



## DISCUSSION ON INTERNAL AUDIT DIVISION REPORTING TO CITY COUNCIL

City Manager's Office – Internal Audit Division

City Council  
March 12, 2019

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## BACKGROUND

April 4, 2018 – Governmental Affairs Committee Member Conder requested a report on creation of an Internal Audit/Internal Affairs Division to report to City Council to be heard at a future meeting



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## COMMITTEE RECOMMENDATION

February 6, 2019 – Governmental Affairs Committee forwarded to City Council a report on creation of an Internal Audit Division to report to City Council for further discussion



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## LEGISLATIVE HISTORY

### **City Charter, Section 701 – Organization of City Operations and Activities:**

1. Council may abolish, consolidate, modify or separate any department, office, agency, board, commission or committee, and may assign, reassign, or modify any functions, powers, or duties
2. No office provided in Charter to be filled by appointment by City Manager may be consolidated with an office to be filled by appointment by City Council
3. Council, subject to provisions of Charter, shall provide for number, titles, qualifications, powers, duties and compensation of all officers and employees



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## LEGISLATIVE HISTORY

4. 2012 City Charter Review - Charter Review Commission voted to place an amendment (Measure E) on the ballot to amend Charter to include a new Charter Officer of City Auditor
5. Final June 2012 election results showed a majority against the measure (16,399 or 54%) with only 13,947 (or 46%) in favor of



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## CREATION OF A NEW INTERNAL AUDIT/INTERNAL AFFAIRS DIVISION

City Council may elect to establish a new Internal Audit office filled by City Council-appointed employees reporting directly to City Council (Section 701 of City Charter)



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## CURRENT STATUS OF THE INTERNAL AUDIT DIVISION

1. Internal Audit December 2018 survey of 12 largest cities in California
2. Notes placement of audit functions within each city

| City          | Reports to                                  |
|---------------|---|
| Riverside     | City Manager/Governmental Affairs Committee |
| Santa Ana     | N/A   |
| Anaheim       | City Manager                                |
| Bakersfield   | N/A   |
| Oakland       | Elected                                     |
| Sacramento    | Audit Committee                             |
| Long Beach    | Elected                                     |
| Fresno        | Finance Department                          |
| San Francisco | Controller                                  |
| San Jose      | City Council                                |
| San Diego     | Audit Committee                             |
| Los Angeles   | Controller                                  |

Source: Internal Audit Division. Data obtained from surveyed City websites. 7  
(December 2018)



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## AUDITING STANDARDS INDEPENDENCE AND REPORTING RECOMMENDATIONS

1. The City of Riverside Internal Audit Division:
  - A. Follows generally accepted government auditing standards (GAGAS) set forth by Government Accountability Office (GAO) (Chapter 3 Ethics, Independence, and Professional Judgment, Section 3.56)
  - B. Government internal auditors who work under direction of audited entity's management are considered structurally independent if Auditor:



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## AUDITING STANDARDS INDEPENDENCE AND REPORTING RECOMMENDATIONS (CONT.)

- i. is accountable to head or deputy head of government entity
- ii. Reports engagement results both to head or deputy head of government entity and to those who govern
- iii. is located organizationally outside staff or line management of unit under audit
- iv. has access to those charged with governance
- v. is sufficiently removed from pressures to conduct engagements objectively without fear of reprisal



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## INTERNAL AUDIT 2015 PEER REVIEW

1. October 2015 - Courtney Ruby Consulting Services (CRCS) conducted a Peer Review of internal audit function
2. Resulted in Internal Audit Division undertaking several recommended process improvements:



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## INTERNAL AUDIT 2015 PEER REVIEW (CONT.)

- A. Formalized role of Internal Audit through Charter resolution on April 12, 2016
- B. Established functional reporting relationship through Governmental Affairs Committee
- C. Implemented strategy to adopt generally accepted government auditing standards
- D. Established process to ensure auditor independence and objectivity
- E. Implemented strategy to develop quality assurance and improvement program



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## CURRENT INTERNAL AUDIT ORGANIZATIONAL STRUCTURE

- 1. Office of Organizational Performance changed to Internal Audit
  - A. Better reflects division responsibilities
  - B. Reestablishes core value-added mission and services
- 2. Staffing
  - A. 3 full time positions with the following budget:

|                      | FY 2018/19       | FY2019/20        |
|----------------------|------------------|------------------|
| <b>Personnel</b>     | <b>\$577,985</b> | <b>\$625,290</b> |
| <b>Non-Personnel</b> | <b>13,961</b>    | <b>13,658</b>    |
| <b>Total</b>         | <b>\$591,946</b> | <b>\$641,948</b> |



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## CURRENT INTERNAL AUDIT ORGANIZATIONAL STRUCTURE (CONT.)

- B. One Senior Internal Auditor
  - ii. Credentialed as a CGAP
  - iii. Designed for auditors working in public sector
  - iv. Enhances skills and knowledge in public sector field
  - v. Bound to IIA's Code of Ethics to promote ethical culture



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## CURRENT REPORTING STRUCTURE

1. Per 2015 Peer Review, Internal Audit Division implemented reporting relationship to ensure division has consistent and direct access to City Council and/or City Council Committee
2. Internal audit division reports administratively to City Manager which includes:
  - A. Budgeting and management accounting;
  - B. Human resource administration (including personnel evaluations and compensation); and
  - C. Internal communication and information flows.



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## CURRENT REPORTING STRUCTURE (CONT.)

3. Internal audit division reports functionally to Governmental Affairs Committee which includes:
  - A. Approval of the Internal Audit Governing rules and any subsequent updates;
  - B. Approval of the Internal Audit Work Plan;
  - C. Receiving communications from Internal Audit on the performance relative to its work plan and other matters; and
  - D. Making appropriate inquiries of management and Internal Audit to determine whether there are inappropriate scope or resource limitations.



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## CURRENT REPORTING STRUCTURE (CONT.)

4. Reporting structure meets criteria of internal audit function working under direction of management
5. Reporting structure is consistent with recommendations set forth by the IIA which states:
  - A. *Chief audit executive (CAE), reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence*



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## RECOMMENDATION

That the City Council receive and provide input on a report on the creation of an Internal Audit Division that reports to the City Council.

