



**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
STAFF REPORT**

Agenda Item No. 6E  
January 15, 2026

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Administrative Services Department  
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**SUBJECT: INTERNAL AUDIT PROGRAM UPDATE**

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**SUMMARY:**

The Finance Department established an Internal Audit Program in 2020 to support management in maintaining a comprehensive framework of internal controls. Internal audits are conducted annually as part of an internal control risk assessment. This report provides an update on internal audit activities over the past year.

**RECOMMENDED ACTION:**

Receive and file.

**DISCUSSION:**

The current program was initiated in 2020 with an enterprise risk assessment and initial evaluation of internal control risks, which was presented to the Finance Committee on September 24, 2020. These processes served as the primary building blocks to inform and develop workplans to further assess and test internal controls, conduct performance audits, and provide management consulting services when appropriate.

On March 13, 2025, the Finance Committee reviewed and approved the enterprise risk assessment and initial evaluation of internal control risk, which informed the development of the internal audit work plan. The work plan includes twelve areas of focus to be reviewed over a four-year period, from 2025 through 2028. The following outlines the progress on the internal audit work plan.

### 2025-2028 Internal Audit Work Plan

	Key Control	Progress	Task Resource
1	Long-Term Funding Strategies & Cost Recovery	Complete	Eide Bailly
2	Risk Management	Complete	Eide Bailly
3	Grant Management	Complete	The Pun Group
4	Cash & Investments		
5	Special District Administration		
6	Post-Issuance Debt Compliance		
7	Disbursement Cycle		
8	Payroll		
9	Inventory Management		
10	Financial Reporting		
11	Billing & Collections		
12	Budget Administration		

Audit firms Eide Bailly and The Pun Group have recently completed work in areas 1-3 listed in the table above. Staff continue to complete tasks that resolve and incorporate the findings from prior audit reports.

#### Current Progress

Items 1 and 2 of the workplan were evaluated by Eide Bailly, while Item 3 was evaluated by The Pun Group. The corresponding audit reports are attached to this staff report. Management's responses to each internal audit, along with the related findings, are included in the respective audit reports. A summary of each internal audit report is provided below.

#### Long-Term Funding Strategies & Cost Recovery

City Staff retained Eide Bailly to complete a review and assessment of the City's Long-Term Funding Strategies and Cost Recovery practices. Eide Bailly's objective was to assess the adequacy of the City's current practices used to identify and evaluate areas requiring long-term financial planning or cost recovery. Additionally, they were asked to review actions taken by the City to determine if those practices align with the adopted funding policies and recommendations developed for each long-term funding strategy. Eide Bailly also assessed the extent to which the City's practices reflect best practices in public financial management.

As part of this assessment, Eide Bailly developed a comprehensive understanding of the City's practices regarding its long-term funding objectives as well as the methodologies used to allocate and recover costs from various other City funds or third-party entities. This was done through thorough examination and review of relevant policy and procedure documents. Additionally, Eide Bailly conducted interviews with City staff to better understand the City's approach and actions taken to identify its long-term funding needs.

As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Presentation of the Facilities Finance Plan ('FFP'):** Consider presenting information to the Finance Committee that includes the full 40-year analysis of the FFP. Doing so would provide the Finance Committee with a longer-term view of the City's facilities planning. Currently, Finance Committee is presented with a five-year outlook of the Facilities Finance Plan.
- **Updating Equipment Maintenance Rates:** Consider periodically performing an analysis comparing the rates user departments are charged against the actual costs incurred. This analysis would ensure that rates remain equitable and reflective of true operating costs.

While identifying opportunities for improvement, Eide Bailly concluded that the City's cost allocation and recovery efforts are well managed and consistent with best practices among local government agencies with strong financial management practices.

## **Risk Management**

City staff retained Eide Bailly to conduct a review of the City's risk management program. The assessment examined claims processing, insurance coverage and renewals, self-insurance reserve adequacy, and recovery of damages related to City property losses.

As part of this assessment, Eide Bailly conducted interviews with staff from City Attorney's Office, Human Resources and the Finance Department. Additionally, Eide Bailly reviewed policies, procedures, forms and documents associated with the City's risk management program. As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Policy and Procedure Documentation:** Consider developing a written policy and procedure document for claims administration that, in addition to existing practices, clearly defines respective roles, responsibilities, and authority of the Human Resources Department, the City Attorney's Office, and any third-party administrator in the handling of claims.
- **Damage Recovery / Annual Write-Off:** Consider referring uncollected balances to a collection agency more frequently than once a year. As balances age, they become increasingly difficult to collect.
- **Annual Claims Analysis Memoranda to the City Manager / Departments:** Consider adding historical trend information in the annual claim analysis memorandum sent to the City Manager and departments. This information may be

helpful in identifying opportunities to reduce the number of claims or their related fiscal impact.

- **General Liability Cost per Claim Increasing:** Consider conducting a comprehensive analysis of general liability claim history to identify the underlying drivers of rising claim costs.

While Eide Bailly identified opportunities for improvement, they also noted that the City has well-established processes that effectively address its risk exposures as a full-service municipality.

## **Grant Management**

City Staff retained The Pun Group to complete a review and assessment of grant-related policies, procedures, and supporting systems for effective grant management and compliance. Among other things, The Pun Group reviewed the City's processes for grant reimbursement and expenditure tracking, subrecipient monitoring activities, and periodic financial and performance reviews.

As part of this assessment, The Pun Group conducted interviews, reviewed documentation, tested internal controls and assessed the City's processes. As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Department Grant Expenditure Review, Approval, Monitoring and Tracking:** Departments should collaborate more closely with the Finance Department for review and consultation prior to submitting financial reports or making budget reallocations to help ensure accuracy and compliance with grant terms.
- **Subrecipient Monitoring:** Consider updating the City's Grant Administration Policy F-25 to include formal procedures for subrecipient monitoring. At a minimum, the policy should define roles and responsibilities, outline required monitoring activities and establish documentation requirements.
- **Training:** Consider implementing a formal grant management training program for all departmental grant administrators. Training should cover grant administration policies, internal controls, and compliance requirements.

The Pun Group identified opportunities for improvement and also recognized that the City has established an effective grant management framework. This framework operates within a decentralized environment and incorporates appropriate controls and segregation of duties to support compliance with grant terms and conditions.

Prepared and Submitted by:

/s/ Jason Al-Imam

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Jason Al-Imam  
Administrative Services Director/Treasurer

**ATTACHMENTS:**

Attachment A – Internal Audit Report on Long Term Funding Strategies and Cost Recovery

Attachment B – Internal Audit Report on Risk Management

Attachment C – Internal Audit Report Grant Management