

# **ATTACHMENT B**

**FISCAL POLICY INVENTORY AND IMPLEMENTATION PLAN FINAL SUMMARY REPORT**



FINAL REPORT

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# City of Newport Beach

## FISCAL POLICY INVENTORY AND GAP ANALYSIS

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# I. BACKGROUND, SCOPE, AND METHODOLOGY

## A. BACKGROUND

The City of Newport Beach (the City) requested that Moss Adams LLP (Moss Adams), as the City's internal auditor, perform an inventory of all City fiscal policies and procedures (P&Ps), perform a gap analysis to determine what gaps in coverage exist, and develop a prioritized P&P work plan to support the City in addressing identified gaps. The objectives of this project were to:

- Determine which fiscal areas were adequately covered by comprehensive, current P&Ps.
- Identify policy gaps, including areas where no policies to support fiscal functions are documented, existing policies are outdated, present internal control or coverage gaps are missing key components, and existing policies are in need of minor updates or additions.
- Prioritize the policy gaps, based on overall risk, and develop an implementation plan to provide the City with recommendations for prioritizing and addressing the identified policy gaps.

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 our assessment of the City's fiscal P&Ps as of August 2021. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

## B. SCOPE AND METHODOLOGY

This project was limited in scope to the City's finance and accounting functional areas. All fiscal P&P's available as of September 2021 were provided to Moss Adams to assess as part of this project. Other P&P documents, such as those at the department/program level, or informal process or guideline documents that are not approved formal P&Ps at the City level, may exist; however, they were not included in this analysis and are therefore not included in the results presented in this report.

The procedures performed included:

- **Fiscal P&P Inventory** – We worked with City management and other key stakeholders to develop the full listing of finance and accounting policy areas that were applicable to the City and that would be included in the scope of this project. For each area, we performed the following:
  - Obtained all supporting/related P&P documents available, including applicable City Council policies, general policies, administrative procedures, and exhibits.
  - Documented a full inventory of the current existing P&P documents, including a summary of the coverage areas of each.
  - Discussed the full inventory of results with management to ensure that all P&P documents were provided and included in the inventory.
- **P&P Gap Analysis** – We assessed the inventory results and performed a full gap analysis, including:
  - Assessed the current content of each area to identify potential gaps in coverage.



- Assessed the existing P&P documents for opportunities to improve the overall content and flow/structure, to incorporate best practices, and to improve internal controls, where possible, to provide for effective resources for employees.
- Summarized the gaps identified for each P&P area.
- Categorized the significance and extent of the identified gaps as follows: full gaps, major gaps, or minor gaps. We also noted areas only in need of an update.
- **Prioritized P&P Work Plan Development** – Based on the results of the P&P inventory and gap analysis performed, we developed detailed recommendations, by area, for the City to use as a road map for developing, amending, or updating P&Ps. We assigned a risk level (high, medium, or low), as described in the table below, and a recommended priority order by phase based on the risk level. We discussed the prioritized P&P work plan with management, gathered input on the work plan, and made updates, as appropriate.

Gaps identified during the analysis were categorized as follows:

- **Full Gap** – Documented policies and procedures do not exist for the area.
- **Major Gaps** – Some P&P documentation exists; however, there are major gaps in the overall coverage.
- **Minor Gaps** – P&Ps cover most of the key areas but require some updating or additional coverage.
- **Update Needed** – The P&P needs to be reviewed for potential updates.

The assessed risk level, category descriptions, and recommended phases/timing for addressing the gaps and related recommendations are described in the table below. The risk levels were assigned based on our understanding of the City, insights gained from management, the inherent risk in each area, and the level and significance of gaps identified.

Assessed Risk-Level	Category Description	Recommended Phase/Timing
High Risk	<ul style="list-style-type: none"><li>● Area is inherently high risk</li><li>● Gaps identified were either full gaps (i.e., no P&amp;P coverage) or major gaps</li><li>● The area is a high priority for the City's operations and structure</li></ul>	Phase One (within 12 months)
Medium Risk	<ul style="list-style-type: none"><li>● Area is inherently high or medium risk; however, a lack of documented P&amp;Ps may only represent a medium risk to the City</li><li>● Gaps identified were either full gaps or major gaps</li><li>● The area is a high priority for the City's operations and structure</li></ul>	Phase Two (within 18 months)
Low Risk	<ul style="list-style-type: none"><li>● Area is inherently low risk</li><li>● Gaps identified were either minor in significance or magnitude or the area only needed review or updating</li><li>● The area is a low priority for the City's operations and structure</li></ul>	Phase Three (within 24 months)



## II. OVERALL RESULTS

Throughout the P&P inventory and gap analysis, we found that there are a variety of P&P documents (City Council policies, general policies, administrative procedures, exhibits, etc.) at the City; however, they are not consistently utilized, structured, or based on standard templates. The City does not have a defined P&P framework and, as a result, in many cases, it was unclear what level of policy (e.g., City Council, administrative) a document falls under.

The City should begin the process of addressing their P&P gaps by creating a standard template and structure for all levels of P&P documents, so that employees know which type of resource to use or reference. Specifically, the City should develop:

- An overall P&P framework that defines the various uses for each level of policy or procedure (City Council-level policies, management policies, administrative procedures, etc.).
- A standard template for each type of document in the P&P framework (i.e., all Management policies have the same components/structure such as name, ID number, effective date, last revised date, definitions, references, policies, and appendices).

Utilizing a defined P&P framework with standard templates will help to streamline the City's policy and procedure resources and can be used to define responsibilities at both the City Council and management level.

The Prioritized P&P Work Plan, presented on the following page, can be utilized by the City to carry out their efforts to develop and update the City's fiscal P&Ps. In addition to the summarized table below, we have provided Management with a detailed Prioritized P&P Work Plan, which includes all results from the inventory and gap analysis performed, including detailed recommendations by area.



### III. PRIORITIZED P&P WORK PLAN

Policy Area	Type of Gap	Associated Risk	Recommended Priority Level
Inventory	Full Gap	High	1
Procurement	Major Gaps	High	1
Revenue and A/R	Full Gap	High	1
Accounts Payable	Full Gap	Moderate	2
Cash Management	Full Gap	Moderate	2
Contract Management	Major Gaps	Moderate	2
Debt Management	Major Gaps	Moderate	2
Fixed Assets Management	Major Gaps	Moderate	2
Grant Management	Major Gaps	Moderate	2
Accounting and Financial Reporting	Major Gaps	Low	3
Asset Forfeiture/Seizure	Update Needed	Low	3
Budgeting	Major Gaps	Low	3
Conflicts of Interest	Update Needed	Low	3
Financial Planning Programs	Update Needed	Low	3
General Fund Surplus	Update Needed	Low	3
Income/Other Property	Update Needed	Low	3
Investment Management	Minor Gaps	Low	3
Payroll & Timekeeping	Minor Gaps	Low	3
P-Cards	Minor Gaps	Low	3
Petty Cash	Minor Gaps	Low	3
Tax Bond Compliance	Update Needed	Low	3
Travel & Expense Reimbursement	Minor Gaps	Low	3



## IV. SUMMARY OF RECOMMENDATIONS

Below is a summary of the recommendations related to high and moderate risk policy areas. A detailed listing of full recommendations was provided to management.

Policy Area	Summary of Recommendations
<b>Inventory</b>	<p>Inventory Management P&amp;P's should be developed covering the following key areas:</p> <ul style="list-style-type: none"><li>• Inventory assets defined.</li><li>• Procedures for receiving inventory, recording related expenditures, and documenting receipt for tracking purposes.</li><li>• Overall responsibilities for inventory monitoring and oversight, including performing trend analysis, usage report reviews, etc.</li><li>• Tracking of inventory.</li><li>• Spot checks/regular inventory counts or reasonableness checks/monitoring.</li><li>• Safeguarding inventory and access restrictions.</li><li>• Physical inventory count process including how it is conducted, how often, who performs and reviews/approves and how variances are assessed and addressed.</li></ul>
<b>Procurement</b>	<p>Consolidate existing procurement-related P&amp;Ps and ensure adequate coverage of the following areas:</p> <ul style="list-style-type: none"><li>• Defined thresholds and related due diligence thresholds;</li><li>• Approval thresholds and the related workflow process;</li><li>• Sole source and emergency purchase criteria and requirements;</li><li>• Required use of purchase requisitions and purchase orders;</li><li>• Receiving requirements;</li><li>• Documentation requirements and methods of storing procurement records;</li><li>• Suspension and debarment check responsibilities and documentation;</li><li>• Specific requirements related to certain high-risk purchases; and,</li><li>• Specific restrictions and unallowable purchases.</li></ul>
<b>Revenue and Accounts Receivable (A/R)</b>	<p>City-wide Revenue and Accounts Receivable (A/R) P&amp;Ps should be developed to address the following:</p> <ul style="list-style-type: none"><li>• The specific types of revenue throughout the City and referencing individual policies, where appropriate.</li><li>• The City's requirements around billing and collection activities including defining roles, responsibilities, documentation, frequency, etc.</li><li>• Use of collection service providers and the related responsibilities for monitoring performance/collections.</li><li>• Revenue recognition and accounting for revenue.</li><li>• A/R management including tracking and reporting, aging analysis, reporting on delinquent accounts, etc.</li></ul>





	<ul style="list-style-type: none"><li>• Systems access related to A/R management systems to ensure proper segregation of duties.</li><li>• Customer account setup and requirements.</li><li>• Allowance for doubtful accounts including establishing requirements, recording bad debt expense, monitoring and accounting for estimates, etc.</li><li>• Refund and account credit handling including required documentation, approvals, etc.</li></ul>
<b>Accounts Payable</b>	<p>Develop full, comprehensive AP P&amp;P's that include all significant areas within the AP function including:</p> <ul style="list-style-type: none"><li>• New vendor setup and vendor changes;</li><li>• Invoice receipt and approval;</li><li>• Reconciliation between invoice, purchase requisition/order, and receiving documentation;</li><li>• Invoice coding and system entry;</li><li>• A/P processing including required reviews/approvals, invoice tie out, and pre and post check registers;</li><li>• Check printing, signature, and check stock maintenance controls;</li><li>• Check mailing and record retention; and,</li><li>• Monitoring controls over the disbursement function such as vendor file changes/addition reviews, trend analysis, etc.</li></ul>
<b>Cash Management</b>	<p>A comprehensive set of Cash Management P&amp;Ps should be developed and cover, at a minimum, the following:</p> <ul style="list-style-type: none"><li>• Bank account setup, closing, access monitoring, etc.</li><li>• Bank reconciliations including responsibility for preparing the reconciliation, supporting documentation required, outstanding items monitoring, variance handling, review and approvals.</li><li>• Bank account signature authority.</li><li>• Payment acceptance including types of payments accepted (cash, checks, credit cards, etc.) and the requirements for processing/accepting each type.</li><li>• Cash reconciliations, deposits and variance handling and reporting (reporting overages/shortages).</li><li>• Counterfeit detection requirements</li><li>• Required frequency for remitting deposits to Cashiering and monitoring of location deposit frequency and volumes.</li><li>• Segregation of duties.</li><li>• Accountabilities and handling of non-compliance.</li><li>• Minimum security requirements for transporting deposits.</li><li>• Petty cash and change fund handling.</li></ul>
<b>Contract Management</b>	<p>The current P&amp;Ps related to contract administration should be reviewed, consolidated and expanded to ensure the following are addressed:</p> <ul style="list-style-type: none"><li>• Overall process for initiating a contract;</li><li>• Review and approval process (legal and other) including authority levels;</li></ul>



	<ul style="list-style-type: none"><li>• Types of contracts;</li><li>• Contract tracking including expiration dates, deliverables, payments, etc.;</li><li>• The contract monitoring process and defining responsibilities such as monitoring contractor performance; and,</li><li>• The contract close-out process.</li></ul>
<b>Debt Management</b>	<p>Review the existing policy to determine if updates are required and specifically ensure coverage of the following:</p> <ul style="list-style-type: none"><li>• Accounting for capital leases and considerations with new lease accounting standards;</li><li>• Structure of debt (terms, rapidity of debt payment, level payment, serial/term/capital appreciation bonds, reserve funds);</li><li>• Criterion for issuance and repayment of debt;</li><li>• Covenant compliance monitoring and requirements; and,</li><li>• Other methods of sale, credit rating, limitation of indebtedness, refunding debt, investment of bond proceeds, and other.</li></ul>
<b>Fixed Assets Management</b>	<p>Develop detailed Fixed Assets Management P&amp;Ps covering, at a minimum, the following:</p> <ul style="list-style-type: none"><li>• Capitalization thresholds, depreciation recording, and expense monitoring;</li><li>• Asset receipt and tagging including responsibilities, tracking of issued/unissued tags, etc.;</li><li>• Responsibilities for custodians and monitoring;</li><li>• Annual inventory process;</li><li>• Asset disposals, transfers, or instances of lost/stolen assets;</li><li>• Construction-in-process;</li><li>• Surplus inventory;</li><li>• Asset replacements; and,</li><li>• Overall monitoring and tracking of assets</li></ul>
<b>Grant Management</b>	<p>Expand and update existing P&amp;Ps and ensure the following key areas are addressed:</p> <ul style="list-style-type: none"><li>• Grant management roles and responsibilities - Specifically define accountability (program/grant managers, finance, etc.)</li><li>• Grant tracking, monitoring and reporting - expand on these areas to provide specific "how to" guidance for personnel responsible for grants.</li><li>• Compliance requirements – Define who is responsible for compliance and keys to ensuring requirements are adhered to. Expand guidance to address specific compliance requirements such as reporting (how to develop reports, who prepares/reviews, etc.).</li><li>• Revenue and expense tracking, by grant/award.</li><li>• Program objective and milestone tracking and related programmatic responsibilities.</li></ul>

