

Council Proceedings

Special Meeting/Work Session

November 16, 2004

Pursuant to due call and notice, a Special Meeting/Work Session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Tuesday, November 16, 2004, at 5:30 p.m. in the Council Chambers of City Hall, Mayor Lehmann presiding.

Upon roll call the following Council members were declared present: Downs, Erickson, Meuers, Zachman, Hellquist, Johnson, Lehmann.

Staff Present: Minke, Sherman, Eischens, Mack, Oakes,

Others Present: Markeson, Nelson

INTERNAL CONTROLS - AUDIT REVIEW

Mayor Lehmann noted that on November 1, the Council discussed the possibility of having an audit of the City's internal controls done by an independent audit firm. One of the driving factors was a recent issue relating to misuse of a City fuel card by one of the firefighters. At that meeting, the Council agreed to meet with the City's audit firm to review audit procedures prior to making a decision regarding an internal controls audit.

Sandy Nelson, the City's auditor from Miller McDonald Erickson & Moller, provided a detailed overview of the components of the annual audit. She identified three types of audits:

- Financial Statement Audit
- Internal Control Audits (examine procedures)
- Fraud Audit (looking exclusively for fraud)

Nelson noted that the current audit examines numbers and financial statements and looks at ways to improve the current system/internal controls to help prevent fraud. She noted that it is not as intense as an internal control or fraud audit but over the years the audit firm has made a variety of recommendations for improved controls. She suggested that the City could conduct its own review by examining policies and procedures of each department, identifying weaknesses, and taking corrective action.

Hellquist inquired about a self-evaluation tool that can be utilized by each department head. Minke suggested that staff could develop a tool to help in some areas and the League of Minnesota Cities (LMC) Handbook of Policies and Procedures might be helpful in other areas.

Minke noted that the City is currently in the process of:

- ◆ Establishing who is responsible for what activities – department heads, front line supervisors, employees, etc.
- ◆ Increasing the accountability for both physical resources and employee time
- ◆ Developing new employee and supervisory training
- ◆ Reviewing and updating City/departmental policies

Johnson questioned whether an internal controls audit might help staff determine where the vulnerable areas are. Erickson felt that it is sometimes better to have outside eyes look at the system. She expressed concerns about public credibility and the need to reassure the public that the City is making every effort to develop good internal controls. *Erickson also felt that an audit of internal controls would protect employees from public accusation and negative public ascension. (As amended by Erickson at 12/6/04 meeting)*

Nelson suggested using the LMC Handbook and internal policies and procedures to conduct an inside tour of each department to determine where problems might exist. Improvements should be made where necessary to improve controls. If the Council still feels the need to have someone come in to do an audit, it can be done later.

ACTION STEPS

The Council agreed with the auditor's recommendation to update and strengthen policies. Staff was directed to:

- ◆ Prioritize the most critical areas to focus on - develop a risk assessment
- ◆ Develop a tool to do department by department reviews

- ◆ Review and update policies and procedures in each department
- ◆ Report to the Council with a work plan – time and resource assessment

ANNUAL AUDIT

Minke noted that the City is in the planning stage to do the annual audit beginning in January. He suggested that the auditor schedule a meeting with the Council in early January, to listen to concerns or identify issues that the Council feels need more focus or feedback. Councilmembers expressed the desire to meet again with the auditor when the audit is complete to review any recommendations or concerns.

ADJOURN

There being no further business presented for discussion at this time, motion by Downs, second by Hellquist, to adjourn the meeting. The meeting adjourned at 6:50 p.m.

Respectfully submitted,

Shirley Sherman, City Clerk