

# City of Denton Audit Activities and City Auditor Options

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Presented to the City Council on August 9, 2016

# Current External Audit Functions

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- Texas Local Government Code (Section 103.001) requires an annual audit for municipalities.
- City Charter (Section 2.13) requires a Certified Public Accountant to make an “independent audit of accounts” on an annual basis.
- Weaver and Tidwell, LLP, previously conducted audits for the City from 2008-2015.
  - Patillo, Brown, and Hill, LLP, contract approved by City Council on August 2<sup>nd</sup> (3 initial year term with two 1 year renewal options).
- Key responsibilities relate to expressing an opinion on financial statements, evaluating appropriateness of accounting policies, and evaluating reasonableness of accounting estimates made by management.
- External auditor also provides limited review of internal controls related to the preparation of financial statements.

# Current Internal Audit Functions

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- While the City of Denton does not have a City Auditor position, this does not alleviate our responsibility to monitor internal controls and effectiveness of operations.
- As such, staff has engaged outside accounting/consulting firms over the past several years to satisfy this mission. Examples of projects include:
  - Entity-wide risk and data analysis assessments
  - Sales and Hotel tax audits
  - Payroll and timekeeping audit/Implementation of internal controls for timekeeping software
  - Audits related to overtime, cash handling procedures, procurement cards, etc.
  - Lean Government initiative
- FY 2015-16 Adopted Budget includes \$75,000 for Internal Audit activities.

# FY 2016-17 Proposed Budget

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- In addition to \$75,000 currently budgeted, the City Manager's recommended budget includes an additional \$100,000 for internal audit services.
  - Funds can be spent for additional contract work, or at Council direction, funds can be combined with existing resources to hire City Auditor position.
  - Cost of previous City Auditor position with benefits was approximately \$194,000 (not including additional personnel).
- If additional contract work is proposed, staff would recommend a new entity-wide risk assessment and audit plan be developed.
  - Outside auditors could report directly to Audit/Finance Committee and/or City Council.
- Staff is seeking City Council direction on how to use these funds.