



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

### CITY COUNCIL STAFF REPORT

Meeting: September 6, 2022

#### Subject

Consider approving the FY 2022-23 Internal Audit Program

#### Recommended Action

Approve the FY 2022-23 Internal Audit Program

#### Discussion

##### *Background*

In Fiscal Year (FY) 2019-20, the City began an internal audit program and issued a Request for Proposal (RFP) for internal audit services. After reviewing the proposals, the evaluation committee selected Moss Adams as the City's Internal Auditor. Moss Adams serves as the City's designated Internal Auditor and conducts projects focusing on:

- Risks
- Internal controls
- Efficiency and effectiveness
- Best practices
- Compliance

Moss Adams reports to the City Council's Audit Committee, which oversees the work and approves the annual internal audit work plan.

##### *Enterprise Risk Assessment*

In 2020, Moss Adams conducted an Enterprise Risk Assessment (ERA) to analyze the City's risk areas. For each risk category assessed, the risk assessment included an overview of the risk condition in the City, including the current risk level, likelihood, impact, preparedness, and trajectory.

##### *Internal Audit Work Plan*

In 2021, Moss Adams developed an internal audit work plan to guide activities for FY 2021-22. The Audit Committee and City Council approved the FY 2021-22 internal audit work plan, which included the following projects:

- Procurement Operational Review
- Policy Inventory and Plan
- Capital Program Effectiveness Study
- Fraud, Waste, and Abuse Program

For FY 2022-23, Moss Adams recommended the following internal audit work plan, in chronological order:

- Ongoing Internal Audit Services: Attend Audit Committee and Council meetings; prepare status reports, manage internal audit program, and prepare FY 23-24 internal audit plan. (52 weeks)
- Policy Review Ongoing Support: As the City updates and develops draft financial policies based on the prioritized inventory, review drafts and provide recommendations to align policies with best practice. (52 weeks)
- Library Construction Audit: Perform audit of library construction to review reporting, project accounting consistency controls, and related construction controls; identify non-compliant project charges and change orders and control improvement opportunities. (8 weeks)
- Budget Process Review: Document and review the City's budget process, compare to best practice, and provide recommendations for improvements in efficiency and effectiveness. (6 weeks)
- Enterprise Leadership Effectiveness Study: Assess the effectiveness of the City's management and governance collaboration framework and provide recommendations to strengthen and streamline procedures to align with best practices for municipal leadership. (15 weeks)

#### *Audit Committee Recommendation*

On June 27, 2022, Moss Adams presented the proposed FY 2022-23 program to the Audit Committee. After discussion, the Audit Committee carried a motion to recommend the following program:

- *FY 2022-23 Program:*
  - Ongoing Support:
    - Ongoing Internal Audit Services
    - Policy Review Ongoing Support
  - Budget Process Review
  - Enterprise Leadership Effectiveness Study
  - Library Construction Audit
- *Potential Future Internal Audit Projects:*
  - Grants Management Performance Audit
  - IT General Controls Review
  - Cybersecurity Review

#### *Next Steps*

As noted in the ERA, there are many potential internal audits across several risk areas. However, time and resources are important considerations when developing and approving an internal audit work plan. Adding additional projects to the proposed plan would impact the availability of budget as well as the timing of completion for the recommended projects listed above. If a potential project identified by Moss Adams, the Audit Committee, or the City Council is not included in the FY 2022-23 internal audit work plan, it does not mean it will not be completed; instead, it will be considered as part of the FY 2023-24 internal audit work plan.

If City Council approves the internal audit program, Moss Adams will complete the recommended projects and present the audit reports to the Audit Committee for review and City Council for acceptance. The audit reports will be available on the City's website at [cupertino.org/budget](http://cupertino.org/budget) under Internal Audit.

#### Sustainability Impact

No sustainability impact.

#### Fiscal Impact

No fiscal impact. In the FY 2022-23 Adopted Budget, the City has budgeted \$100,000 for the internal audit contract in the contracts category of the accounting program.

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Prepared by: Thomas Leung, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – FY 22-23 Internal Audit Program