



City of Culver City

Staff Report

File #: 20-227, **Version:** 1

Item #: A-3.

CC - Receipt and Filing of the Following Final Internal Controls Audit Reports: (1) Fraud, Waste, and Abuse Program, (2) Grant Management Internal Controls Testing, (3) Enterprise Internal Controls Review and (4) Cash Handling Internal Controls Improvement.

Meeting Date: September 9, 2019

Contact Person/Dept: Onyx Jones/Finance Department

Phone Number: (310) 253-5865

Fiscal Impact: Yes ☐ No ☒

General Fund: Yes ☐ No ☒

Public Hearing: ☐

Action Item: ☒

Attachments: ☒

Public Notification: (Email) Meetings and Agendas - City Council (09/04/19); (E-Mail) Meetings and Agendas - Finance Advisory Committee (09/04/19); (Email) Meetings and Agendas - Fiscal and Budget Issues (09/04/19)

Departmental Approval: Onyx Jones, Chief Financial Officer (08/28/19)

RECOMMENDATION

Staff recommends the City Council receive and file the following final Internal Controls Audit Reports: (1) Fraud, Waste, and Abuse Program, (2) Grant Management Internal Controls Testing, (3) Enterprise Internal Controls Review and (4) Cash Handling Internal Controls Improvement.

BACKGROUND

Internal audits assist the City in the efficient use of resources by providing analysis and recommendations for improved operations and stronger internal controls. The Finance Department recognizes that effective internal controls result in best management practices for financial operations. In turn, the City Manager requested that the Finance Department include in their work plan the hiring of an independent audit firm to perform internal audit services in accordance with applicable industry standards.

In 2016, Moss Adams, LLP (Moss) was selected through a competitive solicitation process to conduct reviews that included:

- Evaluating the adequacy of segregation of duties
- Supervisory reviews and approvals
- Reconciliations
- Physical safeguards over cash, checks and critical forms (such as handwritten receipts, permits and licenses)
- Existence and adequacy of written procedures
- Enterprise risk assessment of City operations including grants, payroll and accounts payable.

To achieve the above reviews, Moss established a work plan consisting of six internal audit control reports outlined as follows:

1. Fraud, Waste and Abuse Program
2. Grant Management Internal Controls Testing
3. Enterprise Internal Controls Review
4. Cash Handling Internal Controls Improvement
5. Enterprise Risk Assessment
6. Fleet Efficiency Study

At present, staff is bringing forward four of the above listed reports that Moss Adams, LLP has completed: (1) Fraud, Waste and Abuse, (2) Grant Management Internal Controls Testing, (3) Enterprise Internal Controls Review and (4) Cash Handling Internal Controls Improvement.

DISCUSSION

At its meeting on April 8, 2019, the City Council approved the creation of a City Council Ad Hoc Subcommittee to review the Moss Internal Control Audit Reports and review staff recommendations for improvements to the City's Internal Controls. Staff has held several meetings with the Ad Hoc Subcommittee since this time along with consultants from Moss Adams, LLP. On June 12, 2019, the Fraud, Waste and Abuse and Grants Management draft reports were referred to the Finance Advisory Committee (FAC) by the Ad Hoc Subcommittee to propose recommended changes and approve transmittal to City Council. Enterprise Internal Controls Review and Cash Handling Internal Controls draft reports were additionally referred to the FAC on July 10th for the same purpose. All of the recommended enhancements by Moss are described in the detailed audit reports attached to this Staff Report. The highlights of the reports are listed below:

Fraud, Waste and Abuse Program

- Update the Whistleblower and Code of Ethics Policy
- Exploring an option to enter in to a contract with External Hotline Answering Company instead of current State Attorney's hotline for receiving complaints.
- Provide initial and on-going training to employees on this program
- Conduct outreach to the community about the Fraud, Waste and Abuse Program

Grant Management Internal Controls Testing:

- Update the Grant Administration Policy and review other cities' policies for consistency and present the draft policy to subcommittee for review.
- Update the Administrative procedures for Grant Management and provide annual training to staff on the updates.
- Hire a consultant to digitize Grants documents city-wide and make it accessible to all departments through Culver Central.
- Explore the Grant and Project Accounting module in the current accounting software for tracking grant activities, maintaining a master schedule and keeping up with deadlines.
- Create a quarterly Grant Newsletter informing departments with the updates, suggestions, issues, new ideas and audit findings related to Grant Management.

Enterprise Internal Controls Review & Cash Handling Internal Controls Improvement:

- Update and/or develop written policies and procedures for Cash Handling, Accounts Payable, Accounts Receivables, Purchasing, and other Citywide policies
- Conduct City-wide unannounced audits for Cash Handling process including cash drawers and petty cash box.
- Updates or enhancements to IT systems for improving the City's internal control environment.
- Improve work process to establish adequate segregation of duties.

The Finance Department will continue to work with Moss to complete the FY 2019/2020 Enterprise Risk Assessment and the Fleet Efficiency Study. It is anticipated that these reports will be brought to Council after they are reviewed by both the Ad Hoc Subcommittee and the FAC, sometime in the October/November timeframe.

Staff recommends that City Council receive and file the following final Internal Controls Audit Reports: (1) Fraud, Waste, and Abuse Program, the (2) Grant Management Internal Controls Testing, (3) Enterprise Internal Controls Review and (4) Cash Handling Internal Controls Improvement.

FISCAL ANALYSIS

There is no fiscal impact to receive and file the attached audit reports. However, there are costs related to the implementation of some of the recommended enhancements from Moss. Some of the high priority enhancements have already been included in the FY 2019/2020 Budget for items such as increased staffing, software upgrades, consulting services, etc. Other enhancements will be addressed on a case by case basis and brought before Council, if necessary.

ATTACHMENTS

1. 2019-09-09_ATT_Fraud, Waste, and Abuse Report Program Report

2. 2019-09-09_ATT_Grant Management Internal Controls Testing Report
3. 2019-09-09_ATT_Enterprise Internal Controls Review Report
4. 2019-09-09_ATT_Cash Handling Internal Controls Improvement Report

MOTION

That the City Council:

Receive and File the following final Internal Controls Audit Reports: (1) Fraud, Waste and Abuse Program, (2) Grant Management (3) Internal Controls Testing Report, Enterprise Internal Controls Review and (4) Cash Handling Internal Controls Improvement.