



Charter Review Committee

City of Arts & Innovation

TO: HONORABLE MEMBERS **DATE: MARCH 17, 2021**

FROM: CITY MANAGER'S OFFICE **WARDS: ALL**

SUBJECT: PRESENTATION ON THE CITY'S PROCESS FOR TRACKING AND REPORTING ON INTERNAL AND EXTERNAL AUDITS AND INVESTIGATIONS

ISSUE:

Receive a presentation on the City's process for tracking and reporting on internal and external audits and investigations.

RECOMMENDATION:

That the Charter Review Committee receive a presentation on the City's process for tracking and reporting on internal and external audits and investigations.

LEGISLATIVE HISTORY

In 2012, the Charter Review Commission voted to place an amendment (Measure E) on the June 5, 2012 voter ballot. Measure E sought to amend the Charter by including a new Charter officer, the City Auditor, appointed by the City Council, with the powers and duties of the City Auditor set by ordinance of the City Council. The final official results of the June 5, 2012 election showed a majority of residents voted against the measure (16,399 or 54%), versus those that voted in support of the measure (13,947 or 46%).

BACKGROUND:

Internal Audit Structure & Source of Authority

The purpose and intent of Internal Audit is to serve as an independent and objective assurance and consulting activity designed to add value and improve the operations of the City of Riverside. It assists the City in accomplishing its objectives through a systematic and disciplined evaluation of the effectiveness of the organization's governance, risk management and internal controls.

The City of Riverside's Internal Audit Division is currently housed within the City Manager's Office and operates under a dual reporting structure to the City Manager and the City Council to ensure the division has consistent and direct access to the City Council and/or a City Council Committee. This reporting structure meets the required criteria of an internal audit function working under the direction of management, as prescribed by government auditing standards. Further, the reporting

structure is consistent with recommendations set forth by the Institute of Internal Auditors (IIA) – specifically, the International Professional Practices Framework (IPPF) Practice Advisory 1110-1 states: “*The chief audit executive (CAE), reporting functionally to the board and administratively to the organization’s chief executive officer, facilitates organizational independence.*”

The Internal Audit Division reports *administratively* to the City Manager or his/her designee; administrative reporting typically includes:

1. Budgeting and management accounting
2. Human Resource administration (including personnel evaluations and compensation)
3. Internal communication and information flows

The division further reports *functionally* to the City Council through the Governmental Affairs Committee (now the Inclusiveness, Community Engagement, & Governmental Processes Committee). Functional oversight typically includes:

1. Approval of the Internal Audit Governing rules and any subsequent updates
2. Approval of the Internal Audit Workplan
3. Receiving communications from Internal Audit on the performance relative to its workplan and other matters
4. Making appropriate inquiries of management and Internal Audit to determine whether there are inappropriate scope or resource limitations

The Internal Audit Division’s source of authority is derived from the City’s Administrative Manual Policy 01.011.00 “Fraud, Waste and Abuse Reporting and Investigation Policy” (Attachment 1), which sets forth the City’s process for investigating complaints of fraud, waste and abuse. The purpose of this policy is “to provide communication and guidance to employees when misuse or misappropriation of City assets is suspected” and directs City employees to immediately report any fraud that is suspected to the Internal Audit Division, which coordinates all investigations with the City Attorney’s Office and department management as appropriate. Internal Audit will then decide, in conjunction with the City Attorney, whether to refer the report to the Police Department or other local law enforcement / regulatory agency for independent investigation.

In addition to responding to information about potential risks to the City, historically the Internal Audit Division has been tasked with auditing and preparing reports for such topics as: Asset Management of Mobile Devices, Temp Employees, Independent Contracts and Retired Annuitants Compliance with CalPERS, Sewer Laterals and City Owned Tree Liability Assessment, Software Asset Management, Cybersecurity Internal Controls, Contract Compliance – Riverside Convention Center, CalPERS Compliance Assessment, Firefighter Work Schedule Optimization, Audit Recommendations Follow-up Tracking, Internal Audit Division Procedural Enhancements, Internal Audit Monitoring, External City Performance Audits, and Other Internal Audit-supported tasks.

Types of Audits

Audits may consist of a single subject or multiple subjects based on the requesting entity and may be conducted internally or externally. Typical audits are financial, performance or compliance based.

Financial Audits – the primary purpose of a financial audit is to render an opinion on whether the City’s financial statement reports are presented fairly in conformity to applicable generally accepted accounting standards. Reports on financial audits focus on reporting the financial condition of the organization.

Performance Audits – performance audits are defined as engagements that provide assurance or conclusions about processes and programs. Performance audit reports make conclusions based on evidence of program effectiveness.

Compliance Audits – are specific to industry compliance, regulation/funding requirements and combine financial and performance metrics. Reports on compliance audits focus on reporting alignment to industry standards, funding requirements, and include an audit of both financial and performance-based criteria.

Audits Performed in the Past 3- 5 Years

On July 25, 2015, City Council endorsed the Annual Performance Assessment and Financial Expenditures Review Program, providing for comprehensive and independent reviews of all departments by qualified experts on a five-year rotating basis. Three departments are selecting for each audit cycle and audit findings are reported to the Governmental Affairs Committee and City Council. Department audits completed in alignment with the Annual Performance Assessment and Financial Expenditures Review Program are identified in Table A below.

Table A – Performance Assessment and Financial Expenditures Review Program Schedule

Completion Date	Department	External Auditor	Cost	Frequency
July 26, 2016	Human Resources Department	Matrix Consulting Group	\$105,000	Rotating Schedule
July 26, 2016	Riverside Public Utilities	Baker Tilly Virchow Krause	\$154,874	Rotating Schedule
July 26, 2016	Finance Department	Matrix Consulting Group	\$135,000	Rotating Schedule
June 30, 2017	City Manager's Office	Matrix Consulting Group	\$85,000	Rotating Schedule
June 30, 2017	Office of the Mayor			Rotating Schedule
June 30, 2017	Riverside Police Department	Hillard Heintze LLC	\$324,198	Rotating Schedule
January 8, 2019	General Services	Management Partners	\$185,000	Rotating Schedule
January 8, 2019	Parks, Recreation & Community Services			
January 8, 2019	Public Works			
March 31, 2021*	Community and Economic Development	Matrix Consulting Group	\$84,500	Rotating Schedule
March 31, 2021*	Riverside Fire Department	Fitch & Associates LLC	\$65,999	Rotating Schedule
March 31, 2021*	Innovation and Technology	Matrix Consulting Group	\$83,500	Rotating Schedule

*Anticipated completion date

In addition to the external Annual Performance Assessment and Financial Expenditure Review audits, the Internal Audit Division also performs internal Performance Audits and Assessments of

specific department programs, functions or practices to evaluate the effectiveness of internal controls that are in place and determine consistency with City policies and procedures. A listing of these Performance Audits is provided in the following Table B – Performance Audits and a full summary of each audit is available on the City website at the following link: <https://www.riversideca.gov/internalaudit/internal-audit-reports>.

Table B – Performance Audits and Assessments (by Internal Audit staff with no costs for vendors)

Completion Date	Department	Subject
April 2019	Public Works	Municipal Approaches to General Liability Claims Related to City-Owned Trees and Residential Sewer Laterals
September 2018	Innovation and Technology Department	Mobile Device Management
June 2018	Public Utilities	SCPPA Financial Transactions Review
May 2017	Community & Economic Development	Code Enforcement Assessment
September 2016	Multiple	Follow-up Professional Services Agreements
June 2016	Public Works	Wastewater Collection System – Asset Management
June 2016	Library	Review of Active Contractual Agreements
June 2016	Library	Financial Transactions Review
May 2016	Finance	Business License Tax Administration & Collections
March 2016	Library	Use of Donations, Trusts, and Library Minor Gift Fund
January 2016	Innovation & Technology	IT Inventory Asset Management
September 2015	Parks, Recreation & Community Services	Fairmount Golf Course
August 2015	Community & Economic Development	Code Enforcement Administration

Financial audits are completed annually by an external independent auditor. The auditors provide an opinion of the City’s financial statements to ensure conformity with generally accepted accounting principles. The financial statements are distributed to the City Council, federal and state government agencies per contract requirements, bond holders, rating, and financial institutions. Financial audits completed between the period of June 2020 through February 2021 are identified in Table C – Annual Financial Audits.

Table C – Annual Financial Audits

Completion Date	Audit Type	External Auditor	Cost
June 25, 2020	Gann Limit	Lance, Soll & Lunghard, LLP	\$2,347, 5-year cost (\$465 for FY 2020)
January 5, 2021	Measure A - Fund 432 Audit Report	Macias, Gini & O'Connell, LLP	No cost to City, paid by RCTC
January 21, 2021	Air Quality Improvement Special Revenue Fund	Lance, Soll & Lunghard, LLP	\$7,525, 5-year cost (\$1,490 for FY 2020)
January 21, 2021	City of Riverside Comprehensive Annual Financial Report	Lance, Soll & Lunghard, LLP	\$622,323, 5-year cost (\$123,220 for FY 2020)
January 21, 2021	Successor Agency Financial Statements	Lance, Soll & Lunghard, LLP	\$41,369, 5-year cost (\$8,191 for FY 2020)
January 21, 2021	Riverside Public Financing Authority Financial Statements	Lance, Soll & Lunghard, LLP	\$21,016, 5-year cost (\$4,161 for FY 2020)
January 21, 2021	Riverside Public Utilities Financial Statements	Lance, Soll & Lunghard, LLP	\$214,651, 5-year cost (\$42,501 for FY 2020)
February 12, 2021	City of Riverside Single Audit	Lance, Soll & Lunghard, LLP	\$50,143, 5-year cost (\$9,928 for FY 2020)
February 28, 2021	TDA 3 - Fund 431 Audit Report	Macias, Gini & O'Connell, LLP	No cost to City, paid by RCTC

Compliance audits are completed for departments/programs that receive federal, state, or local funds. Frequency, reporting cycles, and criteria vary and are identified by the governing agency. Compliance audits in progress or completed in the past three to five years are included in Table D – Compliance Audits

Table D – Compliance Audits

Completion Date	Audit Type	External Auditor	Cost
February 2018 & March 2019	State Mandated Claims (SB90)	State Controller's Office	No cost
June 12, 2019	Prop 1B (Public Works)	California Department of Finance	No Cost
November 7, 2019	National Transportation Database Report (NTD)	Lance, Soll & Lunghard, LLP	\$6,000
November 2020	Assessment of Information Technology Practices	Municipal Information Systems Association of California (MISAC)	No Cost
Ongoing (last audit completed on 1/29/21)	COVID-19 FEMA Claims	FEMA	No cost
February 28, 2021	CARES Act	Department of Finance	No cost
June 30, 2021*	SCPPA Audit (Public Utilities)	Eide Bailly	\$128,000

*Anticipated completion date

DISCUSSION:

Future Structure of Internal Audit

From January 2019 through March 2020, the Charter Review Committee considered many ideas for potential charter amendments; among these ideas were the establishment of a City Auditor, an Inspector General, annual publishing of claims, whistle blower complaints, audits and/or investigation. Also, in July 2019, the Internal Audit Division was left unstaffed. Given the uncertain nature of the future structure of the City's Internal Audit function at that time, and to maximize the City's ability to both carry out its Internal Audit function and adapt to any potential Charter amendments, the City issued Request for Proposals (RFP) 1977 on October 25, 2019 for an external audit firm to perform a risk assessment of all City operations, develop a workplan based on the assessment, and execute the necessary audits in the workplan. This firm will report findings directly to City management and the City Council. The City also issued Request for Qualifications (RFQ) 1976 on the same date to select a panel of external auditing firms to perform ad-hock audits, external to the workplan audits, as requested by the City Council. Proposals for RFQ 1977 and RFP 1976 were reviewed by a multi-departmental team and a preliminary selection was made in May 2020 of one firm to perform the function of an external auditor for the City, and six auditing firms to perform ad-hock audits on an as-needed basis.

Due to additional staffing changes in the City Manager's Office, ongoing budgetary challenges and impacts of the pandemic, delays have occurred in finalizing agreements with the external auditor and the panel of six external auditing firms. Finalizing and executing the agreements is currently underway with each of these firms, with a current non-personnel budget of \$150,000 annually to provide a dedicated funding source for the external auditor and audit panel; this budget will be increased as budgetary conditions stabilize to return to a more robust internal auditing work program.

Internal Risk Assessment and Audit Work Plan

Once agreements are executed with the auditing firms (anticipated to occur by May 2021), staff will work with the external auditor in coordination with the Inclusiveness, Community Engagement, & Governmental Processes Committee to perform an internal assessment of the City organization and develop an internal audit work plan to assess the effectiveness of the City's internal control systems. The scope of work for this task is as follows:

Risk Assessment:

- a. Perform a preliminary risk assessment of the entire organization to determine the level of risk and adequacy of controls in the various functional processes of the City. The assessment must evaluate financial risk as well as business risk (legal, regulatory, strategic, reputation). The risk assessment determines how well each function's control design mitigates inherent risk. At the conclusion of the assessment, the company must evaluate the results and assigns a low, moderate, or high-risk rating to the individual business processes.
- b. The risk assessment must place the auditable business processes within a risk matrix based on low to high risk.
- c. In subsequent years, or more often as directed by the City Council, in consultation with management of the City, the company selected for the Internal Risk Assessment will update or perform additional and/or secondary risk assessments.

Internal Audit Work Plan:

- a. Based upon the results of the risk assessment, develop, at least annually, an internal audit work plan to assess the adequacy and effectiveness of internal control systems through operational, compliance and information system reviews in a form presentable to management and the City Council.
- b. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year.
- c. The internal auditor will submit to management and the City Council the internal audit plan for review and approval.
- d. The internal auditor will communicate the impact of resource limitations and significant interim changes to management and the City Council.

Execution of the Audit Work Plan:

- a. Upon approval by management and the City Council, the internal auditor shall commence audit fieldwork in accordance with this subsection and in compliance with the International Professional Practices Framework (IPPF).
- b. Evaluate the reliability and integrity of information and the means used to identify measure, classify, and report such information.
- c. Identify deficiencies and weaknesses in internal controls and recommendations for corrective action and/or improvements to overcome any deficiencies and weaknesses.
- d. Provide management and the City Council with a means to assure that financial and other management information is credible.
- e. Report on the findings to management and secure comments for presenting to the City Council.
- f. If requested, conduct a formal exit meeting, following the conclusion of each audit, with management and the City Council to present issues noted during the audit, as well as best practice suggestions for improving controls, efficiency, and operational performance.
- g. Issue a written report to management and the City Council, if requested, following the conclusion of each audit to include findings and recommendations ranked as high, moderate, or low risk. The report, if any, should include the internal auditor's findings and recommendations, as well as management's action plans.
- h. Periodically report to management and the City Council on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the City Council in consultation with management of the City.

External Audit Panel

In addition to the external auditor, the City the panel of six auditing firms will perform on-demand City Manager and/or City Council desired audit services. The scope of services for the companies selected for the panel of on demand services will include the following:

- a. Contracted Internal Auditing companies will have no direct operational responsibility or authority over any of the activities audited and will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the company's judgment.
- b. Adhere to the Institute of Internal Auditors' guidance including the International Standards for the Professional Practice of Internal Auditing and Code of Ethics (or similar nationally recognized intuition), as well as City policies.
- c. Determine whether internal controls over financial and operating data are adequate and effective to provide reasonable assurance that the financial and operating information is accurate and reliable.
- d. Determine whether internal controls over compliance with laws, regulations, contracts, grants, policies and procedures are adequate and effective to ensure that proper compliance actually occurs.
- e. Determine whether internal controls over assets provide reasonable assurance that assets exist and are safeguarded against loss or theft.
- f. Determine whether controls over City operations provide reasonable assurance that resources are used efficiently and economically.
- g. Determine whether controls over operations and programs are adequate and effective to provide reasonable assurance that the operations and programs are being carried out as planned and that the results of operations are consistent with goals and objectives.
- h. Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the City Council in consultation with management of the City.
- i. Provide overall annual conclusion on the audited control environment to management and the City Council.
- j. Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- k. Confirm to management and the City Council, at least annually, the organizational independence of the internal audit activity.
- l. Attend City Council meetings and provide feedback on internal audits complete and the management of risks including a regular overview of the control environment, as requested.

- m. Perform operational reviews of key business processes to identify deficiencies and weaknesses and make appropriate recommendations for improvements.
- n. Provide recommendations based upon existing "best practice" in instances where policies, procedures and processes do not exist and/or could be improved upon.
- o. While under contract with the City, the company will not participate in any manner other than as the internal auditor to the City, in any financial transaction of the City or any other public entity, which requires City financing.

Process for Reporting Fraud, Waste or Abuse

The City maintains a 3-1-1 Whistleblower Hotline as a vehicle for reporting fraud, waste, or abuse by City employees or vendors who are suspected of engaging in fraud, waste or abuse of City assets, which can be accessed at (951) 826-5311 or on the City website at the following link: <https://www.riversideca.gov/internalaudit/3-1-1-whistleblower-hotline>.

Public comments and ideas associated with City audits may also be submitted on the Internal Audit website under the *Submit Your Audit Ideas* form link. The Internal Audit, Submit Your Audit Ideas form is located at: <https://corweb.riversideca.gov/internalaudit/submit-your-audit-ideas-0>.

Attached are the 3-1-1 Whistleblower Hotline records for the past three years, as well as submitted public comments and ideas associated with City audits.

Internal Audit Resources

- Association of Government Accountants (AGA)
- Government Accounting Standards Board (GASB)
- Government Finance Officers Association (GFOA)
- Institute of Internal Auditors (IIA)
- Government Accountability Office – Generally Accepted Government Auditing Standards (GAGAS)
- Institute of Internal Auditors – Certified Government Auditing Profession (CGAP) certification

FISCAL IMPACT:

There is no fiscal impact associated with this report. Contract services and fees affiliated with internal audits services are included in department budgets.

Prepared by: Al Zelinka, FAICP, City Manager

Attachments:

1. Administrative Manual Policy
2. 3-1-1 Whistleblower Hotline records for the past three years
3. Submitted public ideas associated with City audits.
4. Presentation