City of Riverside's Internal Audit Division Needs Significant Organizational and Procedural Changes to Become More Effective

Independent Audit Report for the
City of Riverside's Internal Audit Division

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INTRODUCTION

In 2015, the City of Riverside (City) initiated a plan to contract for independent financial and performance audits of all City departments. This plan includes contracting for three audits annually for the next five years, so that all 15 departments are audited. In the first year of this effort, the City Council also requested an independent audit of the City's Internal Audit Division (IAD). This audit report includes the results of the independent audit of the IAD.

We thank the staff of the IAD, the City Manager's Office, City Departments, and City Council members for their assistance during this audit.

BACKGROUND

The IAD was established in March 2005 based on a recommendation from the City's external financial auditors. The IAD is a division of the City Manager's Office and reports directly to the City Manager and/or a designated Assistant City Manager. The authority of the IAD is not in the City Charter or codified in the City's Municipal Code.

The IAD's mission is to provide the City Manager and staff independent, objective, and useful information regarding the services and functions of the City government. The goals and objectives of the IAD are to promote accountability and transparency to the public, ensure compliance with regulatory requirements and City policies, and improve the economy, efficiency, and effectiveness of City government. To achieve its mission, the IAD conducts performance audits of services and programs. It also investigates reports of fraud, waste, or abuse of City resources.

The IAD currently has a budget of approximately $300,000 and has two professional staff, an Internal Audit Manager and a Senior Internal Auditor.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to:

➢ Assess the City's internal audit function against the Institute of Internal Auditor's guidance "The Role of Auditing in Public Sector Governance," to determine if the function includes all of the key elements of an effective public sector auditing organization

➢ Conduct an external quality control review, hereinafter referred to as a peer review, to assess the IAD's compliance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards)

➢ Assess the IAD's auditing practices against industry standards and best practices

➢ Assess the IAD's Fraud Hotline practices against industry standards and best practices

> ➤ Assess the adequacy of the IAD's performance measures
> ➤ Assess the staffing capacity of the IAD

Audit Scope

We assessed the IAD's policies and procedures that are currently in place to address compliance with IIA Standards, auditing best practices, fraud hotline best practices, capacity of the IAD, and the IAD's performance measures. We performed a detailed analysis of audit engagements conducted in fiscal year 2014-15. Furthermore, we reviewed all reports the IAD issued over the last three fiscal years for consistency.

Audit Methodology

To assess the IAD against the Institute of Internal Auditors guidance, "The Role of Auditing in Public Sector Governance," we reviewed the guidance and analyzed information to determine whether the City's internal audit function has all of the elements necessary for an effective public sector auditing organization.

In conducting the peer review, we followed the Association of Local Government Auditors' (ALGA) Red Book Peer Review Guide. This guide is used for conducting peer reviews of organizations following IIA Standards. The guide requires we review the organization's policies and procedures, assess those policies and procedures against IIA Standards, interview audit staff and users of the audit reports, review individual audit engagements using engagement checklists, summarize results, and assess whether the organization's quality control system is sufficient to provide reasonable assurance of conformance with IIA Standards.

To assess the IAD's auditing practices against best practices, we used the ALGA's 2014 Benchmarking, Best Practices, and Salary Survey report, which summarizes information from 104 audit organizations throughout the United States and Canada. We compared the best practices in this report to the IAD's practices to determine if the IAD's practices were consistent with best practices.

To assess the IAD's hotline practices against best practices, we used the American Institute of Certified Public Accountants' (AICPA) Antifraud Programs and Controls Task Force list of hotline best practices for Audit Committees. We compared the best practices in this report to the IAD's hotline practices to determine if the IAD's practices were consistent with best practices.

To assess the capacity of the IAD, we reviewed the IAD workload including its workplan, hotline statistics, and completed reports. We also obtained information about audit organizations in the 12 largest cities in California. This information is shown in Appendix C.

To assess the IAD's performance measures, we interviewed the Internal Audit Manager to determine if the IAD uses any measures. We also obtained a list of performance measures used by other public sector auditing organizations.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit's findings and conclusions based on the audit's objectives. We believe that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The City of Riverside's Internal Audit Division Needs Significant Organizational and Procedural Changes to Become More Effective

The Institute of Internal Auditors' "The Role of Auditing in Public Sector Governance" (IIA guidance) states that auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The IIA guidance identifies nine key elements for a public sector auditing function to be effective:

1. Organizational independence
2. Powers and duties established by constitution, charter, or legal document
3. Professional audit standards
4. Sufficient funding
5. Stakeholder support
6. Unrestricted access
7. Competent leadership
8. Competent staff
9. Objective staff

Our audit found the City of Riverside's Internal Audit Division (IAD) needs significant organizational and procedural changes, along with more resources, to become an effective public sector auditing organization. Many of the IAD's problems can be attributed to how the audit function was originally established in 2005. The function was established without a written charter, or enabling legislation, that ensured an adequate reporting relationship to the City Council. Without a proper reporting relationship to the City Council, the IAD has been unable to establish critical elements of an effective public sector organization.

The following sections describe our findings, conclusions, and recommendations.

Public sector auditing is the cornerstone of good governance

The IIA guidance continues, "The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfill each of these roles."

Nine key elements needed to maximize the value of public sector auditing

The IIA guidance identifies nine key elements of an effective public sector auditing function. The nine elements are as follows:

<u>Establishment of duties</u>	A constitution, charter, or legal document should establish the audit department's powers and duties. Among other topics, this document should address procedures and requirements of reporting and the obligation of the audited entity to collaborate with the auditor.
<u>Organizational independence</u>	Organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct and be perceived to conduct its work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and the ability to rely on reported results.
<u>Professional audit standards</u>	Professional audit standards such as the International Standards for the Practice of Internal Auditing (IIA Standards) and Generally Accepted Government Auditing Standards (GAGAS), support the implementation of all of the essential elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence.
<u>Sufficient funding</u>	The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization being audited because the budget impacts the audit activity's capacity to perform its responsibilities.
<u>Stakeholder support</u>	The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed public sector officials, as well as by the media and involved citizens.
<u>Unrestricted access</u>	Audits should be conducted with complete and unrestricted access to employees, property, and records as appropriate for the performance of audit activities.
<u>Competent leadership</u>	The head of the audit activity must be able to independently and effectively recruit, retain, and manage highly skilled staff without undue managerial or political influence. The leader should be knowledgable of applicable audit standards, professionally qualified, preferably certified, and competent to oversee and manage an audit function. Moreover, the chief audit executive should be an articulate public spokesperson for the audit activity.

Competent staff

The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing professional education requirements established by their relevant professional organizations and standards.

Objective staff

An audit activity's staff must be objective. Audit staff must have impartial attitudes and avoid any conflict of interest. Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. A conflict of interest may exist even if no unethical or inappropriate act results. Such a conflict can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. Moreover, a conflict of interest could impair an individual's ability to perform audit duties and responsibilities objectively.

The City's internal audit function lacks the elements for an effective public sector auditing organization

The IAD conducts a wide variety of performance audits, many of which include recommendations to improve internal controls. It has issued an average of seven audits annually over the last three years and has issued over 100 reports since the function was established in 2005.

The IAD, however, either lacks or needs improvement with the elements necessary for carrying out an effective public sector auditing organization. Each of these shortcomings is described below.

- Lacks a formal charter
- Is not independent
- Does not comply with professional standards
- Lacks sufficient funding
- Lacks adequate stakeholder support
- Lacks formal authority to ensure unrestricted access
- Needs to revise the role of the Internal Audit Manager
- Needs to improve staff competencies
- Lacks a process to ensure staff is objective on audits

Many of the problems cited above can be attributed to how the audit function was originally established in 2005. The function was established without a written charter, or enabling legislation, that would have ensured an adequate reporting relationship to the City Council. Without a proper reporting relationship to the City Council, the IAD has been unable to establish the critical elements of an effective public sector organization.

Lacks a formal charter

The IAD lacks a formal charter defining the purpose, authority, and responsibility of the internal audit activity.

Is not independent

The IAD meets neither IIA Standards nor GAGAS for independence. Both of these professional standards require the internal audit function to have direct and unrestricted access to the City Council or to a Council Committee. IIA Standards require that the chief audit executive report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. IIA Standards also require the chief audit executive to communicate and interact directly with the governing body and to confirm, at least annually, to the governing body that the internal audit activity is organizationally independent. According to IIA Standards, organizational independence is achieved when the chief audit executive reports functionally to the governing body. Examples of functionally reporting to the governing body include the governing body:

- Approving the audit charter
- Approving the audit plan
- Receiving communications directly from the chief audit executive
- Approving decisions regarding the appointment and removal of the chief audit executive
- Approving the internal audit budget

The Internal Audit Manager reports directly to the City Manager. Reporting to the City Manager would satisfy IIA Standards for independence if the Internal Audit Manager had sufficient access to the City Council. The Internal Audit Manager, however, has limited access to the City Council, or to a City Council Committee, and does not report functionally to the City Council.

Does not comply with professional standards

We conducted a peer review of the IAD to assess its conformity with IIA Standards and found that the IAD does not conform to these standards because of the following deficiencies:

- Lacks a formal charter
- Is not independent
- Lacks a process for ensuring auditors are objective on audits
- Has not obtained sufficient continuing professional education
- Has not established and maintained an adequate Quality Assurance and Improvement Program
- Has not conducted audits with due professional care
- Has not updated its risk assessment annually

- Has not submitted its workplan and resource requirements to the City Council
- Has not reported to the City Council on its performance
- Has not adequately planned audit engagements
- Has not adequately documented its work
- Has cited compliance with standards without internal and external quality assessments
- Has not established a formal system for monitoring the status of audit recommendations

The peer review opinion letter and accompanying management letter are shown as Exhibits 1 and 2.

Lacks sufficient funding

The IAD lacks sufficient funding to administer an effective internal audit function, including complying with standards and managing a fraud, waste, and abuse hotline. The City of Riverside has a population of slightly over 300,000 residents and a general fund budget of approximately $257 million. The IAD currently has two professional staff, an Internal Audit Manager and a Senior Internal Auditor, with a budget of approximately $300,000. In June 2015, the IAD filled a vacancy with a Senior Internal Auditor position which had been vacant for 18 months.

Most of the 12 largest cities in California invest more in their audit functions than Riverside, even cities with only slightly larger populations. For instance, the City of Oakland with a population of slightly over 400,000 and a general fund budget of $535 million has an audit function of 10 full-time staff, eight professional audit staff and two administrative staff and a budget of $1.9 million. The City of Sacramento with a population of 485,000 and a general fund budget of $404 million has four professional auditors and a budget of $680,000. Even the City of Palo Alto with a population of 65,000 and a general fund budget of $183 million, has six professional audit staff and a budget of nearly $1.2 million. Both the cities of Sacramento and Palo Alto fund one professional audit position from their utilities' departments.

Lacks adequate stakeholder support

The City's internal audit function lacks adequate stakeholder support. Based on interviews with the City Council, City Council members seemed supportive of an internal audit function but did not have much interaction with the Internal Audit Manager. In fact, most City Council members reported that they could only recall the Internal Audit Manager presenting information to the City Council on one occasion—the audit of contracted legal services.

Based on our interviews and observations, the Internal Audit Manager has had only lukewarm support from the previous senior management. The Internal Audit Manager has reported to various senior managers since 2005. For instance, although the Internal

Audit Manager, technically reports to the City Manager, the de facto reporting relationship has been to various Assistant City Managers and an Interim City Manager. Since 2005, the Internal Audit Manager has had only two evaluations, one in 2011 and another in 2015.

Lacks formal authority to ensure unrestricted access

Auditors need complete and unrestricted access to employees, property, and records as appropriate for their audit activities. Although the IAD has not encountered access issues, this access is not specified in any documents approved by the City Council.

Needs to revise the role of the Internal Audit Manager

The Internal Audit Manager's role in the organization has not been consistent with that of a chief audit executive. The Internal Audit Manager, without staffing, has focused on completing audits instead of overseeing and managing the audit function.

The Internal Audit Manager's job specifications are not consistent with a leadership position. The job specifications are more consistent with the requirements of an auditor performing audits than managing the internal audit function.

Needs to improve staff competencies

Overall, we believe that the IAD staff is competent. The Internal Audit Manager has been responsible for the internal audit function since 2005 and has over 20 years of experience with a Fortune 500 company. She has held management positions in corporate finance, accounting, marketing, workforce development, and internal auditing. The Senior Internal Auditor also has significant audit and related experience and has a Bachelor of Science in Management and a Masters degree in Public Administration.

We noted, however, that the IAD's staff competencies could be improved. As noted earlier the Internal Audit Manager job specifications are not consistent with a chief audit executive. Similarly, the Senior Internal Auditor job specifications are more in-line with an entry-level auditor. We also noted that the Internal Audit Manager has not obtained sufficient Continuing Professional Education for the last three years. Also, neither of the two audit staff have professional audit certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), or Certified Governmental Audit Professional (CGAP).

Additionally, using computer-assisted auditing techniques and tools such as ACL, to assist in audit analysis and reporting are important to increase the capabilities of the internal audit function. Software such as ACL is a powerful tool that assists auditors in analyzing and comparing large databases. The IAD currently does not have these capabilities and would benefit from having staff capable of using such data mining software.

Lacks a process to ensure staff is objective on audits

The IAD has not established a formal process to ensure that auditors conducting engagements are impartial, have an unbiased attitude, and avoid any conflicts of interest.

Conclusion

The City's internal audit function needs significant organizational and procedural improvements, as well as more resources to become a more effective public sector auditing organization. Such organizational changes and additional resources will require the City Council, in consultation with the City Manager and the Internal Audit Manager, to address these issues at a policy level. The IAD, however, can implement many of the audit report's procedural recommendations, assuming that some of the policy issues such as the role of the IAD, its placement in the organization, and sufficient resources are adequately addressed.

The first step in the change process is to determine the role of the internal audit function in the City.

We recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 1 Assess the costs and benefits of establishing and maintaining an effective public sector auditing organization and define the role such a function will have in the organization.

If the City Council determines that the City would benefit from maintaining an effective public sector auditing organization, we recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 2 Discuss the placement of the IAD within the organization. The placement should ensure that the chief audit executive has consistent and direct access to the City Council and/or a City Council Committee.

To formalize the placement of the audit function in the organization, we recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 3 Adopt an internal audit charter, or enact an ordinance, that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the audit function's position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance of engagements; define the scope of internal audit activities; specify the professional standards to be followed; and define the minimum qualifications for the chief audit executive and specify responsibility for evaluating the chief audit executive.

As noted above, the IAD lacks the resources to administer an effective public sector auditing function. Comparably sized cities in California have invested more in their audit function. We believe that the City of Riverside needs an audit function of 3-5 staff to be a fully effective public sector auditing organization. The staffing should include a chief audit executive, one to two senior auditors, and one to two entry-level auditors. Such a function would require additional funding for office space, equipment, and training to ensure staff has the requisite skills to conduct performance audits of all municipal functions in accordance with professional auditing standards.

We recommend that the City Council, the City Manager, and the Internal Audit Manager:

Recommendation No. 4 Discuss options to increase the size of the IAD. These discussions should include the number of staff needed and the required funding, including the cost of personnel, office space, equipment and training costs needed to provide sufficient resources for the audit function.

As noted above, the skill sets of the IAD staff need some enhancement. The job specifications are not consistent with the duties of an audit executive and senior internal auditor. In addition, the job specifications should include preferences for professional certifications, advanced degrees, and specific skill sets needed for the current auditing environment.

We recommend that the City Council direct the City Administration to:

Recommendation No. 5 Revise the existing job specifications and salary ranges for the Internal Audit Manager and Senior Internal Auditor. The job duties and salary ranges should be consistent with the duties of a chief audit executive and an experienced performance auditor. These job specifications should also include an entry-level audit position. The revised job specifications should include preferences for Masters' degrees, professional certifications, and experience using computer-assisted-auditing techniques such as ACL.

As mentioned above and in Exhibits 1 and 2, the IAD does not comply with IIA Standards. Many public sector auditing organizations follow GAGAS, not IIA Standards. GAGAS would help to ensure that the audit process is transparent. GAGAS are focused more on the audit engagements than IIA Standards and are less onerous than IIA Standards in regards to requirements for managing the audit function. Thus, the IAD should be able to comply with Government Auditing Standards, even with limited staffing.

We recommend that the IAD:

Recommendation No. 6 Adopt and follow Generally Accepted Government Auditing Standards.

To ensure compliance with these professional standards, we recommend that the IAD:

Recommendation No. 7 Develop and implement a comprehensive policies and procedures manual and train staff on the use of these policies and procedures in conducting audits in conformance with GAGAS. These policies should include provisions for ensuring that staff is independent and objective on audits and complying with continuing professional education requirements.

We also noted above that the IAD lacks adequate stakeholder support. We believe that establishing a formal reporting relationship with the City Council will increase the visibility of the audit function with the City Council and improve support for the function. We also believe, however, that the IAD's support within the organization would improve if the chief audit executive met more frequently with senior management. Chief audit executives in other California cities routinely attend executive staff meetings in their jurisdictions to keep senior management aware of what the internal audit function is doing and keep the internal audit function aware of key organizational issues.

We recommend that the City Manager:

Recommendation No. 8 Invite the Internal Audit Manager to attend the weekly Executive Management meetings.

In addition to the above audit recommendations, the audit report includes other recommendations in Exhibit 2, Appendix A, and Appendix B. Some of the recommendations in other sections of the report overlap with the recommendations above. Appendix D includes a comprehensive list of all of the recommendations found throughout this document.

EXHIBIT 1: Peer Review Opinion Letter

January 5, 2016

Cheryl Johannes
Internal Audit Manager
3900 Main Street
Riverside CA, 92501

Dear Ms. Johannes,

We have completed a peer review of the City of Riverside's Internal Audit Division (IAD) for the period July 1, 2014 through June 30, 2015. In conducting our review, we followed the standards and guidelines contained in the Association of Local Government Auditors' Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing.

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors as part of their Professional Practices Framework. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the IAD's quality control system was not suitably designed and was not operating effectively to provide reasonable assurance of conformance with IIA Standards for assurance and consulting engagements during the review period.

We found serious deficiencies in your internal quality control system relating to independence and objectivity, proficiency and due professional care, quality control, managing the internal audit activity, planning the engagement, performing the engagement, communicating the results of engagements, and monitoring the progress of audit recommendations. These control deficiencies resulted in recurring nonconformance with IIA Standards. We have prepared a separate letter providing details of our findings and recommendations for strengthening your internal quality control system.

COURTNEY RUBY
Courtney Ruby Consulting Services

EXHIBIT 2: PEER REVIEW MANAGEMENT LETTER

January 5, 2016

Cheryl Johannes
Internal Audit Manager
3900 Main Street
Riverside CA, 92501

Dear Ms. Johannes,

We have completed a peer review of the City of Riverside's Internal Audit Division (IAD) for the period July 1, 2014 through June 30, 2015. This management letter identifies deficiencies in conforming to standards and includes recommendations to help your organization achieve full conformance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards).

Independence and Objectivity

Charter

IIA Standards requires that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter. In addition, the chief audit executive must periodically review the internal audit charter and present it to senior management and board (City Council or City Council Committee) for approval.

The IAD has not developed a charter that defines the purpose, authority, and responsibility of the internal audit activity. Moreover, the IAD does not interact regularly with the City Council or City Council Committee.

We recommend that the IAD:

Recommendation No. 1 Develop an internal audit charter that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the placement of the internal audit position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of the IAD's internal audit activities. The internal audit charter should be submitted to the City Council for final approval.

Independence

IIA Standards require that the internal audit function be independent in performing their work. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit function, the chief audit executive must have direct and unrestricted access to senior management and the City Council or a City Council Committee. Independence can be achieved through a dual-reporting relationship with

the City Manager and the City Council or City Council Committee.

Currently, the IAD does not have the independence necessary to carry out the responsibilities of the internal audit function. Most notably, the Internal Audit Manager's access to the City Council or a City Council Committee has been very limited. The revised reporting relationship should be included in a formal audit charter or in the Riverside City Charter or Municipal Code.

We recommend that the IAD, the City Manager, and the City Council:

Recommendation No. 2 Discuss and establish a reporting relationship, which provides the Internal Audit Manager with appropriate access to the City Council.

Objectivity

IIA Standards require that internal auditors must have an impartial, unbiased attitude, and avoid any conflict of interest.

The IAD has not established a formal process to ensure that auditors conducting engagements are impartial, have an unbiased attitude, and avoid any conflicts of interest.

We recommend that the IAD:

Recommendation No. 3 Establish a process to ensure that auditors are objective and their objectivity is not impaired, prior to initiating an engagement.

Proficiency and Due Professional Care

Continuing Professional Education

IIA Standards require that internal auditors must enhance their knowledge, skills, and other competencies through continuing professional education. The IIA Standards do not specify the number of CPE hours required to be obtained. Government Auditing Standards require that auditors complete 80 hours of continuing professional education (CPE) credit every two years, and at least 20 hours of CPE credit annually. The IAD's policies and procedures require that auditors meet the GAGAS requirement for obtaining CPE.

The Internal Audit Manager has not obtained sufficient CPE credit over the last three years. The Internal Audit Manager has averaged 15 hours of CPE credit annually for the last three years.

We recommend that the IAD:

Recommendation No. 4 Develop annual training plans for each auditor. These plans should identify the training needed to enhance their knowledge, skills, and other competencies needed to perform their work. These training plans should also identify how auditors will satisfy the GAGAS continuing professional education requirements. The Internal Audit Manager should use these training plans to request sufficient funding for the IAD's training needs.

Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

The peer review identified significant internal deficiencies in regards to the IAD's compliance with IIA Standards. Thus, we cannot conclude that the IAD has applied the care and skill expected of a reasonably prudent and competent auditor.

We recommend that the IAD:

Recommendation No. 5 Address the recommendations in this management letter to ensure its work is in conformance with IIA Standards.

Quality Assurance and Improvement Program

Internal and External Assessments

IIA Standards require that the chief audit executive develop and maintain a quality assurance and improvement program. The quality assurance and improvement program must include both internal and external assessments. The internal assessments must include ongoing monitoring of the internal audit activity and periodic self-assessments by other persons within the organization with sufficient knowledge of internal auditing practices. A qualified, independent assessor or assessment team must conduct the external assessment at least once every five years.

The IAD lacks an adequate internal assessment program and it has not had an external assessment.

We recommend that the IAD:

Recommendation No. 6 Develop and implement a quality assurance and improvement program. This program should include internal and external assessments.

Managing the Internal Audit Activity

Planning

IIA Standards require that internal audit's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the City Council must be considered in this process.

The IAD developed a risk assessment in 2012 but has not updated this risk assessment since then. Moreover, the IAD has not obtained the input of the City Council in developing its risk assessment and annual work plan.

We recommend that the IAD:

Recommendation No. 7 Update its risk assessment, at least annually, and consider input from senior management and the City Council in its risk assessment process.

Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

The Internal Audit Manager does not communicate the IAD's workplans and resource requirements to the City Council.

We recommend that the Internal Audit Manager:

Recommendation No. 8 Communicate the IAD's workplans and resource requirements to the City Council annually.

Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters identified or requested by senior management and the board.

The Internal Audit Manager has not reported periodically to the City Manager and the City Council on the IAD's purpose, authority, responsibility, and performance relative to the audit workplan.

We recommend that the IAD:

Recommendation No. 9 Report periodically to the City Manager and the City Council on the purpose, authority, responsibility, and performance relative to its audit workplan.

Planning of the Engagement

Engagement work program

IIA Standards require auditors to document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The engagement programs should:

- State the objectives of the program
- Identify the technical requirements, risks processes, and transactions that are to be examined
- State the nature and extent of testing required
- Document the procedures for collecting, analyzing, interpreting, and documenting information during the engagement
- Be modified, as appropriate, during the audit engagement

The engagement plan should also include the schedule and resources needed to complete the engagement.

The IAD's engagements we reviewed did not always include an engagement plan. Moreover, the engagements reviewed were not in conformance with IIA Standards. Although the plans included the objectives, the plans did not specify the risk areas to be considered, transactions to be examined, the nature and extent of testing required, and procedures for collecting, analyzing, interpreting, and documenting information during the engagement. The engagement plans also did not include schedules and resource requirements for the engagement.

We recommend that the IAD:

Recommendation No. 10 Modify its procedures for engagement planning. These procedures should require that an engagement plan be prepared for all engagements. In addition, the procedures should also ensure that engagement plans:

- State the objectives of the program
- Identify the technical requirements, risks, processes, and transactions that are to be examined
- State the nature and extent of testing required
- Document the procedures for collecting, analyzing, interpreting, and documenting information during the engagement
- Are modified, as appropriate, during the audit engagement
- Include schedules and resource allocations.

Performing the Engagement

Documenting Information

IIA Standards require auditors to document relevant information obtained, any analysis performed, and support for the conclusions and engagement results.

The IAD's documentation is not sufficient. Specifically, the documentation does not provide adequate support for analysis performed and support for the conclusions and the engagement results.

We recommend that the IAD:

Recommendation No. 11 Revise its procedures to ensure appropriate documentation of its audit work. These procedures should include workpaper templates to ensure standards for engagement planning, performing the engagement, and reporting on the results of engagements are met.

Communicating Engagement Results

Citing Compliance with IIA Standards

IIA Standards state the internal auditors may report that engagements were conducted in accordance with the IIA Standards only if the results of the quality assurance and improvement program support this statement.

The IAD includes a statement in audit reports that the engagement was conducted in conformance with IIA Standards; however, the IAD has not established a quality assurance and improvement program to support this statement. Specifically, the IAD has not conducted internal assessments and has not had an external assessment conducted of the organization.

We recommend that the IAD:

Recommendation No. 12 Discontinue citing that its audit work was conducted in conformance with IIA Standards until it is in conformance with these standards.
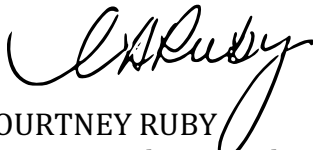
Following-up on Audit Recommendations

IIA Standards require the chief audit executive to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The IAD has not established a formal follow-up process to monitor management's progress in implementing audit recommendations and reporting out to senior management and the City Council or a City Council Committee on status of audit recommendations.

We recommend that the IAD:

Recommendation No. 13 Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for periodically reporting out to senior management and to the City Council or a City Council Committee on the status of audit recommendations.

COURTNEY RUBY
Courtney Ruby Consulting Services

APPENDIX A
BEST PRACTICES ASSESSMENT
INTERNAL AUDIT DIVISION PRACTICES

The Association of Local Government Auditors (ALGA) publishes a biennial report on benchmarking, best practices, and a salary survey. ALGA's 2014 Benchmarking, Best Practices, and Salary Survey report summarizes responses from 104 audit organizations throughout the United States and Canada. We selected items from this survey to benchmark and assess the City of Riverside's Internal Audit Division (IAD) against best practices in the industry. These best practices address the following areas:

- Approval of the annual workplan
- Annual risk assessment
- Long-term audit planning
- Marketing the audit function
- Customer satisfaction surveys and audit effectiveness questionnaires
- Performance measures to assess performance
- Recommendation follow-up
- External quality control reviews
- Percentage of time spent on performance and/or operational audits
- Use of contractors to perform audits
- Information systems auditing
- Continuous monitoring
- Participation on process improvement teams
- Control self-assessments
- Electronic workpaper systems for audit documentation
- Computer-assisted auditing techniques for audit analysis

The following is our assessment of the IAD's level of performance in regards to the above best practices.

Approval of the annual workplan

Best Practice	IAD Practice
Audit committee and/or senior management reviews the audit workplan and strongly supports early involvement of the audit department.	The IAD does not submit its audit workplan to the City Council for review and approval.

We recommend that the Internal Audit Manager:

Recommendation No. 1 Communicate the IAD's workplans to the City Council annually.

Annual risk assessment

Best Practice	IAD Practice
Audit department prepares a formal risk assessment document annually.	The IAD has developed an entity-wide risk assessment to identify risk areas throughout the organization. The IAD developed this entity-wide risk assessment in 2012; however, it has not updated it since 2012. IIA Standards require that the risk assessment be updated annually.

We recommend that the IAD:

Recommendation No. 2 Update its risk assessment, at least annually, and consider input from senior management and the City Council in its risk assessment process.

Long-term audit planning

Best Practice	IAD Practice
Strategic planning and/or long-term (3 to 5 year) audit work planning is ongoing.	The IAD has not developed a long-term audit plan.

We recommend that the IAD:

Recommendation No. 3 Develop a 3-5-year audit plan. This plan should be based on its annual risk assessment and should identify the following:

- Audit priorities for the next three to five years
- Staff resources needed to address these priorities
- Options for addressing risk areas including conducting pre-and post-implementation reviews of planned or newly implemented information systems, contracting for audits, using control self-assessments, participating in re-engineering or process improvement teams, and continuous monitoring.

Marketing the audit function

Best Practice	IAD Practice
Audit department has developed a marketing product, which encourages management to see internal audit as an advisor/consultant and supports the audit mission.	The IAD has developed a pamphlet, which encourages management to view internal audit as an advisor/consultant and supports the audit mission. The IAD also has a website that can inform the public of the role of the audit function. The IAD, however, could do more to market the audit function, especially in regards to informing the City Council and the public

	as to the benefits of the audit function and the work that it is performing.

We recommend that the IAD:

Recommendation No. 4 Develop a marketing plan to promote the benefits of the audit function to the City Council, management, and the citizens of the City of Riverside.

Customer satisfaction surveys and audit effectiveness questionnaires

Best Practice	IAD Practice
Audit department obtains input through the use of formal customer surveys and asks customers to value the audit after the engagement is completed.	The IAD does not use customer surveys to obtain input from users and does not ask customers to value the audit after engagements are completed.

We recommend that the IAD:

Recommendation No. 5 Develop and use surveys and audit questionnaires to obtain input on its value to the organization.

Performance measures to assess performance

Best Practice	IAD Practice
Audit department uses performance measures to assess its performance.	The IAD does not use any performance measures to assess its performance.

We recommend that the IAD:

Recommendation No. 6 Develop several key measures to assess its performance. Typical measures for assessing internal audit departments include, but are not limited to, the following:

- Identified economic benefits derived from audits/audit cost
- Number of audit recommendations accepted by management
- Percentage of audit recommendations implemented by management
- Results of customer surveys and audit effectiveness questionnaires
- Percentage of work completed on its annual workplan

Recommendation follow-up

Best Practice	IAD Practice
The audit department tracks the implementation of audit recommendations through a specific follow-up process and non-compliance is reported to an audit committee and/or senior management.	The IAD has not established a formal process for following up on audit recommendations. Moreover, it does not track and report on non-compliance with audit recommendations to senior

Additionally, the City Council and senior management actively support the recommendation follow-up process.	management and to the City Council or a City Council Committee.

We recommend that the IAD:

Recommendation No. 7 Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for periodically reporting out to senior management and to the City Council or a City Council Committee on the status of audit recommendations.

External quality control reviews

Best Practice	IAD Practice
The audit department schedules external peer reviews in accordance with the appropriate auditing standards.	The IAD cites in audit reports that it complies with the IIA Standards. These standards require an external peer review every five years. The IAD has not had an external peer review since the audit function was established in 2005.

We recommend that the IAD:

Recommendation No. 8 Develop and implement a quality assurance and improvement program. This program should include internal and external assessments.

Percentage of time spent on performance and/or operational audits

Best Practice	IAD Practice
The audit function performs a variety of audits including audits of economy, efficiency, and effectiveness, not just controls.	The IAD conducts a wide variety of performance audits, many of which include recommendations to improve internal controls. The IAD, however, is not delving deeply into issues of program effectiveness. For instance, we found that the IAD has not documented the risks associated with the areas being audited. Delving more deeply on audits may reduce the number of audits issued but increase the benefits of the audits to the departments, to the City as a whole, and to citizens of the City of Riverside.

We recommend that the IAD:

Recommendation No. 9 Delve more deeply on its audits and focus more on issues of effectiveness and the major risks in the areas being audited.

Use of contractors to perform audits

Best Practice	IAD Practice
Contractors are used to conduct audit work.	The IAD has not used contractors to perform audit work. However, the City has recently undertaken an effort to contract for audits of all the City departments over a five-year period.

We recommend that the IAD:

Recommendation No. 10 After developing its long-term audit plan, consider using contractors to audit high-risk areas where it lacks the resources to conduct these audits internally.

Information systems auditing

Best Practice	IAD Practice
Perform pre-and post-implementation reviews of newly automated systems and/or be actively involved in the audit of active automated system applications and the general control environment.	The IAD has not been involved in any pre- and post-implementation of newly automated systems. The IAD, however, conducted several information systems audits in 2011.

We recommend that the IAD:

Recommendation No. 11 In conjunction with developing its long-term audit plan, identify any planned information system implementations. The IAD should also work with the IT Department to identify a proper role for the IAD to become involved in reviewing information systems.

Continuous monitoring

Best Practice	IAD Practice
The audit department uses continuous, or on-going auditing for selected areas. Typically, continuous monitoring efforts address high-risk areas such as the use of procurement cards.	The IAD currently does not perform any continuous monitoring activity.

We recommend that the IAD:

Recommendations No. 12 After developing its long-term audit plan, identify high-risk areas that would benefit from continuous monitoring.

Participation on process improvement teams

Best Practice	IAD Practice
Audit department facilitates or participates in organizational activities to streamline operations and/or focus on customer needs.	The IAD has not participated with departments on process improvement teams to streamline operations.

We recommend that the IAD:

Recommendation No. 13 After developing its long-term audit plan, consider assisting departments on process improvement teams to address high-risk areas it lacks the resources to audit.

Control self-assessments

Best Practice	IAD Practice
Audit department educates/facilitates /equips operating departments for self-assessment of organizational risks.	The IAD has not used control self-assessments to educate/facilitate/equip departments to assess organizational risks. The IAD has developed a brochure to assist staff in understanding internal controls.

We recommend that the IAD:

Recommendation No. 14 After developing its long-term audit plan, consider using control self-assessment as an option to address high-risk areas it lacks the resources to audit.

Electronic workpaper systems for audit documentation

Best Practice	IAD Practice
Use audit software to assist in audit documentation, administration, and reporting.	The IAD does not use specialized audit software to assist in audit documentation, administration, and reporting. The division uses Microsoft Office Suite for its audit documentation software. Based on the current size of the IAD, investing in a specialized audit software package such as Teammate is not justified at this time.

Computer-assisted audit techniques for audit analysis

Best Practice	IAD Practice
Use computer-assisted audit techniques and tools to assist in audit analysis and reporting.	The IAD currently does not use computer-assisted auditing techniques and tools, such as ACL, to assist in audit analysis and reporting. Software such as ACL is a powerful tool that assists auditors in analyzing and comparing large databases. The IAD would benefit from having staff capable of using software such as ACL.

We recommend that the IAD:

Recommendation No. 15 Develop in-house capability to use data mining software such as ACL.

APPENDIX B
BEST PRACTICES ASSESSMENT
FRAUD, WASTE, AND ABUSE HOTLINE

The Government Finance Officers Association recommends that each government establish a hotline "to permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting or auditing practices to the appropriate responsible parties. A government should regularly publicize the availability of these mechanisms and encourage individuals who may have relevant information to provide it to the government."

The Association of Certified Fraud Examiners (ACFE) annual global fraud survey, *2014 Report to the Nations*, reported:

- Organizations with hotlines detect fraud activity 50 percent earlier and lessen the financial impact of fraud cases by as much as 41 percent.

- Tips are consistently the most common detection method.

- More than 40 percent of all fraud cases were detected by tips, more than twice the rate of other detection methods.

- Employees accounted for nearly half of all tips that led to the discovery of fraud.

- Fraud hotlines and internal audit departments were the most effective detection mechanism for corruption fraud cases (the most prevalent type of fraud in the public sector).

The ACFE recommends that organizations implement hotlines as a fraud reporting mechanism. The hotlines should provide anonymity and confidentiality, and the organization should encourage employees to report inappropriate activity without fear of reprisal.

In 2010, the AICPA Antifraud Programs and Controls Task Force prepared the following list of hotline best practices for Audit Committees to use when assessing the design effectiveness of a hotline. We used these best practices to assess the IAD's hotline program.

Best Practice	IAD Practice
Hotline has a dedicated hotline number, fax number, website, e-mail address, and regular mail or post office box address to expedite reports of suspected incidents of misconduct.	The IAD has a dedicated hotline number and website page. The IAD does not have an email address, dedicated mail address or post office box. The Internal Audit Manager has found letters or packages placed in her office.
Hotline demonstrates confidentiality, including showing how caller ID, e-mail tracking, and other technologies cannot be used to identify the whistleblower.	The IAD installed a special phone number in their office and disabled the caller ID function so that callers may remain anonymous. The IAD does not answer the phone; instead, the IAD retrieves the voice mail messages daily. For complaints received on-line, the complaints first go to the City's webmaster, who forwards the reports to the Internal Audit Manager's email address. The IAD is supposed to check for the emails, at least daily. The IAD's methods are inadequate to ensure confidentiality and provide confidence in the system's design to reporters.
Hotline has considered use of an independent hotline operator to enhance the perception of confidentiality. A third-party hotline provider ensures there is no bias around what qualifies as a time-sensitive issue and follows prescribed dissemination processes.	The IAD has not considered an independent hotline operator.
Hotline uses trained interviewers to handle calls to the hotline rather than a voice mail system.	The IAD retrieves voice messages from the hotline phone number daily. Calls are not answered live.
Hotline is available 24 hours/day, 365 days/year.	The IAD hotline is available 24 hours/day, 365 days/year, either by phone or on-line reporting. The IAD, however, checks voice messages and email messages daily only on days the City is open for business.
Hotline has multi-lingual capability to support hotline callers with different ethnic backgrounds.	The IAD hotline does not have multi-lingual capability.
Callers are provided with a unique identification number to enable them to call back later anonymously to receive feedback or follow-up questions from investigators.	The IAD hotline does not provide callers a unique identification number to enable them to call back anonymously to receive feedback or follow-up questions from investigators.

Best Practice	IAD Practice
Hotline uses a case management system to log all calls/complaints and to facilitate management of the resolution process. Additionally, a case management system facilitates testing by external auditors and internal oversight such as by an audit committee.	The IAD hotline does not have a case management system to log all calls/complaints and follow-up. The majority of reports come in on-line. The IAD manager keeps all on-line reports in an email folder on her computer. According to the Internal Auditor Manager, she records notes on calls that are received over the hotline phone.
Hotline program has established protocols for the timely distribution of each type of complaint, regardless of the mechanism used to report the complaint, to appropriate individuals within the organization. For example, complaints of any kind involving senior management are automatically submitted to designated officials, such as the City Attorney, City Manager, or a City Council representative, without filtering by management or other entity personnel. If such complaints involve a designated party, that party is excluded from the reporting chain. Additionally a list of specific topics has been established that require immediate escalation or escalation within 24 hours.	The IAD has not established protocols for the timely distribution of each type of complaint, regardless of the mechanism used to report the complaint, to appropriate individuals within the City. The IAD issued a Fraud Prevention, Reporting and Investigation Policy that establishes the IAD's investigative responsibilities, defines general reporting procedures including confidentiality and disciplinary action but does not establish necessary operating protocols.
Hotline program effectively distributes comprehensive educational materials and provides training programs to raise awareness for potential users. These materials are available in all relevant languages given the potential user base, and they take into consideration cultural differences that may require alternative approaches to achieve the desired goal.	The IAD has not effectively distributed comprehensive educational materials or provided training programs to raise awareness for potential users. The IAD has provided HR with hotline posters to distribute for City departments to display. The posters have not been distributed in over 3 years. The hotline was previously displayed on the City's website, but is not currently displayed.
Hotline program supports outreach to potential stakeholders other than employees.	The IAD hotline program does not support outreach to potential stakeholders other than employees and employee outreach is minimal.

Best Practice	IAD Practice
Auditors periodically evaluate the design and operating effectiveness of the hotline including (a) how the hotline reflects changes in the city's operations and in best practices, (b) whether the hotline is receiving satisfactory support from management, employees, and other participants, and (c) whether protocols established for forwarding information to designated parties have been followed.	The IAD hotline was established in 2007. Our review is the first evaluation of the program.
In addition to the best practices identified above, we have added the following best practice in accordance with the California Government Code. All substantiated investigations must be publicly issued. The State of California Government Code Section 53087.6, adopted in 2008 and effective in 2009, implemented Whistleblower legislation allowing local City Auditors to establish and manage hotlines. It also provided provisions for auditors to maintain confidentiality of the persons providing the information. In July 2010, the Government Code was amended to further define the auditor's role to maintain the hotline and to provide copies of substantiated reports to the appropriate parties and to require the issuance of a public report for any substantiated fraud complaint.	The IAD does not issue substantiated investigation reports publicly. Instead, the IAD issues an internal report to the City Manager.

Recommendations

The key to an effective whistleblower hotline program is operational integrity. Employees and citizens must have confidence that the hotline is designed to effectively detect, deter, and prevent fraud. The hotline program must be easy to use, ensure confidentiality, and make certain that investigations are evidence-based and can be relied upon.

We found the IAD's hotline design and operations are not consistent with best practices.

Contracting with a third party vendor would provide an economical and effective alternative to in-house call taking. For instance, the City of Palo Alto contracts for a third party vendor that provides the following services for less than $5,000 annually:

- 24/7 availability and user friendly interfaces, including multi-lingual call takers, to file complaints
- Anonymous reporting mechanisms, with phone and web capabilities, to ensure all employees have the ability to report an incident without fear of reprisal
- Reporting and analytical tools to create reports and track inquiries.

We recommend that the City:

Recommendation No. 1 Contract with a third party vendor to provide anonymous reporting mechanisms, with both phone and web capabilities, a user friendly interface including multi-lingual capabilities, and an analytical case management system for the fraud hotline program.

The City does not have a Whistleblower ordinance to encourage employees to report inappropriate activity without fear of reprisal. Such an ordinance is critical to encourage employees to report inappropriate activity without fear of reprisal. Employees are currently protected against retaliation by California state law.

To encourage employees to report inappropriate activity, we recommend that the City Council:

Recommendation No. 2 Enact a Whistleblower Protection Ordinance to provide assurance that:

- No officer or employee of the City shall use or threaten to use any official authority or influence to restrain or prevent any other person who is acting in good faith and upon reasonable belief as a whistleblower.
- No officer or employee of the City shall use or threaten to use any official authority or influence to cause any adverse employment action as a reprisal against a City officer or employee who acts as a whistleblower in good faith and with reasonable belief that improper conduct has occurred.

The IAD lacks sufficient resources to provide an effective internal audit function and administer the City's hotline. The audit function needs to be aware of internal control issues that allow fraud, waste, and/or abuse to occur. However, the internal audit function does not need to manage the hotline to obtain the necessary information. Several other municipal internal audit organizations are not solely responsible for managing the hotline. The City of Phoenix shares responsibility between the City Manager, City Attorney, and the City Auditor. The City of San Jose uses another model with its hotline. In San Jose, the Employee Relations Unit manages the hotline. Employee Relations and the City Auditor meet quarterly to review hotline complaints and pending investigations. This model provides the internal audit function with the

necessary information as to where fraud, waste and abuse are occurring in San Jose without the responsibility of staffing and managing the hotline program.

Given the IAD's limited resources, we recommend the City:

Recommendation No. 3 Reassign the responsibility for administering the fraud hotline to another organizational unit within the City. The organizational unit assigned to administer the hotline should periodically inform the IAD of relevant internal control issues identified through investigations to ensure that the IAD is aware of areas vulnerable to fraud, waste, and abuse.

To effectively manage a fraud, waste, and abuse hotline, clear written policies and procedures are essential. The IAD lacks a comprehensive policies and procedures manual for administering the hotline.

Other jurisdictions have developed comprehensive policies and procedures manuals for managing their hotlines. For instance, the Virginia Inspector General's Fraud, Waste and Abuse Hotline Procedures Manual is available on-line to use as a guide for developing a comprehensive policies and procedures manual. Additionally, the City Auditor's offices in Los Angeles, Oakland, Palo Alto, and Long Beach also have comprehensive manuals available for review.

To ensure consistent practices and clear responsibility for administering the hotline, we recommend the City:

Recommendation No. 4 Develop a fraud, waste, and abuse prevention hotline policies and procedures manual that addresses the roles, responsibilities, and protocols in detail.

In reviewing the program, the IAD received reports of fraud, waste, and abuse from various sources but only considered a report received through the phone line or on-line reporting mechanism to be a "hotline" report. All reports of fraud, waste and abuse should follow the same established protocols for reporting and investigating.

To ensure that all reports of fraud, waste, and abuse are appropriately recorded, responded to, and reported on, we recommend the City:

Recommendation No. 5 Record all complaints of fraud, waste, and abuse, regardless of the mechanism used to report the complaint.

The IAD does not issue any periodic reports on the results of the hotline. Such reports are important to report out on the results of the program, establish the program's value with employees and citizens, and to reinforce to City employees that inappropriate activities may be investigated.

To ensure transparency in regards to the results of the hotline, we recommend that the organizational unit responsible for the hotline:

Recommendation No. 6 Submit semi-annual hotline reports to the City Manager and City Council.

As noted above, the California Government Code requires that substantiated investigations be issued publicly. The IAD does not issue substantiated reports to the public.

To ensure compliance with the California Government Code, we recommend that the organizational unit responsible for managing the hotline:

Recommendation No. 7 Issue substantiated investigation reports publicly in accordance with the California Government Code.

APPENDIX C
SURVEY OF AUDIT FUNCTIONS IN THE
12 LARGEST CITIES IN CALIFORNIA

City	Population	GF Budget (in millions)	Audit Budget	Audit Staff	Reports to	Auditing Standards Followed	Top Auditor Salary
Riverside	317,000	257	$300,000	2	City Manager	IIA	$120,852
Santa Ana	335,000	226	N/A	N/A	N/A	N/A	N/A
Anaheim	347,000	286	$1,300,000	5	City Manager	IIA	$135,000
Bakersfield	363,000	200	N/A	N/A	N/A	N/A	N/A
Oakland	406,000	534	$1,900,000	8	Elected	GAGAS	$143,000
Sacramento	485,000	404	$680,000	5	Audit Committee	GAGAS	$153,000
Long Beach	497,000	412	$3,000,000	12	Elected	GAGAS	$203,000
Fresno	516,000	384	N/A	1	City Manager	GAGAS	$85,000
San Francisco	852,000	4,600	$15,500,000	34	Controller	GAGAS	$179,500
San Jose	1,150,000	1,200	$2,200,000	14	City Council	GAGAS	$185,000
San Diego	1,380,000	1,300	$3,300,000	20	Audit Committee	GAGAS	$180,000
Los Angeles	3,930,000	8,600	$3,000,000	17	Controller	GAGAS	$196,000

APPENDIX D
COMPREHENSIVE LIST OF AUDIT RECOMMENDATIONS

Below is a comprehensive list of all of the recommendations found throughout the complete report document. The recommendations were duplicated from the following four sections of the audit report document:

1. Audit report
2. Management letter (Exhibit 2)
3. Internal audit best practices assessment (Appendix A)
4. Hotline best practices assessment (Appendix B)

Note: Each of the sections is to be considered independent of one another therefore several of the recommendations appear to overlap.

Audit Report

We recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 1 Assess the costs and benefits of establishing and maintaining an effective public sector auditing organization and define the role such a function will have in the organization.

If the City Council determines that the City would benefit from maintaining an effective public sector auditing organization, we recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 2 Discuss the placement of the IAD within the organization. The placement should ensure that the chief audit executive has consistent and direct access to the City Council and/or a City Council Committee.

To formalize the placement of the audit function in the organization, we recommend that the City Council, with input from the City Manager and the Internal Audit Manager:

Recommendation No. 3 Adopt an internal audit charter, or enact an ordinance, that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the audit function's position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance of engagements; define the scope of internal audit activities; specify the professional standards to be followed; and define the minimum qualifications for the chief audit executive and specify responsibility for evaluating the chief audit executive.

We recommend that the City Council, the City Manager, and the Internal Audit Manager:

Recommendation No. 4 Discuss options to increase the size of the IAD. These discussions should include the number of staff needed and the required funding, including the cost of personnel, office space, equipment and training costs needed to provide sufficient resources for the audit function.

We recommend that the City Council direct the City Administration to:

Recommendation No. 5 Revise the existing job specifications and salary ranges for the Internal Audit Manager and Senior Internal Auditor. The job duties and salary ranges should be consistent with the duties of a chief audit executive and an experienced performance auditor. These job specifications should also include an entry-level audit position. The revised job specifications should include preferences for Masters' degrees, professional certifications, and experience using computer-assisted-auditing techniques such as ACL.

We recommend that the IAD:

Recommendation No. 6 Adopt and follow Generally Accepted Government Auditing Standards.

To ensure compliance with these professional standards, we recommend that the IAD:

Recommendation No. 7 Develop and implement a comprehensive policies and procedures manual and train staff on the use of these policies and procedures in conducting audits in conformance with GAGAS. These policies should include provisions for ensuring that staff is independent and objective on audits and complying with continuing professional education requirements.

We recommend that the City Manager:

Recommendation No. 8 Invite the Internal Audit Manager to attend the weekly Executive Management meetings.

Management Letter (Exhibit 2)

We recommend that the IAD:

Recommendation No. 1 Develop an internal audit charter that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the placement of the internal audit position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of the IAD's internal audit activities. The internal audit charter should be submitted to the City Council for final approval.

We recommend that the IAD, the City Manager, and the City Council:

Recommendation No. 2 Discuss and establish a reporting relationship, which provides the Internal Audit Manager with appropriate access to the City Council.

We recommend that the IAD:

Recommendation No. 3 Establish a process to ensure that auditors are objective and their objectivity is not impaired, prior to initiating an engagement.

We recommend that the IAD:

Recommendation No. 4 Develop annual training plans for each auditor. These plans should identify the training needed to enhance their knowledge, skills, and other competencies needed to perform their work. These training plans should also identify how auditors will satisfy the GAGAS continuing professional education requirements. The Internal Audit Manager should use these training plans to request sufficient funding for the IAD's training needs.

We recommend that the IAD:

Recommendation No. 5 Address the recommendations in this management letter to ensure its work is in conformance with IIA Standards.

We recommend that the IAD:

Recommendation No. 6 Develop and implement a quality assurance and improvement program. This program should include internal and external assessments.

We recommend that the IAD:

Recommendation No. 7 Update its risk assessment, at least annually, and consider input from senior management and the City Council in its risk assessment process.

We recommend that the Internal Audit Manager:

Recommendation No. 8 Communicate the IAD's workplans and resource requirements to the City Council annually.

We recommend that the IAD:

Recommendation No. 9 Report periodically to the City Manager and the City Council on the purpose, authority, responsibility, and performance relative to its audit workplan.

We recommend that the IAD:

Recommendation No. 10 Modify its procedures for engagement planning. These procedures should require that an engagement plan be prepared for all engagements. In addition, the procedures should also ensure that engagement plans:

- State the objectives of the program
- Identify the technical requirements, risks, processes, and transactions that are to be examined
- State the nature and extent of testing required
- Document the procedures for collecting, analyzing, interpreting, and documenting information during the engagement
- Are modified, as appropriate, during the audit engagement
- Include schedules and resource allocations.

We recommend that the IAD:

Recommendation No. 11 Revise its procedures to ensure appropriate documentation of its audit work. These procedures should include workpaper templates to ensure standards for engagement planning, performing the engagement, and reporting on the results of engagements are met.

We recommend that the IAD:

Recommendation No. 12 Discontinue citing that its audit work was conducted in conformance with IIA Standards until it is in conformance with these standards.

We recommend that the IAD:

Recommendation No. 13 Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for periodically reporting out to senior management and to the City Council or a City Council Committee on the status of audit recommendations.

Internal Auditing Best Practices (Appendix A)

We recommend that the Internal Audit Manager:

Recommendation No. 1 Communicate the IAD's workplans to the City Council annually.

We recommend that the IAD:

Recommendation No. 2 Update its risk assessment, at least annually, and consider input from senior management and the City Council in its risk assessment process.

We recommend that the IAD:

Recommendation No. 3 Develop a 3-5-year audit plan. This plan should be based on its annual risk assessment and should identify the following:

- Audit priorities for the next three to five years
- Staff resources needed to address these priorities
- Options for addressing risk areas including conducting pre-and post-implementation reviews of planned or newly implemented information systems, contracting for audits, using control self-assessments, participating in re-engineering or process improvement teams, and continuous monitoring.

We recommend that the IAD:

Recommendation No. 4 Develop a marketing plan to promote the benefits of the audit function to the City Council, management, and the citizens of the City of Riverside.

We recommend that the IAD:

Recommendation No. 5 Develop and use surveys and audit questionnaires to obtain input on its value to the organization.

We recommend that the IAD:

Recommendation No. 6 Develop several key measures to assess its performance. Typical measures for assessing internal audit departments include but are not limited to the following:

- Identified economic benefits derived from audits/audit cost
- Number of audit recommendations accepted by management
- Percentage of audit recommendations implemented by management
- Results of customer surveys and audit effectiveness questionnaires
- Percentage of work completed on its annual workplan

We recommend that the IAD:

Recommendation No. 7 Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for periodically reporting out to senior management and to the City Council or a City Council Committee on the status of audit recommendations.

We recommend that the IAD:

Recommendation No. 8 Develop and implement a quality assurance and improvement program. This program should include internal and external assessments.

We recommend that the IAD:

> **Recommendation No. 9** Delve more deeply on its audits and focus more on issues of effectiveness and the major risks in the areas being audited.

We recommend that the IAD:

> **Recommendation No. 10** After developing its long-term audit plan, consider using contractors to audit high-risk areas where it lacks the resources to conduct these audits internally.

We recommend that the IAD:

> **Recommendation No. 11** In conjunction with developing its long-term audit plan, identify any planned information system implementations. The IAD should also work with the IT Department to identify a proper role for the IAD to become involved in reviewing information systems.

We recommend that the IAD:

> **Recommendations No. 12** After developing its long-term audit plan, identify high-risk areas that would benefit from continuous monitoring.

We recommend that the IAD:

> **Recommendation No. 13** After developing its long-term audit plan, consider assisting departments on process improvement teams to address high-risk areas it lacks the resources to audit.

We recommend that the IAD:

> **Recommendation No. 14** After developing its long-term audit plan, consider using control self-assessment as an option to address high-risk areas it lacks the resources to audit.

We recommend that the IAD:

> **Recommendation No. 15** Develop in-house capability to use computer software such as ACL.

Hotline Best Practices Assessment (Appendix B)

We recommend that the City:

Recommendation No. 1 Contract with a third party vendor to provide anonymous reporting mechanisms, with both phone and web capabilities, a user friendly interface including multi-lingual capabilities, and an analytical case management system for the fraud hotline program.

The City does not have a Whistleblower ordinance to encourage employees to report inappropriate activity without fear of reprisal. Such an ordinance is critical to encourage employees to report inappropriate activity without fear of reprisal. Employees are currently protected against retaliation by California state law.

We recommend that the City Council:

Recommendation No. 2 Enact a Whistleblower Protection Ordinance to provide assurance that:

- No officer or employee of the City shall use or threaten to use any official authority or influence to restrain or prevent any other person who is acting in good faith and upon reasonable belief as a whistleblower.
- No officer or employee of the City shall use or threaten to use any official authority or influence to cause any adverse employment action as a reprisal against a City officer or employee who acts as a whistleblower in good faith and with reasonable belief that improper conduct has occurred.

Given the IAD's limited resources, we recommend the City:

Recommendation No. 3 Reassign the responsibility for administering the fraud hotline to another organizational unit within the City. The organizational unit assigned to administer the hotline should periodically inform the IAD of relevant internal control issues identified through investigations to ensure that the IAD is aware of areas vulnerable to fraud, waste, and abuse.

To ensure consistent practices and clear responsibility for administering the hotline, we recommend the City:

Recommendation No. 4 Develop a fraud, waste, and abuse prevention hotline policies and procedures manual that addresses the roles, responsibilities and protocols in detail.

To ensure that all reports of fraud, waste, and abuse are appropriately recorded, responded to, and reported on, we recommend the City:

Recommendation No. 5 Record all complaints of fraud, waste, and abuse, regardless of the mechanism used to report the complaint.

To ensure transparency in regards to the results of the hotline, we recommend that the organizational unit responsible for the hotline:

> **Recommendation No. 6** Submit semi-annual hotline reports to the City Manager and City Council.

To ensure compliance with the California Government Code, we recommend that the organizational unit responsible for managing the hotline:

> **Recommendation No. 7** Issue substantiated investigation reports publicly in accordance with the California Government Code.

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1. Audit Report			
1	Assess the costs and benefits of establishing and maintaining an effective public sector auditing organization and define the role such a function will have in the organization.	1.1. The City firmly believes in the value of the Internal Audit function. This Action Plan aims to elevate the function's placement in the organization, broadly advertise its internal and external benefits, and strengthen its role in continuously assessing and improving City's operations.	See timeline below. Certain steps have already been taken, and others will be taken over the next 2-3 years to fully implement the Action Plan.
2	Discuss the placement of IAD within the organization. The placement should ensure that the chief audit executive has consistent and direct access to the City Council and/or a City Council Committee.	1.2. The City's Internal Audit reports to the City Manager, which allows the Internal Auditors uncompromised access to all City departments and functions. Previously, Internal Audit reports were made public online, and provided to the City Council directly and/or presented publicly upon request.	The draft Governing Rules will be submitted to the GAC for review and approval March 2, 2016

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		This Action Plan seeks to formalize and enhance the Internal Audit's relationship with the City Council. The Internal Audit Division (IAD) will receive input / direction from and regularly report to the Government Affairs Committee (GAC). The GAC will first receive, review and approve the Internal Audit Governing Rules, which defines: - the purpose, authority, and responsibility of the Internal Audit function; - the function's position within the organization, including functional and reporting relationship with the City Council through GAC; - scope of internal audit activities, professional standards and qualifications; and - access to City operations, physical properties and records. Upon GAC review and approval, the IAD Governing Rules will be forwarded to the City Council for input and approval.	
3	Adopt an internal audit charter, or enact an ordinance, that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the audit function's position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance engagements; define the scope of internal audit activities; specify the	1.3. See Action 1.2 above.	

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	professional standards to be followed; and define the minimum qualifications for the chief audit executive and specify responsibility for evaluating the chief audit executive.		
4	Discuss options to increase the size of the IAD. These discussions should include the number of staff needed and the required funding, including cost of personnel, office space, equipment and training costs needed to provide sufficient resources for the audit function.	1.4. Increasing the size of the IAD – and the funding needed – will be discussed during the two-year budget / five-year planning process. Increase in the size may or may not be possible during the upcoming two fiscal years.	February-May 2016
5	Revise the existing job specifications and salary ranges for the Internal Audit Manager and Senior Internal Auditor. The job duties and salary ranges should be consistent with the duties of a chief audit executive and an experienced performance auditor. These job specifications should also include an entry-level audit position. The revised job specifications should include preferences for Masters' degrees, professional certifications, and experience using computer-assisted auditing techniques such as ACL.	1.5. The Human Resources Department has been requested to review and revise the existing job specifications and salary ranges.	January-May 2016
6	Adopt and follow Generally Accepted Government Auditing Standards.	1.6. IAD is developing an Administrative Manual on conducting audits in conformance with the Generally Accepted Government Auditing Standards (GAGAS). Training of IAD staff will follow.	Manual completed by March 2016. Training to be conducted in March-April 2016.
7	Develop and implement a comprehensive policies and procedures manual and train staff on the use of these policies and procedures in conducting audits in conformance with GAGAS. These policies should	1.7. See Action 1.6 above.	

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	include provisions for ensuring that staff is independent and objective on audits and complying with continuing professional education requirements.		
8	Invite the Internal Audit Manager to attend the weekly Executive Management meetings.	1.8. The Internal Audit is invited to attend Executive Management meetings that involve matters of potential interest and value for the Division. In addition, the Internal Audit has been attending since October 2015 weekly meetings of internal departments, including Finance, Personnel and General Services, where many of the Citywide critical issues are discussed.	Implemented.
	2. Management Letter		
1	Develop an internal audit charter that defines the purpose, authority, and responsibility of the internal audit function. This charter should establish the placement of the internal audit position within the organization, including the chief audit executive's functional and reporting relationship with the City Council; authorize access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of IAD's internal audit activities. The internal audit charter should be submitted to the City Council for final approval.	2.1. See Action 1.2 above.	
2	Discuss and establish a reporting relationship, which provides the Internal Audit Manager with appropriate access to the City Council.	2.2. See Action 1.2 above.	
3	Establish a process to ensure that auditors are objective and their objectivity is not impaired, prior to initiating an engagement.	2.3 This has been completed. To ensure the internal auditors have an impartial, unbiased attitude and avoid any conflict of interest and are free from personal impairments to independence, each auditor completes an *Auditors Engagement &*	Implemented.

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		Independence Statement prior to the initiation of an audit engagement for approval by the Audit Manager. The procedure and copy of the *Statement* form is included in the Administration Manual. In addition, all auditors are required to complete annual conflict of interest statements (Fair Political Practices Commission form 700).	
4	Develop annual training plans for each auditor. These plans should identify the training needed to enhance their knowledge, skills, and other competencies needed to perform their work. These training should also identify how auditors will satisfy the GAGAS continuing professional education requirements. The Internal Audit Manager should use these training plans to request sufficient funding for IAD's training needs.	2.4. The training plans are being drafted. Funding for the required training will be included in the two-year budget and five-year plan for the IAD.	Annual training plans to be developed by July 2016.
5	Address the recommendations in this management letter to ensure its work is in conformance with IIA Standards.	2.5. This Action Plan addresses the recommendations.	
6	IAD develop and implement a quality assurance and improvement program. This program should include internal and external assessments.	2.6. The IAD will implement two layers of assessments: a) Internal: The IAD is currently establishing and documenting a quality assurance and improvement program utilizing the IIA's *Path to Quality Model*, a step-by-step guide for continuous improvement that will help to ensure the IAD achieves and maintains internal audit quality. In addition, IAD will perform a periodic quality self-assessment utilizing a questionnaire that will identify strengths and potential opportunities for improvement.	Internal Reviews: Annually

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		b) External (Peer Review): The IAD quality assurance and improvement program (QAIP) will be assessed per GAGAS standards every three (3) years through an external independent validation (peer review). The objective of the full external assessment is to evaluate an internal audit activity's conformance with *Standards*. This approach may also focus on identifying opportunities to enhance internal audit processes, offering suggestions to improve the effectiveness of the internal audit activity, and promoting ideas to enhance the activity's image and credibility. Cost of the external (peer) reviews will be included in the two-year budget and five-year plan.	External Reviews: November 2018
7	Update its risk assessment, at least annually, and consider input from senior management and the City Council in its risk assessment process.	2.7. The IAD is currently updating its risk assessment, and will present the results – and any necessary adjustments to the two-year work plan – to the Executive Leadership Team (ELT) and the GAC.	Presentation to the ELT: June 2016 presentation to the GAC: July 2016 and Annually thereafter
8	Communicates IAD's workplans and resource requirements to the City Council annually.	2.8. The two-year workplan will be presented to the GAC in conjunction with the updated risk assessment, per Action 2.7 above.	Presentation to the GAC March 2016
9	Report periodically to the City Manager and the City Council on the purpose, authority, and responsibility, and performance relative to its audit workplan.	2.9. The IAD will report to the GAC on the following matters: a) Governing Rules b) revised risk assessment, workplan and budget	a) The draft Governing Rules will be submitted to

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		c) three times a year – progress report on the workplan, hotline, management's implementation of audit recommendations, and status of this Action Plan d) as needed – presentation of completed audits In addition, the IAD will annually report to the City Council on the workplan and budget.	the GAC for review and approval March 2, 2016 b) revised risk assessment will be presented to the GAC in July 2016 and annually thereafter; 2-year workplan and budget annually c) three times a year – progress report on the workplan, hotline, management's implementation of audit recommendations and status of this Action Plan October 2016 January 2017 April 2017 d) as needed – presentation of completed

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			audits Annual reporting to the City Council: July
10	Modify its procedures for engagement planning. These procedures should require that an engagement plan be prepared for all engagements. In addition, the procedures should also ensure that engagement plans: • State the objectives of the program • Identify the technical requirements, risks, processes, and transactions that are to be examined • State the nature and extent of testing required • Document the procedures for collecting, analyzing, interpreting, and documenting information during the engagement • Are modified, as appropriate, during the audit engagement • Include schedules and resource allocations.	2.10. The procedures will be included in the IAD Administrative Manual – see Action 1.6 above. The IAD Administrative Manual will refer where applicable to the GAGAS standards.	
11	Revise its procedures to ensure appropriate documentation of its audit work. These procedures should include workpaper templates to ensure standards for engagement planning, performing the engagement, and reporting on the results of engagements are met.	2.11. The IAD Administrative Manual will address this – see Action 1.6 above.	
12	Discontinue citing that its audit work was conducted in conformance with IIA Standards until it is in conformance with these standards.	2.12. The IAD no longer cites conformance with the IIA Standards.	Implemented

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		Conformance with the GAGAS standards will be cited once the IAD Administrative Manual and training are completed.	March 2016
13	Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for periodically reporting out to senior management and to the City Council or City Council Committee on the status of audit recommendations.	2.13. The IAD Administrative Manual will incorporate a formal process for monitoring management's progress in implementing audit recommendations – see Action 1.6 above. Progress reports to the Governmental Affairs Committee will take place three times per year, as described in Action 2.9.	
	3. Internal Audit Best Practice		
1	Communicate IAD's workplans to the City Council annually.	3.1. Reporting is addressed in Action 2.9 above.	
2	Update its risk assessment, at least annually, and consider the input from senior management and the City Council in its risk assessment process.	3.2. An updated risk assessment is addressed in Action 2.7 above.	
3	Develop a 3-5 year audit plan. This plan should be based on its annual risk assessment and should identify the following: • Audit priorities for the next three to five years • Staff resources needed to address these priorities • Options for addressing risk areas including conducting pre-and post-implementation reviews of planned or newly implemented information systems, contracting for audits, using control self-assessments, participating in re-engineering or process	3.3. Action 2.7 addresses updates to the risk assessment. Action 2.8 addresses presenting a two-year workplan. Action 2.9 addresses reporting on both.	

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	improvement teams, and continuous monitoring.		
4	Develop a marketing plan to promote the benefits of the audit function to the City Council, management, and the citizens of Riverside.	3.4. The IAD will work with the City Manager's Marketing Division on a comprehensive marketing plan to promote the value of internal audit to employees and residents. The Marketing Plan and its implementation will be presented to the GAC as part of semi-annual reporting (see Action 2.9).	Spring 2016
5	Develop and use surveys and audit questionnaires to obtain input on its value to the organization.	3.5. The IAD will reach out to professional internal audit organizations and other government agencies with internal audit functions to develop and implement effective surveys and audit questionnaires.	Spring-Summer 2016
6	Develop several key measures to assess its performance. Typical measures for assessing internal audit departments include but are not limited to the following: • Identified economic benefits derived from audits/audit cost • Number of audit recommendations accepted by management • Percentage of audit recommendations implemented by management • Results of customer surveys and audit effectiveness questionnaires • Percentage of work completed on its annual workplan	3.6. Performance measures to be developed in concert with the Citywide process, which will commence in FY 2017/18.	FY 2017/18
7	Develop and implement a formal process for monitoring management's progress in implementing audit recommendations and for	3.7. This is addressed in Action 2.13.	

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	periodically reporting out to senior management and to the City Council or City Council Committee on the status of audit recommendations.		
8	Develop and implement a quality assurance and improvement program. This program should include internal and external assessments.	3.8. This is addressed in Action 2.6.	
9	Delve more deeply on its audits and focus more on issues of effectiveness and the major risks in the areas being audited.	3.9. Risk assessments will be reflected in the 2-year workplan.	
10	After developing its long-term audit plan, consider using contractors to audit high-risk areas where it lacks the resources to conduct these audits internally.	3.10. Outside consultants are already being utilized for the City's *External Audit Program*. Additional consulting assistance will be evaluated for each audit engagement.	Ongoing
11	In conjunction with developing its long-term audit plan, identify any planned information system implementations. The IAD should also work with the IT Department to identify a proper role for IAD to become involved in reviewing information systems.	3.11. The IAD will collaborate with IT in updating its risk assessment and developing a two-year audit workplan.	Collaboration with IT will begin May 2016
12	After developing its long-term plan, identify high-risk areas that would benefit from continuous monitoring.	3.12. The IAD Governing Rules addresses ongoing, continuous monitoring.	Continuous monitoring will commence in February 2016
13	After developing its long-term plan, consider assisting departments on process improvement teams to address high-risk areas it lacks the resources to audit.	3.13. The IAD Governing Rules addresses assurance and consulting services.	Process improvement services will be offered in FY 2016/17
14	After developing its long-term plan, consider using control self-assessment as an option to address high-risk areas it lacks the resources to audit.	3.14. The IAD Governing Rules will address consulting to departments on the development and use of internal control self-assessments.	Consulting departments on internal control assessments

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			will commence in FY 2017/18
15	Develop in-house capability to use data mining software such as ACL.	3.15. The IAD will assess the cost-benefits of new software.	FY 2016/17
4. HOTLINE Best Practice			
1	Contract with a third party vendor to provide anonymous reporting mechanisms, with both phone and web capabilities, a friendly user interface including multi-lingual capabilities and an analytical case management system for the fraud hotline program.	4.1. Management will assess the cost/benefit of outsourcing the HOTLINE function.	FY 2016/17
2	Enact a *Whistleblower Protection* Ordinance to provide assurance that: • No officer or employee of the City shall use or threaten to use any official authority or influence to restrain or prevent any other person who is acting in good faith and upon reasonable belief as a whistleblower. • No officer or employee of the City shall use or threaten to use any official authority or influence to cause any adverse employment action as a reprisal against a City officer or employee who acts as a whistleblower in good faith and with reasonable belief that improper conduct has occurred.	4.2. The IAD will research other cities' *Whistleblower Protection* ordinances, and collaborate with the City Attorney's Office and Human Resources Department to determine the best course of action to communicate assurance to elected officials and employees of the City's position and compliance regarding the State of California Whistleblower Protection Act.	February - March 2016
3	Reassign the responsibility for administering the fraud hotline to another organizational unit within	4.3. Management will evaluate this in conjunction with outsourcing the HOTLINE.	FY 2016/17

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	the City. The organizational unit assigned to administer the hotline should periodically inform the IAD of relevant internal control issues identified through investigations to ensure that IAD is aware of areas vulnerable to fraud, waste and abuse.		
4	Develop a fraud, waste and abuse prevention hotline policies procedures manual that addresses the roles, responsibilities and protocols in detail.	4.4 The IAD Administrative Manual will address this – see Action 1.6 above.	
5	Record all complaints of fraud, waste, and abuse, regardless of the mechanism used to report the complaint.	4.5. The IAD Administrative Manual will address this – see Action 1.6 above.	
6	Submit semi-annual hotline reports to the City Manager and City Council.	4.6. Action 2.9 addresses reporting.	
7	Issue substantiated investigation reports publicly in accordance the California Government Code.	4.7. All final reports will be presented to Government Affairs Committee – see Action 2.9. All final reports are already being posted on the City's website to ensure compliance with California Government Code.	