



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5D
May 12, 2022

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Scott Catlett, Finance Director/Treasurer
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SUBJECT: INTERNAL AUDIT PROGRAM UPDATE

SUMMARY:

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. This report provides an update for internal audit activities to date.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

Background

In October 2019, Moss Adams was selected to assess internal controls, conduct performance audits, and provide management consulting services where appropriate. In September 2020, Moss Adams provided Enterprise Risk Assessment and Internal Controls Review reports for the Committee's review. From these reports, 13 internal audit projects were identified, which are being addressed incrementally as part of each fiscal year's ongoing internal audit work plan.

In December 2021, the City issued RFP 22-27 - Internal Control Assessment and Test work, Performance Audits, and Management Consulting Services. From the received proposals, staff has selected four vendors to complete the remaining internal audit projects identified by Moss Adams and additional audit projects identified by the Finance Committee and/or staff in the future. Staff anticipate City Council approval of the award of the contracts in the next 30 days.

Between January and February 2022, the first five internal audit project reports were completed and presented to the Finance Committee. The reports were as follows:

1. Procurement Operational Review and Internal Control Testing
2. Policy Inventory and Implementation Plan
3. Inventory Management Internal Controls Testing
4. Information Technology
5. Cash, Billing, Collection, and Accounts Receivable

Current Progress

Staff has begun planning, meeting, coordinating, and working to implement key findings from the five internal audit reports. Responding to the key findings requires different types of work to be completed, including revisions to internal department procedures, intra-department policy revisions, new policy development, and training coordination. This work is underway, and staff will provide a brief verbal update to the Committee on progress to date.

The remaining eight focus areas identified in the Moss Adams report will be reviewed in the year ahead or in future years' internal audit programs. The focus areas and the anticipated fiscal year for their inclusion in the internal audit work plan are as follows:

1. Accounts Payable and Disbursement (Fiscal Year 2022-23)
2. Payroll (Fiscal Year 2022-23)
3. Fixed Asset Management (Fiscal Year 2022-23)
4. Police Property and Evidence Internal Controls Testing (Fiscal Year 2022-23)
5. Financial Reporting (TBD)
6. Budgeting (TBD)
7. Business Continuity and Disaster Planning Assessment (TBD)
8. Finance Customer Service Operational Review (TBD)

As discussed with the Finance Committee when the current fiscal year's work plan was approved, staff anticipates including other topics in future work plans as identified by staff or the Committee as the topics listed in the original Moss Adams report are addressed. Staff will return in three months with another update on activities for the five completed reports, as well as an update on progress for the four focus areas to be studied in Fiscal Year 2022-23.

Prepared and Submitted by:

/s/ Michael Gomez

Michael Gomez
Deputy Finance Director