



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: March 21, 2023

Subject

Consider the Budget Process Review Final Report

Recommended Action

Receive the Budget Process Review Final Report

Reasons for Recommendation

Background

In Fiscal Year (FY) 2019-20, the City began an internal audit program. On September 3, 2019, the City 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

The [internal audit charter](#) was approved by the Audit Committee on [February 11, 2020](#), and the City Council on [July 7, 2020](#).

Roles of Audit Committee and City Council

The Audit Committee and City Council play a crucial role in the internal audit process. As described in the internal audit charter, the Internal Auditor is appointed by and reports to the Audit Committee and City Council. The Audit Committee and City Council approve the annual audit workplan, review audit report findings and recommendations, and monitor the implementation of recommendations.

Enterprise Risk Assessment

Moss Adams conducted an Enterprise Risk Assessment (ERA) in 2020 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.

The [Enterprise Risk Assessment](#) identified high, moderate-to-high, and moderate risk categories. Moss Adams presented the Enterprise Risk Assessment to the Audit Committee on [February 22, 2021](#) and [May 24, 2021](#), and to the City Council on [July 20, 2021](#).

FY 2022-23 Internal Audit Work Plan

Moss Adams developed the [FY 2022-23 internal audit work plan](#), which included the following projects:

- Ongoing Support:
 - Ongoing Internal Audit Services
 - Policy Review Ongoing Support
- Budget Process Review
- Enterprise Leadership Effectiveness Study
- Library Construction Audit

The FY 2022-23 program was approved by the Audit Committee on [June 27, 2022](#) and the City Council on [September 6, 2022](#).

Project Background

As identified in the City's annual internal audit work plan, Moss Adams conducted a review of the City's budget development and ongoing monitoring processes. The goal of this engagement was to identify opportunities to improve workflows, strengthen communication, and confirm alignment with industry standards. This work was conducted between October 2022 and December 2022 and consisted of four phases:

- Initiation
- Fieldwork
- Analysis
- Reporting

Project Results

The review found that the City's budget process aligns with the significant majority of budget best practices developed by the Government Finance Officers Association (GFOA) (76 of 80 criteria in total). However, four elements lacked documentation to support alignment with best practices. The report recommended developing a prioritized implementation plan to support progress toward full alignment with GFOA best practices in the four categories that are not aligned.

The report also recommended regular training and refresher courses for staff engaged in budget development and monitoring across City departments, document consolidation, and evaluation of automation opportunities.

Management Response

Management agrees with the observations and recommendations and has taken several measures to address the identified gaps. Firstly, staff has developed a Budget Management page on the City's intranet, the Hub, to provide easy access to the budget calendar, instructions, helpful documents, and training materials. Department-specific folders have also been created to enable the departments and budget staff to share and collaborate on files securely. Centralizing all the relevant documentation in one place will facilitate easy access for staff and improve the consistency of budgeting practices.

Additionally, staff has taken several steps to enhance the budget process, including drafting budget policies and procedures which have been reviewed by Moss Adams during the Policies and Procedures Review. The City will incorporate GFOA recommendations into the budget process to ensure alignment with industry standards. Any changes in budget format will be presented to the Audit Committee for their review.

Furthermore, staff will collaborate with the City Manager's Office to conduct a community survey to meet the stakeholder feedback best practice criterion established by GFOA. This will help ensure stakeholder satisfaction is monitored, measured, and evaluated.

Finally, the City will be introducing regular training sessions on various budget-related topics. These sessions will cover budgeting basics, reporting, budget review best practices, and budget tools and software such as OpenGov. These training sessions will help staff members remain up to date with the latest practices, tools, and software, ensuring that they have the necessary skills and knowledge to perform their roles effectively.

Next Steps

Staff is currently working on implementing the report's recommendations. Internal audit status reports are available on the City's website at cupertino.org/internal-audit.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact. The City's Internal Audit contract is included in the contracts category of the accounting program in the FY 2022-23 Adopted Budget.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Budget Process Review Final Report