk-based decision-making approach in the application of resources. Management has two roles to achieve these objectives: 1) direct delivery of products and/or services to clients and, 2) active management of risk. Each role group has internal controls to mitigate the occurrence of risks.

Internal audit adds a third role to the organization through independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.

The term 'risk' is generally described as the possibility of something bad happening. Consider that some bad things are worse than other bad things. Also consider that regardless of what is done to prevent or detect (control) this bad thing from happening, it still might occur. And just in case, if it's a really bad thing, then the effect of it occurring might be minimize or mitigated. An example is house insurance. Preventative building standards (controls) are set and inspectors verify (audit) their implementation. Homeowners install fire alarms (controls) to detect fires. The fire department will try to contain the fire (mitigate). But loss can be offset (mitigated) by insurance.

These roles are traditionally defined as 'lines'. However, they are not intended to denote structural elements of the organization but a useful differentiation of roles. Here is a visual representation from IIA.

The IIA's Three Lines Model



KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication, coordination, collaboration

How does this Internal Audit happen? What do they do?

Auditing provides independent, risk-based, and objective assurance, advice, insight, and foresight. This is done through a process that aligns audit project objective(s) with the work performed that supports meaningful reports....the audit process.

Audit Process



1. Send audit notification letter
2. Gather background information
3. Identify risks
4. Create Audit Program

PLANNING



ENTRANCE MEETING

1. Discuss planned audit
2. Solicit input
3. Explain timing and resources.



FIELDWORK

1. Conduct interviews
2. Review documentation and process
3. Test transactions and documentation.



EXIT MEETING

1. Discuss audit results
2. Resolve questions and concerns
3. Discuss corrective action plans



REPORTING

1. Provide draft report for comments
2. Obtain corrective action plans
3. Distribute final report to appropriate and required individuals



FOLLOW-UP

1. Interview staff
2. Review new processes and documentation
3. Re-audit

overview

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The testing or auditing methodology are based upon the objective of the audit.

- Internal controls testing evaluates effectiveness of risk management.
- Substantive procedures test defined objectives (compliance with laws and regulations, detect material misstatement of a reported number).



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2024 / 2025 - INTERNAL AUDIT PLAN - DRAFT

1) Prescribed Internal Auditor Activities

- a. Evaluate Planning and Budgeting (3-402.1) – Priorities, department budget review, CIP budget review, carryforward requests, adoption resolution. Ways & Means resolutions.
- b. Evaluate Capital Improvement Plan (3-402.7) – Project management, reporting and monitoring controls.
- c. Analysis of Financial Condition (3-402.4)
 - i. Annual Comprehensive Finance Report (ACFR)
 - ii. Long-term debt binder
 - iii. BWL annual financial report

2) Position Inherent Activities

- a. Council department budget proposal & spend status
- b. Claims review committee – Member
- c. LEPPA Board - Member

3) Planned Audit Activities (3-402.2 & .3)

- a. Internal Control audits of processes, procedures and documentation with a focus on prior audit findings, key activity controls and management monitoring controls.
 - i. Processes: Expense / Disbursements focus while learning new accounting system
 - 1. Payroll – Examination of recurring payroll transactions (hourly and salary) and consideration for prior audit findings.
 - 2. Purchase To Pay – Examination of on-going invoice processing.
 - 3. Expense Report – Review of on-going expense report processing.
 - ii. Scope: Determined based upon standardization of internal controls / sub-processes.
 - 1. If timesheets are both paper and electronic; then sampling and testing of each population is done separately as they are different sub-processes.
 - 2. Department / auditable unit agnostic. A department / group with more transactions has a statistically higher chance of having a sample tested, but samples will not have a pro-rata type allocation. E.g. 100 total: 10 for Department X, 25 for Department Y, 65 for Department Z.
 - iii. Timeline: Monthly sampling to begin when audit plan is approved and continue until new audit plan is approved.
 - iv. Reporting: Monthly status reporting with updating of samples tested, errors / irregularities found and sampling plans for subsequent month. Final summary report to be submitted the month before new audit plan is submitted.
- b. Monitor material changes to people, processes and systems, or material activities. (3-401.5)
 - i. BS&A Implementation for Finance / Accounting – Project management, key application controls (access segregation of duties, power users / administration accounts), and reporting.
 - ii. External audit (3-401.3(a) & .6) – Opening and reporting meeting with council member.

c. Monitoring of audit issue remediation in accordance with management corrective action plan. FYE 2022 and 2023 external auditor findings. (3-401.3(a) & .5 & .6)

i. Internal controls of financial reporting

1. Material weakness regarding the untimely recording of year-end close journal entries.

| Condition | Criteria |
|---|---|
| Multiple material journal entries were needed after year-end close and during the external audit, resulting in revised trial balances and financial statements. | Closing of the books follow prescribed procedures (checklist) to ensure expected AJE topics are analyzed and recorded. Procedures include timing and data requirements to enable management of reconciliations and entries. |

2. Significant deficiency in the processing of payroll.

| Condition | Criteria |
|---|--|
| Payroll isn't approved at the department level prior to disbursement. | Department level payroll review before disbursement. Detect unusual, fraudulent or expected changes in transactions. |

ii. Compliance with laws and regulations

Expenditures exceeding approved budgets (Public Act 621 of 1978, as amend)

| Condition | Criteria |
|--|---|
| Expenditures exceeded approved budget for areas of General Fund and certain Special Revenue Funds. | When overage becomes apparent, budget must be amended to approve additional appropriations. |

4) Ad-Hoc Activities

Respond to council requests through ad-hoc committee.



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INTERNAL CONTROL AUDIT STRATEGY

Example: Month-end Close Process – Account Reconciliations

Performing account reconciliations is a detective control performed at the end of the process to verify the sum of transactions resulted in balances that meet expectations. As this control activity mitigates many types of risks at a cumulative level, it is a **KEY** control.

The risks **assertions** mitigated by this control include:

Accuracy and Valuation – Determine if account balance is reasonable, based upon knowledge of operations and significant transactions. Say someone accidentally entered a fixed asset purchase price with an additional zero. A \$10,000,000 entry instead of \$1,000,000. With all the authorizations for a fixed asset purchase the person reviewing should know an additional \$9,000,000 wasn't in the approved budget and something was wrong.

Existence – Transactions are based on events that actually occurred. Say that \$1,000,000 fixed asset was accidentally recorded to a cash account. A bank reconciliation would show a million more of cash in the bank than expected. Such a high variance would be thoroughly researched.

Completeness – All the events are recorded as transactions. Sort of the opposite of Existence, where the question would be, "Why are the fixed assets not higher by \$1,000,000? That solid gold door wedge was delivered and is holding the CEO's door open. Why is the balance not higher?"

Rights and Obligations – Existential type risk where a transaction is owned by entity it's recorded to, the entity has legal jurisdiction. Say the city's purchasing group buys a piece of equipment to support a state-owned building and it's paid for / reimbursed by a state grant. The grant could stipulate that the equipment will be state owned, but the city will act as buyer and install / maintain the equipment. An example would be if the city uses unique equipment, but the state would normally buy different item from another vendor. This wouldn't be a city owned asset or obligation, so changes in the city accounts should be notice.

*Submitted @
mtg*

Auditing procedures

A control audit of an account reconciliation would assess the reasonable performance and review of the reconciliation with respect to the mitigate risk assertions.

To do this the auditor would:

- 1) Obtain an understanding of the reconciliation procedures. Such as; who does them, who reviews them, when is this done and how is it documented, where does the source information come from, what applications are used, ect.
- 2) Assess if the procedures could mitigate the identified risk assertions.
- 3) Write audit steps to test performance of the control procedures.

Example:

For a cash account reconciliation, the bank balance on a particular date is obtained directly from the bank through a bank statement (paper or online). An external auditor would test this by directly requesting the bank to send them evidence of the bank balance on the prescribed date for that customer and their account number. The bank is verifying the entity owns that account number (**Rights and Obligations**) along with the valuation and amount of cash in the account (**Existence, accuracy and valuation**). The accuracy and valuation assertion is applicable here because cash has a nominal value. If the bank were holding stock shares of a private company, then they would verify the number of shares held, but not the value of the shares. The auditor would have to perform additional procedures to determine the share value.

The auditor would trace the bank balance to the account reconciliation and also trace the general ledger account balance to a trial balance. The trial balance would also roll up to the financial statements. This would verify the transactions represented in the bank balance and all the reconciling items are in the books and records (**Completeness**).

The reconciling items would be reviewed for reasonableness. If they are material (high dollar) or old, then follow up questions may occur. Auditors would question a large check recorded as deposited 6 months ago but hasn't cleared the bank.

These steps would verify the reconciliation was performed in accordance with auditor expectations. The auditor would then verify if it was performed in accordance with management expectations. Management reconciliations are reviewed and evidenced by a sign-off and date. The auditor would review this sign-off & date and any notes or comments. They would verify if the signature was by the expected person and within a reasonable time. The notes or comments are considered because if the auditor questioned something, they want to verify if the reviewer also questioned it. If not, then the reviewer sign-off could be unreliable.

These are just the testing procedures. Before this the extent of testing would be determined:

- What reconciliations to test

- The time period

- How many to sample

- How to sample them from the population

- What were the results of previous audits

- Any significant changes to people, processes, or systems