



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 28, 2015**
FROM: CITY MANAGER'S OFFICE **WARDS: ALL**
SUBJECT: FINANCIAL AND PERFORMANCE AUDIT PROGRAM

ISSUE:

The issue for City Council consideration is to endorse the City Manager's proposed Financial and Performance Audit Program.

RECOMMENDATIONS:

That the City Council endorse the Financial and Performance Audit Program as outlined in this report.

BACKGROUND:

The City's mission is to provide high quality municipal services thereby promoting a safe, inclusive and livable community. To assure the public that this mission is being achieved in the most effective and cost-efficient manner, the City Manager is proposing to implement comprehensive and independent financial and performance audits of all departments by qualified experts on a five year rotating basis. This program implements the Riverside 2.0 Strategic Plan, City Manager's Office item 3: "Create a culture of continuous improvement and innovation in the workplace through regular process improvement activities, rewarding innovative practices and regular review of department operations."

"Performance Auditing strengthens public governance by enhancing the government's accountability to the public for stewardship of resources and achievement of the community's goals. Performance auditors issue rigorously researched and persuasive reports to recommend service delivery improvements, identify savings and revenue opportunities, and detect and deter fraud."
~ Association of Local Government Auditors

The City's Financial and Performance Audit program will supplement the already excellent work of the Internal Audit division by systematically reviewing three departments per year, thus ensuring that all 15 departments are reviewed once every five years. A detailed, individualized scope will be prepared for each departmental audit and will be issued through a Request for Qualifications (RFQ) process to obtain outside expertise specific to each department.

The following departments will be audited during the first year of this program: Riverside Public Utilities, Human Resources Department and Finance Department. Riverside Public Utilities is the largest city department measured by both revenue and staffing while both the Finance and

Human Resources Departments serve all other City departments and are key to the efficient and effective delivery of City services. The City Council will play an active role in determining the scope of each departmental audit through a public scoping session conducted at the regular City Council meeting of August 11, 2015. The current proposed rotation of department audits is as follows:

Department Rotation*

Year 1 – FY 15/16	Riverside Public Utilities Finance Department Human Resources Department
Year 2 – FY 16/17	Riverside Police Department Community & Economic Development Department City Manager’s Office
Year 3 – FY 17/18	Riverside Fire Department Public Works Department Parks, Recreation & Community Services Department
Year 4 – FY 18/19	General Services Department Innovation & Technology Department Museum & Cultural Affairs Department
Year 5 – FY 19/20	Riverside Public Libraries Office of the City Clerk Office of the City Attorney
Year 6 – FY 20/21	Begin rotation again

**Subject to modification based on risk assessment or items of concern*

Program Management. In order to assist staff in launching this program, the City Manager has contracted with Lee C. McDougal as an independent contractor to manage this program. Mr. McDougal has over 34 years of local government management experience and familiarity with City operations resulting from his service as Interim City Manager earlier this year. Annual compensation to Mr. McDougal will not exceed \$37,500 plus incidental expenses and mileage, and will be paid from the City Manager’s Office budget. Program responsibilities will be allocated as follows:

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| City Manager | ● Overall Oversight of Financial & Performance Audit Program |
| Project Manager (Lee McDougal) | ● Manage development of scope of audits with City Council
● Manage contracts including attainment of audit objectives and consultant timelines
● Present to City Council |
| Internal Audit Manager | ● Staff support to Project Manager and outside auditors
● Track audit recommendations
● Monitor department implementation of recommendations and prepare regular monitoring reports
● Conduct special purpose audits as needed based on risk assessment or as requested |

Calendar. Upon City Council endorsement, the City Manager will launch the program and will return on August 11, 2015 for City Council discussion and approval of the depth and scope of the audits for the first three departments. This scope will be incorporated into a Request for Qualifications to be issued in early September with consultant statements due in early October. Staff will review the statements, interview the finalists, select the firms, negotiate terms and prepare contracts for City Council approval in mid-November. The audits will begin in January 2016 with the Final Audits presented to the City Council in June 2016. This process will then repeat for the second round of departments with ongoing implementation of audit recommendations.

At this time the City Manager is requesting City Council endorsement of the audit program.

FISCAL IMPACT:

Funding for the contract program manager is available in the City Manager's Professional Services budget. Professional Services agreements with the selected outside audit firms will be presented for City Council approval following a competitive selection process; at this time the costs are unknown. Once the costs are known staff will develop a funding recommendation for City Council approval.

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