

CITY AUDITOR
Jim Williamson, CPA, CIA

ANNUAL REPORT
Fiscal Year 2015
and
INDEPENDENCE NOTIFICATION
Fiscal Year 2016

MAYOR AND CITY COUNCIL

<i>Mick Cornett</i>	<i>Audit Committee, Mayor</i>
<i>James Greiner</i>	<i>Ward 1</i>
<i>Ed Shadid</i>	<i>Ward 2</i>
<i>Larry McAtee</i>	<i>Audit Committee, Ward 3</i>
<i>Pete White</i>	<i>Ward 4</i>
<i>David Greenwell</i>	<i>Audit Committee, Ward 5</i>
<i>Margaret S. “Meg” Salyer</i>	<i>Ward 6</i>
<i>John A. Pettis Jr.</i>	<i>Ward 7</i>
<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



Office of the City Auditor
Annual Report
Table of Contents

	<u>Page</u>
<i>Key Performance Targets and Results</i>	<i>1</i>
<i>Audit Services Program Summary Report</i>	<i>2</i>
<i>Ethics Assurance Program Summary Report</i>	<i>5</i>
<i>Independence Notification</i>	<i>7</i>
<i>Organization Chart</i>	<i>8</i>
<i>Personnel Profiles</i>	<i>9</i>
<i>Duties and Responsibilities</i>	<i>11</i>
<i>Audit Committee Charter</i>	<i>12</i>



*Office of the City Auditor
Annual Report
Fiscal Year 2015*

September 29, 2015

The Mayor and City Council:

The attached Annual Report highlights Office of the City Auditor operating results and activities during fiscal year 2015. I am pleased to report that, for the eighth time in as many reviews, one of these results is that the Office of the City Auditor was deemed to be in full compliance with *Government Auditing Standards* during our triennial peer review conducted by the Association of Local Government Auditors.

The extent to which significant goals were achieved for the Audit Services and Ethics Assurance Programs is discussed in the Key Performance Targets and Results section of the report.

A synopsis of fiscal year 2015 audit, investigation and advisory service projects is provided in the Audit Services Program section. These projects included:

- ◆ Pavement Management
- ◆ Police Undercover Funds
- ◆ Non-major Grants
- ◆ Public Safety Sales Tax
- ◆ Parking Garage Management Contract
- ◆ Fire Construction Inspections
- ◆ MAPS and Economic Development Expenditures
- ◆ City Radio System
- ◆ Development Services Prepaid Account Refunds
- ◆ Police Permits Revenue
- ◆ Ethics policies

Additionally, the Personnel Profiles section outlines our talented personnel's extensive work experience, professional certifications, advanced degrees and leadership roles in professional organizations.

Finally, areas in which the Office may not be independent to provide audit services are disclosed in the Independence Notification section of the attached report.

Jim Williamson
City Auditor



Office of the City Auditor
Key Performance Targets and Results

Fiscal Year 2015

MISSION

The mission of the Office of the City Auditor is to provide independent audit, investigative and advisory services to City Council, appointed officials and executive managers so they can make better-informed policy and operational decisions.

AUDIT SERVICES PROGRAM

<i>Key Measures</i>	<i>FY13 Actual</i>	<i>FY14 Actual</i>	<i>FY15 Actual</i>	<i>FY15 Target</i>
1. % of City Council and other City decision makers rating audit services as “good” or “excellent”	100%	95%	100%	90%
2. % of audit recommendations accepted by management	100%	97%	97%	95%

Client satisfaction is an indicator of audit service quality. Client feedback on audit services is obtained using engagement and annual surveys. Audit clients are asked to rate their satisfaction with a number of audit service attributes including relevance, usefulness, timeliness and professionalism. Audit clients continue to provide positive feedback with audit service ratings of “good” or “excellent” on 20 of 20 satisfaction surveys relating to services provided during FY15.

Acceptance of audit recommendations is another indicator of service quality. In FY15, management accepted and provided estimated implementation dates for 75 of 77 recommendations included in seven project reports issued during the year. These results exceed the 88% industry benchmark published by the Association of Local Government Auditors.

ETHICS ASSURANCE PROGRAM

<i>Key Measures</i>	<i>FY13 Actual</i>	<i>FY14 Actual</i>	<i>FY15 Actual</i>	<i>FY15 Target</i>
1. % of employees that are aware of the Hotline	85%	N/A	N/A	100%
2. % of total allegations appropriately directed to the Hotline	84%	91%	77%	95%

The primary purpose of the Ethics Assurance Program is to help management detect and address fraud, waste and abuse. The OKC4Ethics Hotline was established to provide employees with a means of reporting suspected instances of such activity. Employee awareness and appropriate¹ use are indicators of whether employees have been adequately educated regarding the Hotline. Employees were not surveyed regarding Hotline awareness in FY14 or FY15 due to administrative difficulties in the City’s annual employee survey process.

Of 39 allegations received, 30 were appropriately directed to the Hotline during FY15. Ongoing employee education efforts include worksite posters and brochures, presentations to new City employees and mid-managers as well as marketing the Hotline via the City’s employee newsletter and intranet website.

¹An appropriate use of the Hotline results in allegations relating to fraud, waste, abuse, significant policy violations and/or meaningful operational deficiencies.



Office of the City Auditor
Audit Services Program: Summary Report

As of June 30, 2015

AUDITS	STATUS
<p>Public Works – Privately Constructed Roads Inspection related recommendations for privately constructed road projects have been substantially implemented. However, recommendations related to material verification and project close-out procedures have not been fully implemented</p>	<p>Report Issued 8/12/14</p>
<p>Police – Undercover Funds Controls ensuring the accuracy and validity of undercover investigation expenditures were adequate and effective.</p>	<p>Report Issued 9/9/14</p>
<p>Public Works – Pavement Management Current systems and processes used by the department require improvements in order to optimize the condition of major City streets.</p>	<p>Report Issued 12/2/14</p>
<p>Citywide Non-Major Grants Controls ensuring compliance with requirements for selected grants were adequate and effective except for Emergency Shelter grant sub-recipient monitoring and performing certain centralized grant oversight procedures.</p>	<p>Report Issued 12/2/14</p>
<p>Public Safety Sales Tax – FY 2014 Determining whether expenditures complied with the Journal Entry of Judgment and whether the annual Public Safety Sales Tax Report fairly presents revenues, expenditures and fund balances.</p>	<p>Report Issued 12/30/14</p>
<p>COTPA – Parking Garage Contract Practices used to administer the third-party contract for off-street parking were not effective. Identified improper expenses and missing revenue totaling \$430,000 for recovery.</p>	<p>Report Issued 5/19/15</p>
<p>OCMAPS/MAPS3 Special Sales Tax Funds Verifying compliance with restrictions relating to limited-purpose sales taxes.</p>	<p>Fieldwork</p>
<p>Fire – Construction Inspections Established procedures are not adequate to ensure the timely completion of fire construction inspections. Timelier and more efficient customer service could be achieved through consolidating fire construction inspections in the Development Center.</p>	<p>Reporting</p>

Citywide – Response to Citizen Concerns **Planning**
 Assessing procedures ensuring complete and efficient response to citizen concerns.

City Manager – Economic Development Expenditures **Fieldwork**
 Verifying compliance with requirements relating to economic development incentive expenditures.

Public Safety Sales Tax – FY 2015 **Planning**
 Determining whether expenditures complied with the Journal Entry of Judgement and whether the annual Public Safety Sales Tax Report fairly presents revenues, expenditures and fund balances.

SPECIAL PROJECTS, INVESTIGATIONS AND ADVISORY SERVICES	STATUS
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<p>Information Technology - Radio System Risk Assessment Assessed risks relating to managing the City’s radio system in light of information contained in the State Auditor and Inspector’s April 2013 special audit report.</p>	<p>Report Issued 7/29/14</p>
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<p>COTPA Ethics Policy Assisted management in updating trust ethics policy to make the ethics hotline operated by the City Auditor’s Office available to COTPA employees.</p>	<p>Complete 11/4/14</p>
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<p>City Auditor – Peer Review Controls ensuring compliance with Government Auditing Standards were adequate and effective during the period May 1, 2011 through June 30, 2014.</p>	<p>Report Issued 12/16/14</p>
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<p>OKC Public School District Task Force Advised OKC Public School District management in evaluating appropriate internal audit function for the school district.</p>	<p>Complete 12/22/14</p>
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<p>Development Services - Prepaid Account Refunds Assessed the validity of and controls over prepaid account refunds in the Development Center.</p>	<p>Complete 1/20/15</p>
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<p>Public Works - River Systems Control and Data Acquisition Contract Investigated conflict of interest in vendor selection for the Oklahoma River SCADA contract.</p>	<p>Complete 2/11/15</p>
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<p>Audit and Ethics Assurance Programs Developed material regarding information technology audit program and expanded ethics hotline services for the Audit Committee.</p>	<p>Complete 2/24/15</p>
<p>Police - Permits Section Revenue Assisted OCPD in investigating completeness of revenue deposits in the Permits Section.</p>	<p>Complete 3/16/15</p>
<p>OCPPA Ethics Policy Assisting management in updating trust ethics policy to make the ethics hotline operated by the City Auditor's Office available to OCPPA employees.</p>	<p>Complete 8/2/15</p>
<p>OCMAPS Assisting management in reviewing financial reports submitted by suburban school districts.</p>	<p>Ongoing</p>
<p>City Ethics Policy Assisting the Ethics Committee in updating the City's Ethics Policy to address statutory, charter and policy changes and provide guidance on common issues addressed by the committee.</p>	<p>Ongoing</p>
<p>COTPA Meter Hood Revenue Investigating completeness of meter hood revenue deposits.</p>	<p>Ongoing</p>
<p>Finance - Business Improvement District Accounting Process Advising management regarding procedures used in accounting for and reporting on Business Improvement District assessment revenues, expenditures and fund balances.</p>	<p>Ongoing</p>
<p>Police and Court - Record Management Systems Risk Assessment Assessing risks relating to implementation of the Police Records Management System and the Municipal Court Records System in light of information contained in the State Auditor and Inspector's April 2013 report on their special audit of these projects.</p>	<p>Ongoing</p>
<p>Finance - Fixed Asset Inventory Assessing management's plans to enhance the accuracy of fixed asset records by improving the biennial fixed asset physical inventory process.</p>	<p>Ongoing</p>



The purpose of the Ethics Assurance Program is to provide independent ethics reporting, investigative and advisory services to the City Council and management so they can quickly detect and address reported cases of suspected fraud, waste, and abuse. The Ethics Assurance Program plays an integral role in the City’s effort to maintain an ethical work environment and sustain citizen trust and confidence.

The Office of the City Auditor (OCA) provides advisory services to the following Boards and Committees:

- ◆ **Ethics Committee** – The City Auditor provides advisory services to this ad hoc committee established by management to address possible violations of the City’s ethics policy.
- ◆ **Oklahoma City Employee Retirement System** – The City Auditor serves on the Board of Trustees, as specified by City Ordinance.
- ◆ **Bid Committee** – The City Auditor is a member of the Bid Committee, as specified by the City Charter. The Bid Committee establishes policies and procedures for receiving, opening, and recording electronic bids.

OCA also manages suspected cases of fraud, waste, and abuse reported by employees, management, contractors, citizens, or outside agencies. Such cases may be reported to OCA through various channels including in-person, U.S. mail, e-mail, or via the OKC 4Ethics Hotline (Hotline). All allegations, regardless of how they are received, are handled using the same assessment, investigative and follow-up protocols. This report summarizes results of allegations received and/or resolved during fiscal year 2015.

Allegation Type and Origin

There were 55 allegations reported during fiscal year 2015, of which 71% were reported through the Hotline. Table 1 summarizes the various types of allegations received during the fiscal year.

TABLE 1	71%	29%	100%
ALLEGATION TYPE	HOTLINE	NON-HOTLINE	TOTAL
Fraud & Illegal Acts	7	10	17
Policy/Code Violations	7	5	12
Inappropriate Allegations	9	0	9
Health & Safety Issues	7	0	7
Inquiries	5	0	5
Abuse/Misuse/Waste of Resources	4	1	5
TOTAL	39	16	55

Allegations generally relate to operations within a City department. Table 2 lists allegations received during fiscal year 2015 by related department.

Allegation Assignment and Disposition

Allegations may be investigated by OCA, referred to a City department (generally for policy or lower risk issues), referred to a non-City agency (if relating to matters outside City jurisdiction or requiring external law enforcement) and/or deemed non-actionable. Non-actionable allegations result from insufficient or dated information, prior corrective action, immateriality, or inappropriate use of the Hotline. If referred to a City department, OCA generally requests the department to investigate, take appropriate action and communicate results to OCA within 30 days.

We categorize resolved allegations as Substantiated (allegation was validated); Substantiated - No Violation (conditions cited were accurate but did not constitute a violation); Unsubstantiated; Department Resolution (lower risk issues requiring no further audit involvement); or Inconclusive (available evidence is not sufficient to determine the validity of the allegation). Table 3 summarizes assignments and dispositions for allegations reported and/or resolved during fiscal year 2015.

TABLE 2

DEPARTMENT	ALLEGATIONS ¹
Utilities	12
Transit	8
Police	5
General Services	4
Park & Recreation	4
Airports	3
City Manager's Office	3
Mayor's Office	3
Personnel	3
Public Works	3
Other	9
TOTAL	57

¹Includes allegations relating to multiple depts.

TABLE 3

DISPOSITION	ASSIGNMENT		
	REFER	INVESTIGATE	TOTAL
Department Resolution	16	0	16
Non-Actionable	N/A	N/A	15
Unsubstantiated	4	8	12
Substantiated	3	2	5
Substantiated – No Violation	0	4	4
Open/Ongoing Allegations	3	1	4
Inconclusive	2	1	3
TOTAL	28	16	59

Results

The City's ethics policy and Hotline are intended to enhance employee awareness and reporting of suspected fraud, waste and abuse. Allegations resolved during fiscal year 2015, resulted in the following:

- ◆ Additional or improved procedures and/or management controls over:
 - ◆ inventory
 - ◆ sales and cash receipts
 - ◆ contractual compensation for union liaison
- ◆ Situation appropriate personnel-related actions, including employee counseling and reprimand.
- ◆ Enhanced awareness of and/or compliance with existing regulations and/or policies governing:
 - ◆ secondary employment
 - ◆ purchasing
 - ◆ violence in the work place
 - ◆ injury reporting



Office of the City Auditor Independence Notification

Fiscal Year 2016

Policies and procedures adopted by the Mayor and City Council for the Office of the City Auditor require the City Auditor to advise the Mayor and City Council of any existing or potential threats to independence in all matters relating to the performance of his responsibilities as the City Auditor.

Government Auditing Standards, issued by the U.S. Government Accountability Office, require auditors and audit organizations to maintain independence of mind and appearance so that their opinions, findings, conclusions, judgements and recommendations will be impartial and viewed as impartial by reasonable and informed third parties.

Independence impairments could result if the Office of the City Auditor is required to provide certain audit services relating to the following:

Oklahoma City Employee Retirement System

The City Auditor serves as a Trustee of the Oklahoma City Employee Retirement System (OKC Municipal Code, Sec. 40-92). The Board of Trustees performs the following:

- ◆ Approves disbursement of funds
- ◆ Formulates rules and regulations
- ◆ Establishes policies and procedures
- ◆ Delegates investment authority to investment manager

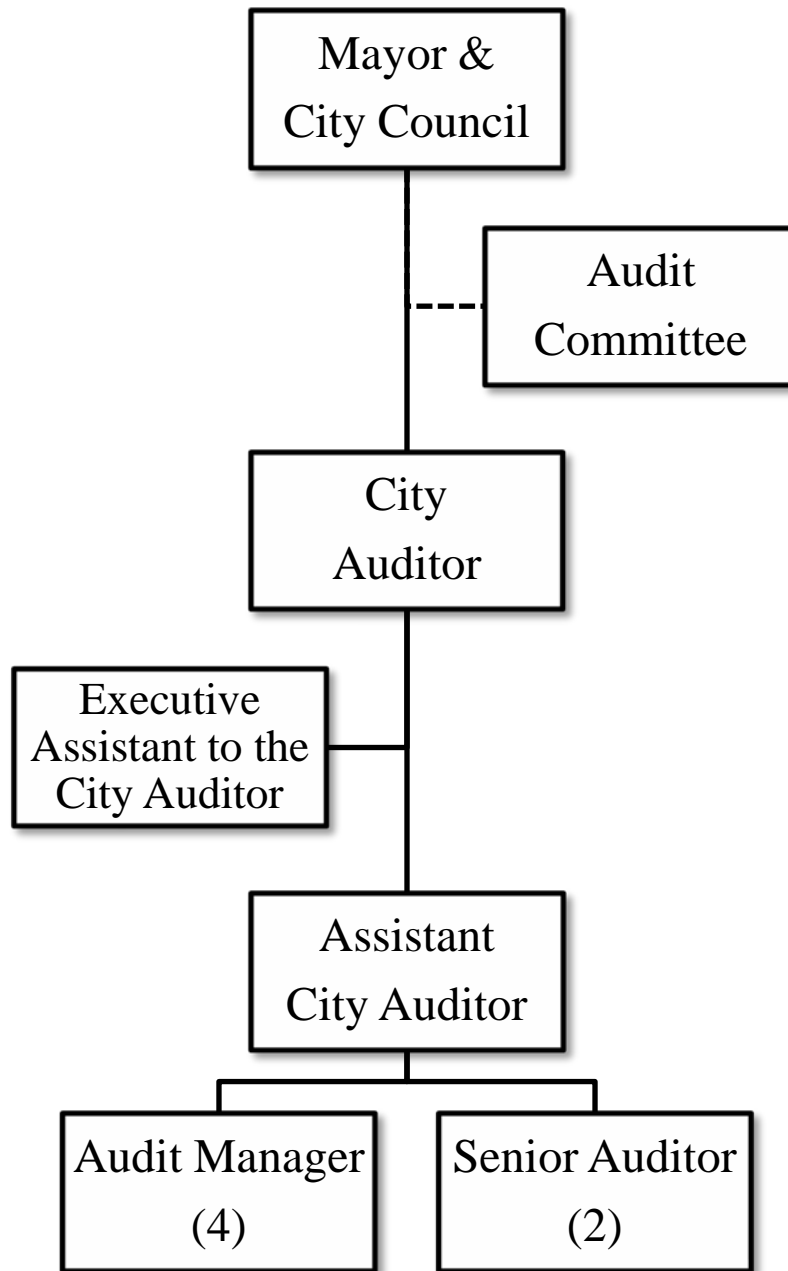
Bid Committee

The City Auditor is a member of the Bid Committee (City Charter, Article IX, §4). The City Auditor or designee must be present at all bid openings. The Bid Committee establishes policies and procedures for receiving, opening, and recording electronic bids.



Office of the City Auditor
Organization Chart

As of July 1, 2015



Note: Teams of auditors conduct audit engagements. Audit teams may vary in size and staffing levels depending on many factors including the complexity of the audit, technical proficiency required and qualifications of available staff. An appropriate level of supervision is required by *Government Auditing Standards* and will vary based upon the members of the audit team and complexity of the work performed.



Office of the City Auditor Personnel Profiles

Jim Williamson
CPA, CIA,
CGAP, CGFM
City Auditor

Jim joined the Office of the City Auditor in 1988, was appointed City Auditor in 2008 and has over 31 years of auditing experience. Jim has held several positions with ALGA including President and Peer Review Committee Chair as well as several positions with the IIA's Oklahoma City Chapter including President. He serves as Past-Chair on the Peer Review Oversight Committee for the Oklahoma Accountancy Board. Jim is also an AICPA, OSCP and AGA member.

Matt Weller
CPA
Assistant City Auditor

Matt joined the Office of the City Auditor in 2000 and has over 20 years of auditing experience. He currently serves as Chairman of the ALGA Peer Review Committee after previously completing a four year term as a Peer Review Coordinator and a one year term as a Peer Review Committee Advisor. Matt has previously served on the Board of Governors for the IIA's Oklahoma City Chapter and as Chapter President and Treasurer. Matt is also a member of the AICPA and OSCP.

Brett Rangel
MS, CIA, CRMA
Audit Manager

Brett joined the Office of the City Auditor in 1995 and has over 17 years of auditing experience. He has served in several positions with ALGA including Communications Committee Chair. Brett has also served in several positions with the Oklahoma City Chapter of the IIA including President, Board of Governors, and several Committee Chair positions.

Janet McWilliams
CPA
Audit Manager

Janet joined the Office of the City Auditor in 2009 after over 24 years of non-profit accounting and management experience. She currently serves as Vice Chair on the ALGA Long Term Conference Planning Committee. Janet has held several positions, including President, for the Oklahoma Association of College and University Business Officers. She is also an IIA and OSCP member.

Lori Rice
MBA
Audit Manager

Lori joined the Office of the City Auditor in 2009 after previously gaining over 15 years of experience in accounting and financial operations management in the private sector. She is certified in the Six Sigma business management strategy. Lori currently serves on the Board of Governors of the Oklahoma City Chapter of the IIA, and has formerly served as President and Secretary.

Marilyn Dillon
MBA
Audit Manager

Marilyn joined the Office of the City Auditor in 2013 after over 25 years of experience in non-profit, private industry, and medical research management and financial operations. Marilyn is a member of the IIA and ALGA. She currently holds a professional certificate in Land Management and a professional certificate in Natural Resource and Environmental Management. Marilyn is a Ph.D. Candidate in Organizational Leadership with a dissertation focus on leadership perceptions.

Tim Alvarez
CICA
Senior Auditor

Tim joined the Office of the City Auditor in 1989. He has over 28 years of auditing experience and two years of corporate accounting experience. Tim currently serves as the Associate Trustee of the IIA's Oklahoma City Chapter and previously served on the Board of Governors. He is also a member of the IIC.

Pamela Martindale
MBA
Senior Auditor

Pamela joined the Office of the City Auditor in 2008. She has over ten years of auditing experience. Pamela currently serves as Webmaster and Board of Governor for the IIA's Oklahoma City Chapter and previously served as President, 1st Vice President and Secretary.

Certifications and Degrees

CGAP = Certified Government Audit Professional
CGFM = Certified Government Financial Manager
CIA = Certified Internal Auditor
CICA = Certified Internal Controls Auditor
CPA = Certified Public Accountant
CRMA = Certification in Risk Mgmt. Assurance
MS = Master of Science
MBA = Master of Business Administration
Ph. D. = Doctorate Degree

Professional Organizations

AGA = Association of Government Accountants
AICPA = American Institute of Certified Public Accountants
ALGA = Association of Local Government Auditors
IIA = Institute of Internal Auditors
IIC = Institute for Internal Controls
OSCPA = Oklahoma Society of Certified Public Accountants



Office of the City Auditor Duties and Responsibilities

The duties and responsibilities of the City Auditor include but are not limited to the following:

- ◆ Determining whether management has established and complied with procedures and practices to ensure that:
 - ◆ City operations are being conducted efficiently and effectively, in a manner consistent with the intended objectives of the governing body and in compliance with applicable laws and regulations;
 - ◆ Resources including funds, contractual rights, property and personnel are adequately safeguarded; and
 - ◆ Financial and management records and reports disclose fairly, accurately and completely all information that is required by law, that is necessary to assess the City's financial position and that is necessary to understand and evaluate the results of operations.
- ◆ Evaluating and reporting on the adequacy and effectiveness of the internal control structure established and utilized over the payment of municipal funds.
- ◆ Determining compliance with the Journal Entry of Judgment relating to the Public Safety Sales Tax Funds.
- ◆ Attending bid opening and verifying the correctness, completeness and accuracy of bids received.

Additionally, the Mayor and City Council has authorized the City Auditor to provide audit services to Public Trusts of which the City is the beneficiary. Resolutions requesting audit services have been adopted by the following trusts:

- ◆ Central Oklahoma Transportation and Parking Authority
- ◆ Oklahoma City Airport Trust
- ◆ Oklahoma City Environmental Assistance Trust
- ◆ Oklahoma City Municipal Facilities Authority
- ◆ Oklahoma City Public Property Authority
- ◆ Oklahoma City Riverfront Redevelopment Authority
- ◆ Oklahoma City Zoological Trust

Policies and procedures adopted by the Mayor and City Council direct that the City Auditor conduct operations in accordance with *Government Auditing Standards*, which include requirements for quality assurance. These policies also direct the City Auditor to prepare an audit plan, provide periodic progress reports to the Audit Committee, and report audit results to the Mayor and City Council jointly.



The City of Oklahoma City

Audit Committee Charter

GENERAL

This document sets forth the purpose, structure and responsibilities of the Audit Committee (Committee).

PURPOSE

The Committee will review matters relating to auditing and internal control. The Committee will promote cooperation among auditors and management, preserve the independence of the auditing function and ensure that appropriate action is taken on audit findings.

STRUCTURE

The Committee will consist of the Mayor and at least two (2) members of the City Council to be appointed by the Mayor. The Mayor will serve as the Committee's chairman.

Committee members will be independent of day-to-day management of City operations and possess the necessary expertise to perform their review function effectively.

The Committee will meet as necessary and document meetings with agendas and minutes as provided by open meetings and records acts.

RESPONSIBILITIES

General responsibilities include reviewing and discussing significant matters relating to the internal control structure and compliance with laws, regulations and ethics, and referring to City Council any item requiring action.

Specific responsibilities relating to the Office of the City Auditor include, but are not limited to the following:

- ◆ Provide for communications between the Office of the City Auditor and the City Council to ensure independence, organizational status, access to all pertinent documents and information, and that appropriate action is taken on findings and recommendations.
- ◆ Review policies and procedures of the Office of the City Auditor.
- ◆ Review Audit Plan, operating, budget, performance goals and accomplishments.
- ◆ Review audit results and corrective action taken by management.
- ◆ Recommend appointment or removal of the City Auditor.
- ◆ Administer performance evaluation process for the City Auditor.
- ◆ Review results of quality assurance reviews.

Specific responsibilities relating to external auditors include, but are not limited to the following:

- ◆ Review auditor opinions, audit results communicated in management letters and corrective action taken by management.
- ◆ Provide for communications between the external auditors and the City Council to discuss pertinent matters including whether there were any restrictions on the scope of the work performed.
- ◆ Review request for proposal and selection process for external audit services.