



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

Agenda Item No. 5A
May 21, 2020

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director and City Treasurer
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SUBJECT: Internal Audit 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 summarizes all internal audit activities to date.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

Background

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.

Project Scope

Initial discovery work will be divided into two major projects that will be conducted in parallel, in series, or partially overlapped (see below).

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.

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.

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.

Current Progress

Please see Attachment A.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

Attachment:

A. Internal Audit Status Report February 1, 2020 through April 30, 2020