



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

Agenda Item No. 5C
January 13, 2022

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
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SUBJECT: INTERNAL AUDIT PROGRAM WORK PLAN REVIEW

SUMMARY:

It is anticipated that risk assessment and audit work will be conducted on a continuous basis as risk levels are reassessed annually. There is sufficient funding in the Finance Department budget for undertaking a review of up to three focus areas for Fiscal Year 2021-22. Staff recommends undertaking audit work for Accounts Payable and Payroll next. As staff do not have a definitive recommendation for a third review, the Finance Committee may wish to recommend a third focus area that it deems relevant to pursue.

RECOMMENDED ACTION:

Review and discuss internal audit areas, confirm or revise staff's two recommended areas of focus, and select one area of focus in addition to the two selected by staff to pursue in Fiscal Year 2021-22.

DISCUSSION:

In the spirit of continuous improvement and with support and direction from the City Manager's office, the Finance Department has been charged to develop a comprehensive internal audit program. While the City has managed a great many financial statement and compliance audits over the years, the City has not historically had a robust internal audit program. The current program was initiated in 2020 with an enterprise risk assessment and initial evaluation of internal control risks. 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.

Audit firm Moss Adams completed the enterprise internal controls review to determine the general adequacy of internal controls and identify areas warranting more in-depth review in the future. As part of the assessment, Moss Adams conducted planning activities, completed fieldwork and data collection, analyzed the results of their fieldwork, and prepared the results of their analysis in a report as summarized for the Finance Committee on September 24, 2020.

From this preliminary fieldwork, an inventory of future focus areas based on potential risk was developed. Audit firms MGO and Moss Adams have recently completed work in areas 1-4 listed in the table below and several final summary reports are before the Finance Committee for review today. An assessment of area 5 was completed by the Assistant City Manager in 2020, and an executive summary report of that effort is also included with today's agenda.

Internal Control Areas of Focus

	Key Controls	Progress	Task Resource
1	Purchasing and Contracts Management	Complete	MGO
2	Cash, Billing, Collections, and Accounts Receivable - Daily Reconciliation and Reporting	Complete January 2022	Moss Adams
3	Information Technology - System Security, Help Desk Workflow, System Support and Monitoring	Complete January 2022	Moss Adams
4	Fiscal Policy Inventory and Implementation Plan	Complete	Moss Adams
5	Inventory Management - Central Warehouse and Automotive Inventory Management	Complete	City Manager's Office
6	Accounts Payable and Disbursements - Evaluate Vendor Changes, Weekly Check Batch Controls, Segregation of Duties		
7	Payroll - Employee Timecard Processing		
8	Fixed Asset Management - Physical Inventory Process and Asset Record Maintenance		
9	Financial Reporting - System Access, Segregation of Duties, Account Reconciliation and Financial Reporting Documentation		
10	Budgeting - Budget to Actual Reporting, Budget Amendment Process, Budget Process		
11	Business Continuity and Disaster Planning Assessment		
12	Police Property and Evidence Internal Controls Testing - Review how operation handles all evidence, found property or property held for safekeeping to ensure integrity for criminal prosecutions		
13	Finance Customer Service Operational Review		

It is anticipated that risk assessment and audit work will be conducted on a continuous basis as risk levels are reassessed annually. Other priority areas identified and that remain for further assessment include the areas listed above (6-13).

There is sufficient funding in the Finance Department budget for undertaking up to three additional focused reviews for Fiscal Year 2021-22. Staff recommends undertaking audit work for Accounts Payable (item 6) and Payroll (item 7) next. The Finance Committee is welcome to recommend a third focus area that it deems relevant to pursue from the list above. Alternatively, the Committee may wish to suggest another topic for review that is not included on the original list provided by Moss Adams.

Staff are in the process of completing a request for qualifications process to identify multiple audit firms to conduct the future internal audits. Through the creation of an on-call panel of firms, staff will be able to assign the audits on a rotating basis to ensure that a variety of perspectives are obtained from different auditors.

In the future, staff anticipate conducting internal audits on a recurring annual cycle, with reports provided to the Finance Committee in January of each year on the prior calendar year's work and the selection of new topics for the upcoming year at the same time.

Prepared and Submitted by:

/s/ Scott Catlett

Scott Catlett

Finance Director/Treasurer