AUDIT COMMITTEE
MINUTES

DATE: July 28, 2021
LOCATION: CITY HALL FOURTH FLOOR CONFERENCE ROOM
TIME: 3:00 PM

I. CALL TO ORDER – Vice Chairperson
This meeting was called to order by Peter Reyman at 3:00 PM.

II. ANNOUNCE MEMBERS IN ATTENDANCE (VERIFY QUORUM)
Audit Committee members present: Dr. Brandon Di Paolo Harrison, Peter Reyman, Dr. Jennifer Thayer
Audit Committee members absent: Joel Wallace and Karen Reynolds
Quorum verified? Yes
Internal Audit attendees: Stephanie Fox and Jennifer Osteen
Other Attendees:
Mayor Joe Pitts

III. ADOPTION OF MINUTES: April 28, 2021 Audit Committee Meeting
Peter Reyman called for a motion to adopt the minutes. Dr. Brandon DiPaolo Harrison made the motion, and Dr. Jennifer Thayer seconded. The motion was approved unanimously.

IV. DEPARTMENT REPORT
A. Budget Reports
1. FY 2021 Budget Report
Stephanie presented the FY 2021 budget report. She noted the negative account balance in salaries is due to an error in coding a former employee's vacation payout. We have notified Finance of the issue.

2. FY 2022 Budget Report
Stephanie presented the FY 2022 budget report. The report reflects some benefit expenditures, but no other purchases. Peter Reyman asked if there would be a hiring lag for the department's vacant auditor position. Stephanie planned for a new auditor to start in late September.

B. Update on Internal Audit Activity

Audit schedule status and metrics
Stephanie presented metrics reports for FY 2021 and July 2021. In FY 2021, Internal Audit released the Vendor Analysis Audit and the FY21 Ethics Survey Informational Report, which have been posted to the City website. Planning for the Community Development audit has been restarted. The department will also be conducting follow-ups throughout the year.

Stephanie explained the audit projects listed on the July 2021 metrics report are based on the draft FY 2022 audit plan, which is on the agenda for approval. If the audit plan changes, then the audit projects listed on the report will change as well. Peter Reyman asked about a previously planned Fire Department audit. Stephanie explained that the department did not conduct that audit due to the FY 2021 audit plan revisions made in October 2020. Based on the Annual Risk Assessment for the current fiscal year, the Fire Department is not a proposed audit project.

C. Quality Assurance and Improvement Program - Annual Review Results
Stephanie explained the required elements to maintain a quality assurance and improvement program in the department, which include ongoing monitoring, periodic self assessment (annual quality review), and external assessment. A quality assurance and improvement program is required for compliance with the department's auditing standards, the International Professional Practice Framework (Red Book).

The annual quality review results support conformance with the Red Book and did not find any areas requiring specific changes. Stephanie noted that the department has not yet received an external assessment/peer review; however, guidance from the Red Book allows the use of a conformance statement in engagement results communications if a documented internal assessment supports conformance and the internal audit activity has been in existence fewer than five years. The department started implementing the Red Book in October 2018, which means an external assessment is required by October 2023. Although the Internal Audit Department has been in existence for more than five years, we are still within the first five years of adopting the Red Book. The results of the internal assessment support conformance with the Red Book; therefore, we will begin using a conformance statement in future engagement reports.

We plan to have our peer review in FY 2023 through the Association of Local Government Auditors (ALGA). The cost of the peer review will be the travel expenses of reviewers from other local government audit shops. As a condition of this arrangement, the department is required to participate in three peer reviews for other cities. The department has participated in one peer review for another city to date, leaving two peer reviews to be completed. Stephanie confirmed we will budget for those travel expenses in the FY 2023 budget.

D. Annual Report
Stephanie presented the department's annual report draft, which provides details to the Audit Committee, City Council, and Mayor regarding our activities for the year. The annual report is scheduled to be distributed on July 30th. The committee did not have any questions related to the report.

E. Discussion of Mandatory Guidance and Organizational Independence within Red Book
Stephanie explained the Red Book requires the department to regularly communicate with the Audit Committee and senior management on various topics, including the

mandatory components. Stephanie explained each of the mandatory components including the Mission of Internal Audit, Definition of Internal Auditing, Core Principles, Code of Ethics, and the Standards. The committee did not have any questions.

In accordance with Standard 1110 of the Red Book, Stephanie also confirmed to the Audit Committee that the department is organizationally independent. She explained how the department is structured to report both functionally and administratively to the Audit Committee.

V. NEW BUSINESS

A. None

VI. COMMITTEE ACTION REQUIRED

A. FY 2022 Audit Plan Approval

Stephanie presented the draft FY 2022 Audit Plan, which includes the following projects:

- Community Development (carried over from FY 2021)
- CDE HR Complaint Process (carried over from FY 2021)
- Building and Codes
- Senior Management Expense (for CY 2019-2020)
- Ethics Survey

Stephanie explained how the available audit hours are calculated for audit planning, and noted the calculated hours assume a new auditor starting in late September. She indicated possible delays in hiring would reduce the number of available hours on the audit plan.

Peter Reyman called for a motion to approve the FY 2022 Audit Plan. Dr. Jennifer Thayer made the motion, and Dr. Brandon DiPaolo Harrison seconded. The motion was approved unanimously.

B. Internal Audit Charter Approval

Stephanie reviewed the Internal Audit Charter, including the purpose, authority, and responsibility of the department. There have not been any substantial changes since the Charter was approved in 2020.

Peter Reyman called for a motion to approve the Internal Audit Charter. Dr. Jennifer Thayer made the motion, and Dr. Brandon DiPaolo Harrison seconded. The motion was approved unanimously.

VII. CITY COUNCIL ACTION REQUIRED

A. None

VIII. ADJOURNMENT OF PUBLIC MEETING

Peter Reyman called for a motion to adjourn the public meeting and to go into executive session. Dr. Jennifer Thayer made the motion, and Dr. Brandon DiPaolo Harrison seconded. The motion was approved. The public meeting was adjourned at 3:33 PM.

IX. PUBLIC COMMENTS (5 minutes each)

None

X. NEXT MEETING - **October 27, 2021 3:00 PM**

XI. EXECUTIVE SESSION

During executive session and for the remainder of the meeting, the Audit Committee will be discussing only matters that are considered confidential under TCA Section 9-3-405 (d). These items may include:

A. Items deemed not subject to inspection under TCA Section 10-7-503 and 10-7-504
B. Current or pending litigation and pending legal controversies
C. Pending or ongoing audits or audit related investigations
D. Information protected by federal law
E. Matters involving information under TCA Section 9-3-406 where the informant has requested anonymity.

At this point in the meeting everyone other than Audit Committee members and those asked to attend by the Audit Committee to address an item related to the categories above will be asked to leave.

The following were topics were discussed:

A. Investigations
B. Ongoing Audits

XII. ADJOURNMENT OF EXECUTIVE SESSION
The executive session was adjourned at 4:35 PM.

Jennifer Osteen
Jennifer Osteen

10/27/2021
Date of Committee Approval