



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

Agenda Item No. 5G  
October 10, 2019

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
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**SUBJECT: Internal Audit Program**

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**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. While the City has managed a great many financial statement and compliance audits over the years, the City has never had a robust internal audit program. The program will be initiated with an enterprise risk assessment and initial evaluation of internal control risks. These processes will serve as the primary building block to inform and develop workplans to further assess and test internal controls, conduct performance audits and provide management consulting services when appropriate. Each project will take three to four months to complete and can be performed in parallel or in series. After the initial projects are complete, it is anticipated that internal audit and performance review work will ensue on a continuous basis with a few areas of focus each year.

**RECOMMENDED ACTION:**

Receive and file.

**DISCUSSION:**

**RFQ Process**

After a thorough request for qualifications process, the Finance Department recently selected the audit firm Moss Adams LLP (Moss Adams) to start the development of a robust internal audit program.

The City published a Request for Qualifications (RFQ) solicitation, inviting submittals from qualified proposers with experience in providing internal control, internal assessment, performance audits and management consulting services. An evaluation panel consisting of the City's Finance Department staff convened to rate responses and to make a recommendation for award. Of the ten (10) responses received by the City, eight (8) proposers earned at least 70 percent of the available technical score points assigned by the panel, making them eligible for award consideration, as shown in Table A below.

TABLE A – PROPOSER TECHNICAL SCORE & RANKING		
PROPOSER	TOTAL SCORE	OVERALL RANK
MOSS ADAMS	87.67	1
MGO	86.00	2
SJOBERG EVASHENK CONSULTING	80.67	3
BAKER TILLY	77.67	4
MATRIX CONSULTING GROUP	76.00	5
DAVIS FARR, LLP	74.00	6
GRANT THORNTON	71.33	7
TAP INTERNATIONAL	70.33	8

Staff performed detailed reference checks for the top three qualified proposers (Moss Adams, MGO and Sjoberg Evashenk Consulting). While all of the reference checks produced positive feedback, the references for Moss Adams in particular resonated with the evaluation panel because of the wealth of positive internal audit project history cited for local agencies such as the cities of Santa Monica, Culver City and Redondo Beach. Each of these agencies cited Moss Adams' ability to draw resources from a deep "bench" of subject matter experts on their staff, enabling them to assess internal control issues as well as performance measures with efficiency. The overall high quality of report deliverables from Moss Adams following assessments or reviews was also regularly mentioned by all references as a highlight of the company's deliverables. The reference check process served to confirm the panel's rankings of the proposers as shown in Table A.

In accordance with Qualifications-Based Selection (QBS) procedures for professional services, the panel proceeded to unseal the cost submittal from Moss Adams to assess the proposed costs for reasonableness and fairness. The panel also unsealed the costs from MGO and Sjoberg Evashenk Consulting in order to provide the proper context in which to assess and compare the costs from Moss Adams. The three finalists provided pricing on three situational audits encompassing cash handling, payroll, check preparation and a performance management review. These costs are shown in Table B. Despite another proposer, MGO, offering a lower blended hourly rate for the situational audits and assessment, staff believes that Moss Adams will approach the City's internal control audits with a level of thoroughness that necessitates additional hours. While Sjoberg Evashenk proposed the lowest blended hourly rate among the three finalists, staff found their approach to require a significant amount of project hours. Following this RFQ evaluation process, staff recommends the award of this project and contract to Moss Adams.

TABLE B – UNSEALED FEE SCHEDULES			
PROPOSER	HOURS TO COMPLETE	PROJECT PRICING	BLENDED HOURLY RATE
MOSS ADAMS	462	\$115,500	\$250
MGO	355	\$78,100	\$220
SJOBERG EVASHENK CONSULTING	1540	\$211,100	\$137

### Project Scope

Initial discovery work will be divided into two major projects that can be conducted in parallel, in series, or partially overlapped (see below). The specific scope and contract is currently in process. Project schedules will be forthcoming.

#### **Project 1: Enterprise Risk Assessment Work Plan**

- Phase 1: Confirm process, deliverable, and interviewees. Interviewees to focus on Council members, City Manager's Office, and Department Heads.
- Phase 2: Perform fact finding, including submittal of document request, review documents, schedule and conduct interviews, develop and administer a confidential survey (manager/supervisor level and up), and develop preliminary risk ratings.
- Phase 3: Prepare risk assessment, including functional descriptions, risk profile, mitigating activities, and residual risks.
- Phase 4: Prepare draft and final risk reports and presentation.
- Duration: approximately three to four months.
- Cost: \$40,000, plus expenses (estimate 10% of fees).

#### **Project 2: Enterprise Internal Controls Review Work Plan**

- Phase 1: Confirm process, deliverable, and interviewees. Interviewees to focus on functional leaders for key controls such as AP, AR, Payroll, close and reconciliation, cash handling, revenue, procurement, grants management, and technology.
- Phase 2: Perform fact-finding, including submittal of document request, review documents, schedule and conduct interviews and walkthroughs, and develop preliminary findings.
- Phase 3: Prepare controls matrix, including control objectives, findings, and recommendations.
- Phase 4: Prepare draft and final controls reports and presentation.
- Duration: approximately three to four months.
- Cost: \$40,000, plus expenses (estimate 10% of fees).

Moss Adams will translate the risk assessment and internal controls review into an internal audit plan, which will guide future internal audit activities. It is anticipated that risk assessment and audit work will be conducted on a continuous (annual) basis as other areas are reviewed. Future areas of focus may include accounting and financial reporting, asset management, capital programs, policy compliance, governance, human resources, maintenance and operations, management, operations and service delivery, organization and staffing, process and procedures, procurement, public safety, and risk management.

After Projects 1 and 2 are completed, Moss Adams will examine the practices of the departments or programs to determine if they are achieving economy, efficiency and effectiveness in the employment of available resources.

There is sufficient funding in the FY 2019-20 Finance Department budget for this contract.

Prepared and Submitted by:

/s/ Steve Montano

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