

# **ATTACHMENT C**

**INTERNAL AUDIT REPORT GRANT MANAGEMENT**

# **City of Newport Beach**

Newport Beach, California

## **Internal Audit Report on Grant Management**

*November 7, 2025*



# City of Newport Beach Internal Audit Report

## Table of Contents

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|   | Page |
|---|------|
| <b>Executive Summary</b> .....  | 1    |
| <b>Findings and Recommendations</b> .....   | 2    |
| Finding #1 Departmental Grant Expenditure Review, Approval, Monitoring and Tracking ..... | 2    |
| Finding #2 Subrecipient Monitoring .....  | 4    |
| Finding #3 Training .....   | 5    |
| <b>Commendations</b> .....  | 6    |

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## EXECUTIVE SUMMARY

The Pun Group LLP (“the Pun Group”, “We”, “Ours”, or “Us”) was engaged by the City of Newport Beach, California (the “City”) to perform an internal audit of the City’s grant management function. The purpose of the audit was to evaluate related processes and controls.

This engagement encompassed a review of the City’s grant-related policies and procedures, organizational structure, and supporting systems for effective grant management and compliance. The scope also included processes for grant reimbursement and expenditure tracking, subrecipient monitoring activities, and periodic financial and performance reviews. The City operates in a decentralized grant management environment, with responsibilities distributed across departments to ensure compliance with grantor requirements. Each grant-receiving department is accountable for its respective responsibilities and collaborates with the Finance Department to strengthen internal controls and ensure effective oversight of the City’s grant management function. The review work was conducted between August and September 2025.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gained from our interviews, process walkthroughs, and analysis of sample documentation. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

We extend our sincere appreciation to the dedicated team members across the City who contributed their time, effort, and expertise. Special recognition goes to the Accounting Manager and Budget Analyst from Finance; the Fire Administrative Manager from Fire; the Real Property Administrator; the Library Service Manager from Library; the Harbormaster from Harbor; the Senior Management Analysts from Community Development, Public Works and Utilities; the Police Support Services Administrator and the Fiscal Services/Facilities Manager from Police; the Management Analyst from both the City Manager’s Office and Harbor; and the Budget Analyst from Recreation and Senior Services. Their collaboration, professionalism, and commitment have been instrumental in moving this effort forward, and their contributions are deeply valued.

## **FINDINGS AND RECOMMENDATIONS**

Overall, our review provided evidence that the City has established an effective grant management framework that operates within a decentralized environment and incorporates reasonable controls and segregation of duties to support compliance with grant terms and conditions. However, we identified the following areas where the City could further strengthen internal controls and enhance the effectiveness of its grant management processes:

### **Finding #1 Departmental Grant Expenditure Review, Approval, Monitoring and Tracking**

#### **Condition**

Grant management activities within the City are decentralized among departments in accordance with the Council-adopted policy. This structure enables each department to maintain a detailed understanding of its specific grant requirements and to allocate resources based on program needs and priorities.

During our testing of grant-related expenditures and reimbursements, we noted the following exceptions:

- For the Senior Mobility Program (SMP), the responsible department did not include one expenditure accrual in the report submitted to the grantor. The department subsequently corrected the omission by submitting a revised report to the grantor.
- For the California Library Literacy Services Annual Grant (CLLS), the responsible department reallocated funding from the original spending categories of supplies and materials and services to salaries, as the department had reached the contracted amount. The department subsequently requested a contract amendment request to the grantor.

#### **Effect**

Variations in departmental grant management practices indicate a need for additional training and stronger collaboration with the Finance Department. Without consistent understanding of reporting and expenditure requirements, departments may experience errors in grant reporting, delays in reimbursement, or the need for subsequent corrections.

#### **Recommendation**

We recommend that the City provide periodic training and guidance to departments involved in grant management to ensure consistent understanding of grant reporting, expenditure classification, and compliance requirements. (also refer to Finding #3 – Training). In addition, 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.

#### **Management Response:**

Regarding the Senior Mobility Program, the department submitted the required reports to the grantor by the August deadline. Due to an accrual, the department also submitted a correction to align the most recent report with the proper fiscal years.

Library staff contacted the Literacy & Grants Analyst at the California State Library, who assists in managing the grant program, to report that one of the program's supporting organizations had disbanded. As a result, additional funding was needed to cover salaries, wages, and benefits for the literacy program. The Grants Analyst confirmed that these additional salary expenses are eligible, although a budget amendment was required. Staff submitted the amendment, albeit after the reporting deadline, and it was approved in October 2025.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding #1 Departmental Grant Expenditure Review, Approval, Monitoring and Tracking (Continued)**

#### **Management Response (Continued):**

The City recognizes that periodic training and guidance for departments involved in grant management could be beneficial and support improved practices. The Finance Department continues to encourage departments to seek assistance, particularly regarding any financial aspects of grants.



## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding #2 Subrecipient Monitoring**

#### **Condition**

During our review of the City's Grant Administration Policy F-25, we noted that the policy does not include procedures for subrecipient monitoring. Although currently only one grant involves pass-through funding to subrecipients, departments rely on the respective grant terms and conditions to carry out subrecipient monitoring responsibilities.

#### **Effect**

Even with a limited number of subrecipient grants, the absence of formalized subrecipient monitoring procedures increases the risk of inconsistent oversight practices across departments. This may result in noncompliance with federal or state grant requirements, delayed detection of subrecipient performance issues, or potential questioned costs if adequate monitoring is not documented.

#### **Recommendation**

We recommend that the City update its 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 (e.g., risk assessments, financial and programmatic reviews, site visits, and follow-up on findings), and establish documentation requirements. Implementing standardized procedures will help ensure consistent oversight, strengthen compliance with applicable grant requirements, and reduce the risk of questioned costs.

#### **Management Response:**

The City's only grant that involves pass-through funding to subrecipients is the CDBG program grant. The Community Development Department's subrecipient monitoring procedures comply with HUD regulations and guidelines.

Grant Administration Policy F-25 could benefit from the inclusion of formal procedures for subrecipient monitoring. The City is open to clarifying language regarding roles, responsibilities, and monitoring activities to strengthen compliance with applicable grant requirements.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding #3 Training**

#### **Condition**

During our review of supporting documentation and interviews with responsible personnel, we noted that the City does not provide formal training on grant management. Instead, the City relies on each departmental grant administrator to obtain training directly from grantors or to follow the specific terms and conditions of individual grants.

#### **Effect**

This approach may lead to inconsistent practices across departments and increase the risk of noncompliance with grant requirements.

#### **Recommendation**

We recommend that the City implement a formal grant management training program for all departmental grant administrators. Such training should cover grant administration policies, internal controls, and compliance requirements to ensure consistent practices across departments and reduce the risk of noncompliance with grant terms and conditions.

#### **Management Response**

The City acknowledges that a formal grant management training program could benefit staff responsible for administering grants within their respective departments. Staff are also strongly encouraged to continue participating in training courses that are offered by granting agencies, as the terms and conditions for grant compliance vary by agency and by grant.

## **COMMENDATIONS**

Although the primary focus of this internal audit was to identify opportunities for improvement, it is also important to highlight areas of commendable operations.

- The City has initiated the development of a comprehensive grant list and works closely with each department to ensure compliance with grant requirements, adherence to the City's financial practices, and effective oversight of the grant management process.
- Staff Responsibility: The Finance Department team demonstrated responsibility and responsiveness in coordinating with multiple departments to collect all requested supporting information. Furthermore, the team actively facilitated interviews with various departments throughout the project, providing oversight and ensuring that all inquiries were thoroughly addressed from initiation to closeout.

We would like to thank City staff and management for their willingness to assist with this project.