


INDEPENDENT AUDIT REPORT FOR THE CITY OF RIVERSIDE INTERNAL AUDIT DIVISION


1. **Organizational and Functional Reporting** – Formalize the role of Internal Audit through Governing Rules; establish a functional reporting relationship with the City Council through a City Council Committee.



2. **Organizational Framework** -- Capacity and capability through which Internal Audit can evolve as it defines, implements, measures, controls and improves its processes and practices.





3. **Services and Quality Control** - Adopt Government Auditing Standards; develop quality assurance and continuous improvement programs.




4. **Marketing** - Promote the value of Internal Audit internally and externally.



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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 |  |




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| | | <p>directly and/or presented publicly upon request.</p> <p>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).</p> <p>The GAC will first receive, review and approve the Internal Audit Governing Rules, which defines:</p> <ul style="list-style-type: none"> - 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. <p>Upon GAC review and approval, the IAD Governing Rules will be forwarded to the City Council for input and approval.</p> | <p>Governing Rules approved by GAC March 2, 2016</p> <p>Governing Rules approved by City Council Resolution April 12, 2016.</p> |
| 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 professional standards to be followed; and define the minimum qualifications for the chief audit executive and specify responsibility for evaluating the chief audit executive. | 1.3. See Action 1.2 above. |  |





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| 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. | Size of Division and funding approved by Council June 21, 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. | In progress - Compensation study finalized; report presented to GAC in November 2016 and City Council in December 2016; implementation is expected in December 2016 upon Council approval |
| 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 in March 2016; training conducted in 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 include provisions for ensuring that staff is independent and objective on audits and complying with continuing professional education requirements. | 1.7. See Action 1.6 above. |  |
| 8 | Invite the Internal Audit Manager to attend the weekly Executive Management meetings. | 1.8. The Internal Audit Manager is invited to attend Executive Management meetings that involve matters of potential interest and value | |




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| | | for the Division. In addition, Internal Audit has been attending since October 2015, weekly meetings of internal departments, including Finance, Human Resources and General Services, where many of the citywide critical issues are discussed. |  |
| 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. | <p>2.3 This has been completed.</p> <p>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 <i>Auditors Engagement & Independence Statement</i> prior to the initiation of an audit engagement for approval by the Audit Manager. The procedure and copy of the <i>Statement</i> form is included in the Administration Manual.</p> <p>In addition, all auditors are required to complete annual conflict of interest statements (Fair Political Practices Commission form 700).</p> |  |





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| 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. |  <p>\$4K annually for training in approved FY2016 – 2018 budget</p> |
| 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. | <p>2.6. The IAD will implement two layers of assessments:</p> <p>a) Internal: The IAD is currently establishing and documenting a quality assurance and improvement program utilizing the IIA's <i>Path to Quality Model</i>, 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.</p> <p>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 <i>Standards</i>. This approach may also focus on</p> |  <p>Internal Reviews Annually as of FY 2016-17</p> |





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| | | <p>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.</p> <p>Cost of the external (peer) reviews will be included in the two-year budget and five-year plan.</p> | 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. | Currently being evaluated. |
| 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. |  <p>Workplan approved by GAC March 2, 2016</p> |
| 9 | Report periodically to the City Manager and the City Council on the purpose, authority, and responsibility, and performance relative to its audit workplan. | <p>2.9. The IAD will report to the GAC on the following matters:</p> <ul style="list-style-type: none"> a) Governing Rules b) revised risk assessment, workplan and budget 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 <p>In addition, the IAD will annually report to the City Council on the workplan and budget.</p> |  <p>Workplan status report to GAC October 5, 2016</p> <p>Action Plan status report to GAC November 2, 2016</p> |






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| | | | Workplan status and Action Plan status to City Council November 15, 2016 |
| 10 | <p>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:</p> <ul style="list-style-type: none"> • 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. Conformance with the GAGAS standards will be cited once the IAD Administrative Manual and training are completed. |  |
| 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 | 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. | |

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| | Committee on the status of audit recommendations. | 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: <ul style="list-style-type: none"> • 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. | 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. |  |
| 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). | Brochure designed; Three eblasts sent to date |

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| 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. |  Customer service feedback form implemented. |
| 6 | Develop several key measures to assess its performance. Typical measures for assessing internal audit departments include but are not limited to the following: <ul style="list-style-type: none"> • 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. | Currently being evaluated as part of Citywide Department Performance Measures & Reporting Program |
| 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 City Council Committee on the status of audit recommendations. | 3.7. This is addressed in Action 2.13. |  |

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| 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 <i>External Audit Program</i> . Additional consulting assistance will be evaluated for each audit engagement. |  Ongoing annually |
| 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. | Currently being evaluated |
| 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. |  Monitoring services defined |

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| 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. |  |
| 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. |  |
| 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. | Currently evaluating; unfunded |
| 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. |  Merged with 311 Call Center |
| 2 | Enact a <i>Whistleblower Protection</i> Ordinance to provide assurance that: <ul style="list-style-type: none"> 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' <i>Whistleblower Protection</i> 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. |  Collaborated with Human Resources to include information in updated Employee Handbook |

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| 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 IAD is aware of areas vulnerable to fraud, waste and abuse. | 4.3. Management will evaluate this in conjunction with outsourcing the HOTLINE. |  Merged with 311 Call Center July 2016 |
| 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. |  Ongoing |