



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

Agenda Item No. 5C
January 12, 2023

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Jason Al-Imam, Finance Director/Treasurer
949-644-3123, jalimam@newportbeachca.gov

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. There is planned funding in the Finance Department budget to undertake a review of up to three focus areas for Fiscal Year 2023-24. Staff recommends undertaking audit work for Financial Reporting, and Budgeting next. Police Property and Evidence Internal Control Testing planned for Fiscal Year 2022-23 was delayed until Fiscal Year 2023-24.

RECOMMENDED ACTION:

Review and discuss internal audit areas, confirm or revise staff's two recommended areas of focus to pursue in Fiscal Year 2023-24.

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. Moss Adams is currently completing work on areas 6-8 listed in the table below. Those items are expected to be complete in February 2023. Tap International is scheduled to begin work on item 9 in July 2023.

Internal Control Areas of Focus

	Key Control	Progress	Task Resource
1	Purchasing and Contract Management	Complete	MGO
2	Cash, Billing, Collections, and Accounts Receivable – Daily Reconciliation and Reporting	Complete	Moss Adams
3	Information Technology – System Security, Help Desk, Workflow, System Support and Monitoring	Complete	Moss Adams
4	Fiscal Policy Inventory and Implementation Plan	Complete	Moss Adams
5	Inventory Management – Central Warehouse and Automotive Inventory Management	Complete	Moss Adams
6	Accounts Payable and Disbursement	Ongoing	Moss Adams
7	Payroll – Employee Timecard Processing	Ongoing	Moss Adams
8	Fixed Asset Management – Physical Inventory Process and Asset Record Maintenance	Ongoing	Moss Adams
9	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	Delayed	Tap international
10	Financial Reporting – System Access, Segregation of duties, account reconciliation and financial reporting documentation		
11	Budgeting – Budget to actual reporting, budget amendment process, budget process		
12	Business Continuity and Disaster Planning Assessment		

	Key Control	Progress	Task Resource
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. Other priority areas identified and that remain for further assessment include the areas listed above (10-13).

There is planned funding in the Finance Department budget for undertaking up to three additional focused reviews for Fiscal Year 2023-24. Staff recommends undertaking audit work for Financial Reporting (item 10) and Budgeting (item 11) next and starting the delayed Police Property and Evidence Internal Control Testing (item 9).

The Finance Committee is welcome to recommend a different 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.

Prepared and Submitted by:

/s/ Michael Gomez

Michael Gomez
Deputy Finance Director