

1 RESOLUTION NO. 22988

2 A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
3 RIVERSIDE, CALIFORNIA, ADOPTING INTERNAL AUDIT
GOVERNING RULES.

4 WHEREAS, an Independent Audit Report ("Peer Review") was conducted and presented to
5 the City Council on February 23, 2016; and

6 WHEREAS, the Peer Review recommended the creation and adoption of Internal Audit
7 Governing Rules; and

8 WHEREAS, Internal Audit Governing Rules provide the framework for the conduct of the
9 Internal Audit functioning as an independent and objective assurance and consulting activity guided
10 by a philosophy of adding value to improve the operations of the City; and

11 WHEREAS, adoption of the Internal Audit Governing Rules set forth in Exhibit "A"
12 attached hereto and incorporated herein by reference, will ensure the Internal Audit follows industry
13 standards and has consistent and direct access to the City Council.

14 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Riverside,
15 California, as follows:

16 Section 1: The adoption of Internal Audit Governing Rules will improve the operations of
17 the internal audits of the City.

18 Section 2: The adoption of Internal Audit Governing Rules will ensure the following of
19 industry standards.

20 Section 3: That the City Council hereby adopts the Internal Audit Governing Rules set forth
21 in Exhibit "A" attached hereto and incorporated herein by reference.

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1 ADOPTED by the City Council this 12th day of April, 2016.

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4 WILLIAM R. BAILEY, III
Mayor of the City of Riverside

5 Attest:

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7 COLLEEN J. NICOL
8 City Clerk of the City of Riverside

9 I, Colleen J. Nicol, City Clerk of the City of Riverside, California, hereby certify that the
10 foregoing resolution was duly and regularly adopted at a meeting of the City Council of said City at
11 its meeting held on the 12th day of April, 2016, by the following vote, to wit:

12 Ayes: Councilmembers Gardner, Melendrez, Soubrouse, Davis, Mac Arthur, Perry,
13 and Burnard

14 Noes: None

15 Absent: None

16 Abstained: None

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18 IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the
19 City of Riverside, California, this 13th day of April, 2016.

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21 COLLEEN J. NICOL
22 City Clerk of the City of Riverside

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16-0179



City of Riverside Internal Audit Governing Rules

Introduction

Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Riverside. It assists City Government in accomplishing its objectives through a systematic and disciplined evaluation of and improvements to the effectiveness of the organization's governance, risk management and internal controls.

Internal Audit supports the *Riverside 2.0 Strategic Plan* priorities by providing information to assess and improve municipal operations, and promote credible, efficient, effective, focused, transparent and fully accountable City Government.

These governing rules provide the framework for the conduct of the Internal Audit function and have been approved by the Riverside City Council.

Reporting

Internal Audit reports administratively to the City Manager or his/her designee. Administrative reporting typically includes:

- Budgeting and management accounting;
- Human resource administration, including personnel evaluations and compensation; and
- Internal communications and information flows.

Internal Audit further has an indirect reporting relationship with the City Council, through the Governmental Affairs Committee. The City Council, through the Governmental Affairs Committee, provides the following indirect oversight of Internal Audit:

- Approves the Internal Audit Governing Rules and any updates to it.
- Approves the two-year Internal Audit Workplan.
- Approves the Internal Audit budget and staffing.
- Receives communications from Internal Audit on the performance relative to its Workplan; significant risk exposures and control issues, including fraud risks, governance issues; and other matters requested by the elected officials and/or executive management.
- Approves the compensation range for the Internal Audit positions.

Authority and Confidentiality

Unless prohibited by law, Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the City of Riverside premises, assets, personnel, records, and other documentation and information necessary to enable Internal Audit to meet its responsibilities to carry out any engagement. All City employees are required to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the elected officials.

All records, documentation and information accessed in the course of undertaking Internal Audit activities are to be used solely for the conduct of these activities. Internal Audit (including contractors and external service providers performing work on behalf of Internal Audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal Audit is not authorized to perform any operational duties for the organization, initiate or approve accounting transactions, and/or direct the activities of any department's employees except those who have been assigned to assist the audit team.

Independence and Objectivity

The Internal Audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal Audit will confirm to the City Council through the Governmental Affairs Committee, at least annually, the organizational independence of Internal Audit activity.

Professionalism

Internal Audit will govern itself in accordance with the Generally Accepted Government Auditing Standards (GAGAS),¹ also known as "the Yellow Book", which are published by the U.S. General Accounting Office (GAO) under the authority of the Comptroller General of the United States. These standards establish clear definitions, principles and fundamental requirements related to the audit function, and for evaluating the effectiveness of Internal Audit's performance in planning, conducting, and reporting on their work. Each staff member receives an electronic copy of "the Yellow Book" and is responsible for becoming familiar with and adhering to its requirements.

Internal Audit will adhere to the City of Riverside's relevant policies and procedures, and the Internal Audit's standard operating procedures manual.

¹ GAGAS is the industry benchmark for government audit organizations.

Scope

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls; as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on the organization;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organization's risk management processes;
- Investigating fraud/waste/abuse HOTLINE complaints/allegations;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization; and
- Evaluating specific operations at the request of the elected officials and/or executive management, as appropriate.

Activities and Services

Performance Audits

Internal Audit conducts Performance Audits in accordance with Generally Accepted Government Audit Standards (GAGAS). Performance Audits determine whether City departments and programs are operating economically, efficiently, effectively and in compliance with applicable laws, rules, regulations and policies and procedures. Auditors examine, review, or perform other procedures on a broad range of subjects, such as internal controls, compliance with requirements of specified laws, regulations, rules, policies, procedures, contracts or grants, and the reliability of performance measures.

Assurance and Consulting

Internal Audit may occasionally provide the following services, for as long as they do not impair the auditor's independence:

- Participating in committees, task forces, or focus groups as an expert in a purely advisory, non-voting capacity to advise management on issues based on the auditor's knowledge, or to address urgent problems;
- Providing tools or methodologies, such as benchmarking studies and internal control assessments that can be used by management;

- Providing targeted and limited technical advice to management to assist them in activities, such as implementing audit recommendations, implementing and assessing internal controls, and providing information on good business practices;
- Assisting management to identify the risks of fraud and advise on the development of fraud prevention and monitoring strategies;
- Assisting management to identify risks and advise on the development of risk mitigation and monitoring strategies as part of the risk management framework;
- Providing training related to internal controls, risk and fraud; Providing advice on the development of new programs and processes and/or significant changes to existing programs and processes, including the design of appropriate controls;
- Coordinating the risk assessments for the Citywide Audit Program in order to assist in the scope of work development;
- Monitoring and reporting on the implementation of risk mitigation strategies; and
- Collaborating with external auditors.

Monitoring Services

Internal Audit performs ongoing monitoring of:

- Fraud, Waste and Abuse HOTLINE Administration;
- Administrative Manual policy updates ;
- City purchase card (p-card) usage and policy compliance;
- Citywide Grants; and
- Performance measure data.

Internal Audit Workplan

Each year Internal Audit gathers and assesses information about potential risks to the City from multiple sources and prioritizes these risks. Prioritization is based on a variety of factors, including input from the City Council members, executive management interest and community impact, Fraud/Waste/Abuse HOTLINE, audit coverage, available resources and timing.

As part of a two-year budget process, Internal Audit will prepare and submit to the City Council, through the Governmental Affairs Committee, an Internal Audit Workplan for review and approval. The plan will consist of a work schedule of audits to be performed, scope/objective of each audit, as well as allocated hours and resource requirements.

To ensure members of the City Council have the ability to request an audit or assessment of a certain specific topic not listed on the currently approved Workplan that could have a significant financial impact or potentially impacts the health and/or safety of the public, a Councilmember must provide the Internal Audit Manager and the Chair of the Governmental Affairs Committee with the following information in order for the request to be presented to the Governmental Affairs Committee for consideration:

1. Function/service/program name (i.e., Fire Alarm fees; Police Management and Retention of Patrol Car and Body Camera Video; Graffiti program, etc.)
2. Audit scope/objective (i.e., evaluate internal controls; verify proper procedures followed; review account expenditures and determine if they are valid, reasonable and in compliance with policies; determine if revenues are reasonable and properly controlled, appropriately recorded; assess efficiency/effectiveness, etc.)

The Internal Audit Manager will present the request for an addition to the Audit Workplan to the

Governmental Affairs Committee for review, discussion and approval. The Committee must agree unanimously in order for a request for an audit/review to be added to the current Audit Workplan.

Any deviation from the annually approved Internal Audit Workplan due to additions approved by the Governmental Affairs Committee or due to changes in Internal Audit personnel resources will be communicated to the City Manager and the City Council.

Progress Reporting and Monitoring

Quarterly Internal Audit will report to the Governmental Affairs Committee on:

- Completed audits;
- Progress in implementing the Internal Audit Workplan; and
- Status of the implementation of agreed audit recommendations.

All final/released audit reports will be made available to the public on the City's internet site after review by the Governmental Affairs Committee.

If Internal Audit becomes aware of abuse or illegal acts or indications of such acts during the course of an audit, the Internal Audit shall report the irregularities to the City Council, City Manager and/or City Attorney, as appropriate, to ensure investigation and prompt resolution. If it appears that the irregularity is criminal in nature, Internal Audit shall notify the previously noted officials and the Chief of Police.

Quality Control and Assurance Program

Internal Audit's work is performed in accordance with GAGAS. These standards provide guidelines for audit planning, fieldwork, quality control systems, staff training, and reporting of results. In addition, the standards require that external auditors periodically review Internal Audit's policies, procedures, and activities to ensure adherence to these professional standards. Internal Audit will maintain a quality control and assurance program that covers all aspects of Internal Audit.

Once every three fiscal years, a peer review will be conducted by independent/external auditors. The review will assess whether Internal Audit's quality control system is operating to provide reasonable assurance of compliance with GAGAS. The review also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement. The final peer review report will be communicated to the City Manager and the City Council through the Governmental Affairs Committee.

Review of the Internal Audit Governing Rules

The Governing Rules will be reviewed twice yearly by the Governmental Affairs Committee and the City Manager. Any substantive changes will be formally reviewed by the Governmental Affairs Committee for recommendation to the City Council.

Summary Review/Approval Schedule

Confirm Independence	Annually
Two-year Workplan and Allocated Hours	Annually
Budget and Staffing	Annually
Compensation Range	As needed
Revisions to Workplan	As needed
Workplan Progress Report	Quarterly
Peer Review	Every Three Years (2018)
Internal Audit Governing Rules Review	Bi-annually