



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: July, 20, 2021

#### Subject

Receive Internal Audit Enterprise Risk Assessment and Consider Approving Internal Audit Plan for FY 2021-22

#### Recommended Action

1. Receive Internal Audit Enterprise Risk Assessment
2. Approve the Internal Audit Plan for FY 2021-22

#### Discussion

An internal audit function was introduced as part of the City Council's FY 2019-20 Work Program. The project's objective was to assist the City in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. As part of the Fiscal Year 2019-20 Adopted Budget, City Council approved a \$50,000 appropriation for said services.

The City issued a Request for Proposal (RFP) on September 3, 2019 and received proposals from multiple qualified firms. A sub-committee, consisting of the City Manager, Director of Administrative Services, Finance Manager, and Audit Committee Chair, was established for purposes of evaluating and selecting an internal audit firm to provide said services. Moss Adams, LLP was selected and a contract was entered into on February 3, 2020.

In conjunction with the establishment of an internal audit function for the City, an internal audit charter and amendments to the City's Municipal Code were recommended in order to carry out the services and establish appropriate oversight.

On February 11, 2020, the City's Audit Committee recommended approval of the proposed amendment to the City's Municipal Code in accordance with the establishment of an internal audit function within the City. On July 7, 2020, the City Council adopted Ordinance No. 20-2208 as recommended, amending Section 2.88.100 (Audit Committee Duties-Powers-Responsibilities) to include two additional duties: "To recommend appointment of internal auditors" and "To review internal audit reports."

The Audit Committee also recommended approval of the proposed internal audit charter, which details the duties of the internal auditor, assigns authority and responsibility to the City's Audit Committee and City Council, and describes the various communications and reporting during a respective fiscal year.

On July 7, 2020, City Council approved the Internal Audit Charter and Moss Adams subsequently began conducting the enterprise risk assessment.

The enterprise risk assessment provides a way for the leadership of the City of Cupertino to measure uncertainty related to the City's ability to achieve defined strategic objectives and operate effectively. Risks are identified, analyzed, and measured by the level of inherent vulnerability, the level of preparedness to mitigate them, and the impact such negative events could have on the City should they occur.

Moss Adams reviewed various financial reports and policies and conducted surveys and interviews with City staff and members charged with governance and oversight. This information was used to formulate the findings in the enterprise risk assessment report. From the risk assessment results noted on page two of the report (see attachment A), Moss Adams prioritized and recommended an internal audit plan for FY 2021-22. This plan included the following audits, schedule, and budget as noted below:

1. Procurement Operational Review: Assess the City's procurement function, including structure, policies and procedures, processes, tools, oversight, and training
2. Policy Inventory and Plan: Perform an inventory of policies, compare to best practices, and establish a prioritized plan to develop/update priority policies
3. Capital Program Effectiveness Study: Assess processes, interdepartmental collaboration, and throughput for capital planning and execution, including contract management and reporting
4. Fraud, Waste, and Abuse (FWA) Program: Develop an FWA program, including program design, hotline implementation, ongoing hotline administration, and training
5. Ongoing Program Management: Provide status reports, attend Audit Committee and Council meetings, and prepare annual internal audit plan

#	Project	Budget	3-6/21	7-9/21	10-12/21	1-3/22	4-6/22
1	Procurement Operational Review	\$50,000	█				
2	Policy Inventory and Plan	\$35,000		█			
3	Capital Program Effectiveness Study	\$35,000			█		
4	FWA Program	\$25,000				█	
5	Ongoing Program Management	\$5,000		█	█	█	█
	FY 20-21 Budget*	\$50,000					
	FY 21-22 Budget	\$100,000					

\* FY 20-21 Total Budget \$100,000, \$50,000 remaining to carry forward after Enterprise Risk Assessment (\$50,000)

The Audit Committee received the Internal Audit Enterprise Risk Assessment Report over multiple Committee meetings dated January 27, 2021, February 22, 2021, and April 28, 2021 and expressed interest in adding additional projects to the FY 21-22 work plan (such as Sports Center Operational Review and Vendor Management Review). As noted in the enterprise risk assessment report, there are many potential internal audits across several risk areas; however, time and resources are important considerations when approving a work plan for a fiscal year. Adding additional projects to the proposed plan would impact the availability of budget as well as the timing of completion for the recommended priority projects noted in the table above. If a potential project identified by Moss Adams, Audit Committee, or City Council is not included in the FY 21-22 internal audit work plan, it does not mean it will not be completed, but rather it will be considered as part of the FY 22-23 internal audit work plan.

If the internal audit work plan is approved by City Council, the recommended audits would be completed by Moss Adams and the audit reports would be presented to Audit Committee for review and City Council for acceptance.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

In FY 2020-21 the City appropriated \$100,000 for internal audit services in the base budget. A \$50,000 contract was entered into to conduct the enterprise risk assessment. As of FYE 2020-21, the City has \$50,000 remaining in appropriations that will be recommended for carryover into FY 2021-22 to assist in funding the project with a total value of \$150,000. Below is a schedule of past and proposed appropriations and expenditures pertaining to the City’s internal audit services:

	Adopted	Amended	Actual	Remaining
FY 2020-21	\$100,000	\$100,000	\$50,000	\$50,000
FY 2021-22	\$100,000	\$150,000*	\$ -	\$150,000

\* includes \$50,000 carryover from FY 2020-21 and \$100,000 from FY 2021-22 Adopted Budget

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Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Internal Audit Enterprise Risk Assessment