

City of Cupertino

FY 23-24 Internal Audit Program

Audit Committee Meeting

July 2023



Overview

1. Internal Audit Overview
2. Program Components
3. Program Review
4. Potential Internal Audit Projects
5. Recommended Internal Audit Plan

Audit Committee Powers & Functions



Cupertino Municipal Code	GFOA Best Practices
<ul style="list-style-type: none">• To review the annual audit report and management letter• To recommend appointment of internal/external auditors• To review the treasurer's report• To recommend a budget format• To review City investment policies and internal controls of such policies• To review internal audit reports• To review quarterly Fraud, Waste, and Abuse program reports	<ul style="list-style-type: none">• Independent review and oversight of the City's financial reporting process, internal controls, and audit functions• Ensure management properly develops and adheres to a system of internal controls, procedures are in place to assess management practices, and independent auditors objectively assess financial reporting practices• Understand and monitor City risks, mitigation strategies, and corrective actions• Understand and oversee the FWA program• Shape the internal audit program by directing areas of focus and approving work plans

Effective Audit Committee Practices

- Align audit committee meeting agendas and meetings with priority areas
- Distribute materials in advance to enable review
- Highlight issues and critical discussion points
- Encourage open dialogue and candid discussion to promote improvements



Source: GFOA





Internal Audit Overview

- The City retained Moss Adams to serve as the designated Internal Auditor and conduct projects focusing on:
 - Risks
 - Internal controls
 - Efficiency and effectiveness
 - Best practices
 - Compliance
- Work is being completed under appropriate industry standards (IIA, GAGAS, AICPA)

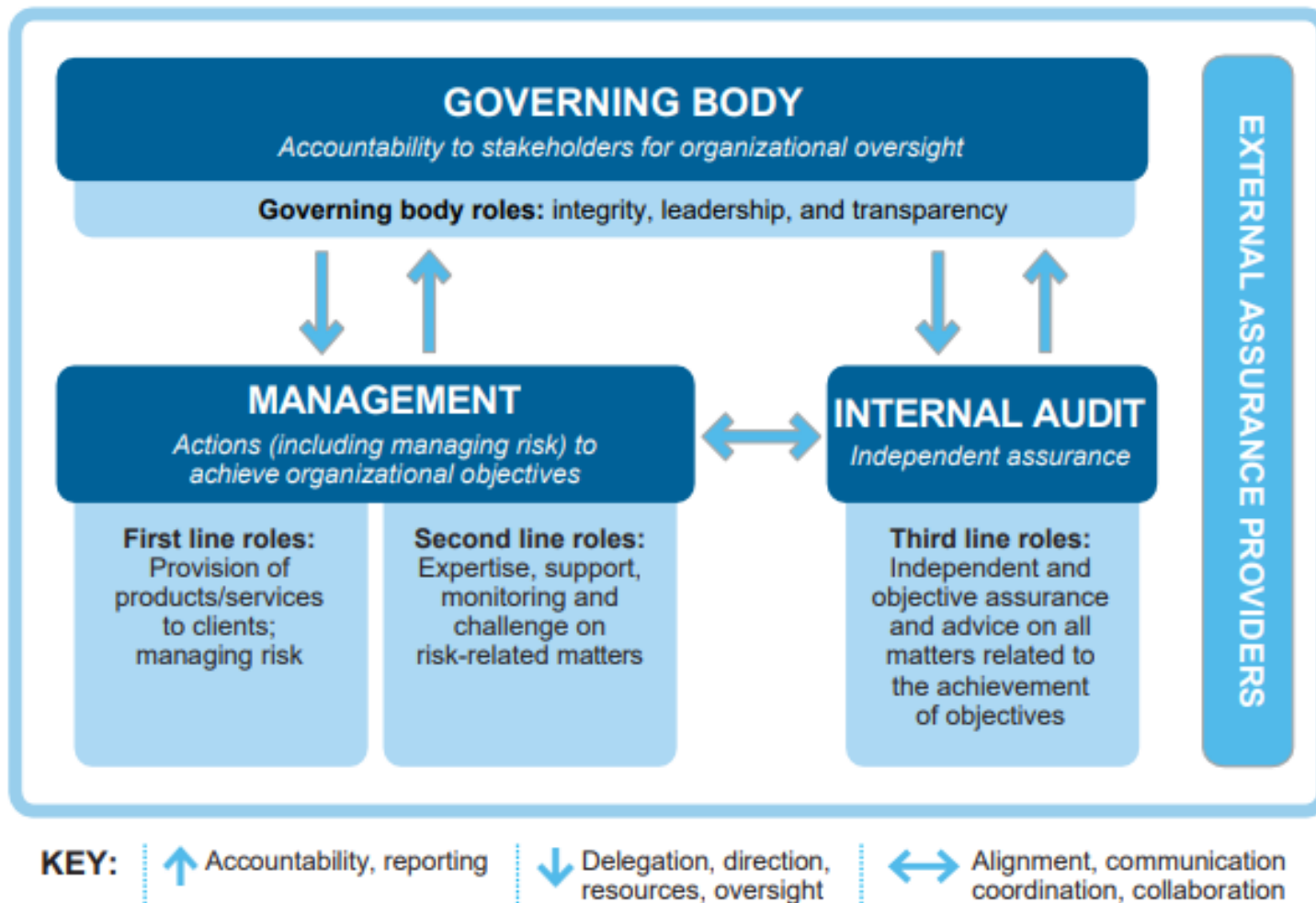
Why Internal Audit?

- Different perspective than financial audit
- Objective and independent are not mutually exclusive of collaborative and constructive
- Prioritize opportunities for reducing risks, strengthening controls, and enhancing performance
- Goes beyond the finance department
- Government code requirement to evaluate the need
- Best practices
- Alignment with strategic goals

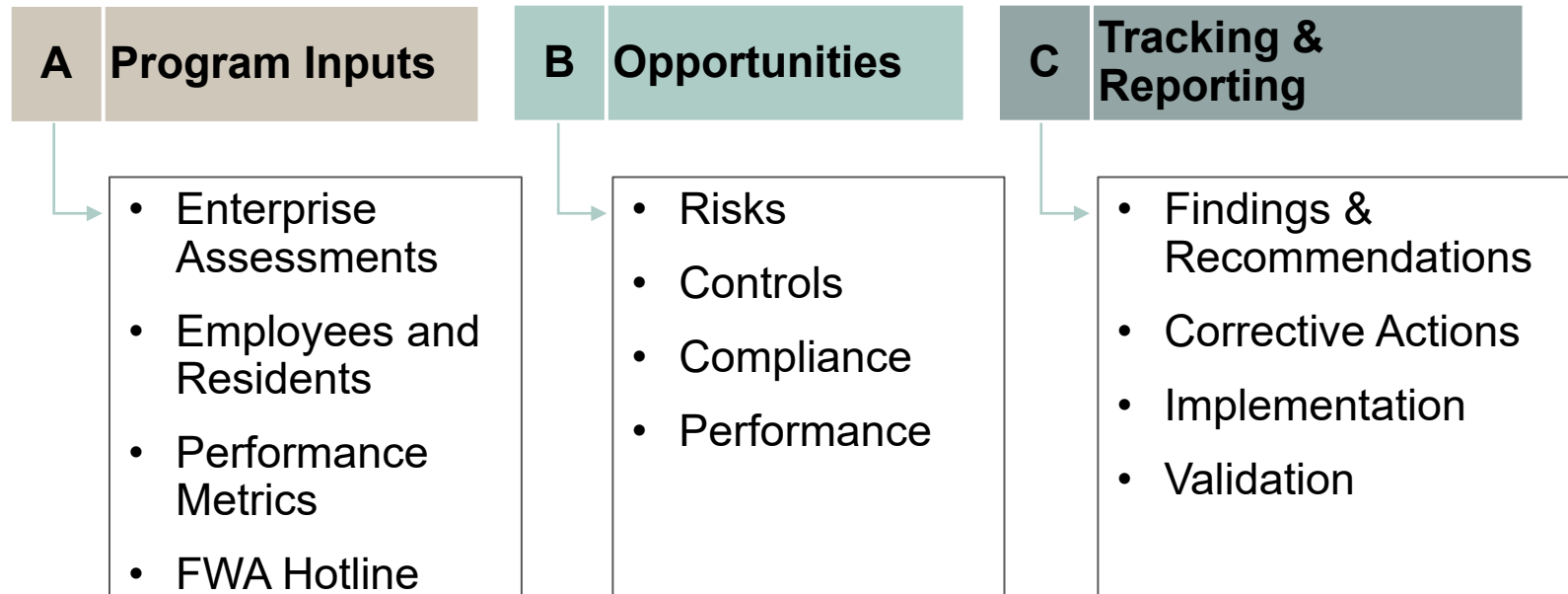


Role of Internal Audit

The IIA's Three Lines Model



Internal Audit Program Components



Enterprise Assessments



City Functions	Enterprise Risk Assessment	Enterprise Internal Controls Review
	Asset Management and Capital Program	Payroll
	Operations/Service Delivery	Monthly Account Reconciliation and Closing
	Risk Management and Internal Controls	Budgeting
	Governance, Management, and Organization	Cash Receipts and Cash Handling
	Funding and Economics	Revenues and Billings
	Human Resources	Accounts Receivables and Write-offs
	Technology	Grants Management and Compliance
	Safety and Security	Information Technology Access
	Accounting, Financial Reporting, and Procurement	Accounts Payable
Fraud, Waste, and Abuse	Overall Control Environment	

An aerial photograph of a building's roof, showing a person working on the edge. The roof is dark, and there are some green plants or trees visible in the upper left corner. The number '10' is visible in the bottom left corner of the image.

FWA Program & Ethics Hotline

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- Confidentiality protection per CA state law and City policy
 - Program implementation support
 - Training at all levels
 - Follow up and follow through
 - Protection from retaliation
 - Quarterly reporting

Sustaining Philosophy & Approach



- Objective
- Independent
- Collaborative
- Constructive
- Comprehensive



Internal Audit Program Review

Focus

Accomplishments

- Enterprise Risk Assessments 2021
- Internal Controls Projects Completed 2
- Performance/Efficiency Projects Completed 5
- Policies Reviewed 17
- Recommendations Delivered 52
- Ethics Hotline 6 reports
- Recommendations Validated *To Come*



Internal Audit Departments Covered

Department	Projects
Administrative Services	Procurement (22) Finance P&Ps (22) Budget Process Review (23)
City Clerk	
City Manager's Office	FWA Program (22)
Community Development	
Communications	
Innovation & Technology	
Parks & Recreation	
Public Works	Capital Program (22) Library Construction Audit (23)

- Enterprise Projects: Risk Assessment (21), Enterprise Leadership (23)





4. Potential Internal Audit Projects

1. Enterprise Risk Assessment (\$50,000)
2. Citywide Policy Review & Gap Analysis (\$40,000)
3. Ongoing Internal Audit Services (\$10,000)
4. Grants Management Performance Audit (\$35,000)
5. IT General Controls Review (\$30,000)
6. Succession Planning Study (\$35,000)
7. Contract/Vendor Management Performance Audit (\$30,000)

Highlighted items are recommended

Recommended Plan & Timing

Project	7-9/23	10-12/23	1-3/24	4-6/24
Enterprise Risk Assessment	█			
Citywide Policy Inventory and Gap Analysis	█			
Ongoing Internal Audit Services	█			



1. Enterprise Risk Assessment: Identify, analyze, and measure risks 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. This assessment serves as management's and the internal auditor's basis for determining possible actions for managing and mitigating uncertainty, both on an inherent and a residual basis, and informs the three-year internal audit work program. (20 weeks)
2. Citywide Policy Review & Gap Analysis: Inventory City policies in each department, identify gaps, and review policies for opportunities for update and alignment with best practice. Provide a prioritized implementation plan for policy update. (35 weeks)
3. Ongoing Internal Audit Services: Attend Audit Committee and Council meetings; prepare status reports, manage internal audit program, manage FWA hotline, and prepare annual internal audit plan. (52 weeks)

+ x - Resources

- Government Finance Officer’s Association (GFOA)
 - GFOA Best Practices Guide on Audit Committees
 - GFOA Best Practices on Whistleblower Hotlines
- Institute of Internal Auditors
 - IIA Publication “The Audit Committee: Internal Audit Oversight”
- U.S. Government Accountability Office (GAO)
- American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners





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