



# STAFF REPORT

**Report To:** Board of Supervisors **Meeting Date:** August 20, 2020

**Staff Contact:** Sheri Russell , Chief Financial Officer (srussell@carson.org)

**Agenda Title:** For Possible Action: Discussion and possible action regarding the Fiscal Year ("FY") 2021 Audit Work Program and audit services recommended to be performed by the City's retained internal auditor, Eide Bailly, LLP, for the amount of \$108,500, plus a contingency amount of \$1,500, for a total not to exceed amount of \$110,000. (Sheri Russell, srussell@carson.org)

Staff Summary: Eide Bailly, LLP made recommendations for future audit projects at the Audit Committee's June 15, 2020 meeting. The Committee discussed those recommendations and agreed that Eide Bailly, LLP should perform the following internal audit projects:

-Risk Assessment Evaluation FY 2021	\$10,000
-Citywide Revenue & Accounts Receivable Audit	23,500
-Vehicle Fleet Audit	30,000
-IT Vulnerability Audit	35,000
-Findings Follow-up	9,500
-Fraud, Waste & Abuse Hotline Monitoring	500
TOTAL	\$108,500

**Agenda Action:** Formal Action / Motion **Time Requested:** 15 Minutes

### Proposed Motion

I move to direct Eide Bailly, LLP, to proceed with the Fiscal Year 2021 Audit Work Program as discussed.

### Board's Strategic Goal

Efficient Government

### Previous Action

June 15, 2020 - The Audit Committee recommended moving forward with the FY 2021 Audit Work Program.

### Background/Issues & Analysis

For the FY 2021 Audit Work Program, the Audit Committee recommended a citywide revenue & accounts receivable audit, a vehicle fleet audit, and an IT vulnerability audit. The recommendations also include a risk assessment evaluation for FY 2021, a findings follow-up, and monitoring of the Fraud, Waste and Abuse Hotline.

The citywide revenue & accounts receivable audit was originally scheduled under the FY 2020 Audit Work Program. However, Eide Bailly was unable to perform that Audit in FY 2020 because the cash handling audit was more diversified than expected, and several validations on cleared findings were added to the budget. Eide

Bailey presented information at the June 15, 2020 meeting indicating that they donated \$39,277 in services to remain within the City's budget. Based on this, the Audit Committee deemed it reasonable to move the citywide revenue & accounts receivable audit procedures to the FY 2021 Audit Work Program.

The Audit Committee has been discussing the need for an IT vulnerability audit for a few years now. With the recent new implementations (ERP, Property Tax System, Permitting System, Utility Billing System, etc.) it was deemed reasonable to wait until new systems were in place. Now that the various large implementations are very close to completion, the Audit Committee believes that it is an ideal time to complete the IT vulnerability audit to ensure that all the City's data is still protected.

Procedures over the Fleet Department were last completed in FY 2014. This area is due to have procedures performed again, as the Audit Committee tries to perform certain audit procedures every 3-5 years.

**Applicable Statute, Code, Policy, Rule or Regulation**

N/A

**Financial Information**

**Is there a fiscal impact?** Yes

**If yes, account name/number:** General Fund, Internal Audit Department, Account 1010800-500309.

**Is it currently budgeted?**

**Explanation of Fiscal Impact:** \$110,000 budgeted for FY 2021.

	Budget	Hours
-Risk Assessment Evaluation FY 2021	\$10,000	40
-Citywide Revenue & Accounts Receivable Audit	23,500	200
-Vehicle Fleet Audit	30,000	250
-IT Vulnerability Audit	35,000	250
-Findings Follow-up	9,500	20
-Fraud, Waste & Abuse Hotline Monitoring	500	5
TOTAL	\$108,500	

NOTE: Eide Bailly estimated hours on all projects. Project will be billed by actual hours spent according to the bid proposal. This is the final year of the proposal. If approved, the \$1,500 difference between the budget and listed procedures may be directed to be used by the Audit Committee as a contingency for additional procedures needed on one of the above audits, or additional validation or follow-up needed.

**Alternatives**

Do not accept the recommendations and/or make different recommendations.

**Attachments:**

[FY 21 Audit Recommendations - Eide Bailly.pdf](#)

**Board Action Taken:**

Motion: \_\_\_\_\_ 1) \_\_\_\_\_ Aye/Nay  
 2) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

---

(Vote Recorded By)

FY 2020/21 Proposed Internal Audits	Hours	Fees	Original Budget	Blended Rate
<b>2021 Risk Assessment</b> – Continue to meet with department directors and elected officials to update the risks/rankings identified in the 2018 risk assessment and develop the FY 2021/22 audit plan.	40	\$10,000		\$250
<b>Citywide Budget Monitoring Audit</b> – Carry over from 2018/19. To test internal control structure of the budget monitoring process to ensure approval of budget authorizations, monitoring, proper use of methods and procedures, and transactions are timely and accurate.	150	\$20,000	\$17,625	\$133
<b>Citywide Revenue &amp; Accounts Receivable Audit</b> – Carry over from 2018/19. Internal Audit to assess revenue capture and collection processes. IA to identify all major sources of revenue for the City, including those that are paid indirectly through a third-party such as hotels, businesses, and the State to ensure that all charges and fees allowed by law are assessed and collected in a timely manner. Additionally, determine the entity responsible for ensuring controls over the revenue source(s) and verify the existence of strong internal controls and adequate segregation of duties.	200	\$25,000	\$23,500	\$125
<b>Vehicle Fleet</b> – To assess the internal controls over the management of fiscal resources and evaluate maintenance costs, vehicle utilization, and general operations to determine if adequate controls are in place to ensure an efficient and cost-effective vehicle fleet. 2014	250	\$30,000		\$120
<b>IT Vulnerability Audit</b> – Penetration Testing and Scanning to determine whether the City’s data network is protected from unauthorized access and whether controls are effective in protecting network confidentiality, integrity, and availability.	250	\$35,000		\$140
<b>Investments</b> – To determine whether adequate internal controls related to investment management are in place and functioning properly to ensure that investment purchases are made in accordance with the City’s “Investment & Portfolio Policy” (Investment Policy) and properly recorded in City financial records. fiscal strategies of the City. Additionally, to assess the alignment of Investment Policy with laws and regulations and compliance of activities with the Investment Policy.	200	\$26,500		\$133
<b>Specially Requested Audits or Urgent Audit Issues</b> – Areas that arise throughout the year not originally captured on the plan.				
<b>Follow-Up</b> – Time to perform follow-up review of departments implementation status of prior audit recommendations.	20	\$3,000		\$150
<b>Fraud, Waste &amp; Abuse Hotline</b> – Receive complaints filled through the hotline, route and monitor cases for investigation, track and resolve cases.	5	\$500		\$100
<b>Totals</b>	<b>1115</b>	<b>\$150,000</b>		<b>\$135</b>

**Internal Audit Actual vs. Budget FY19/20**

<b>FY19/20 Internal Audit Plan</b>	<b>Budget Hours</b>	<b>Budget Amount</b>	<b>Actual Hours Incurred</b>	<b>Actual Amount Incurred</b>	<b>Donated Service</b>
2020 Risk Assessment & Annual Audit Plan	150	\$17,625	96	\$16,625	
Citywide Social Media Audit	100	\$11,750	99	\$19,710	
Citywide Fee Structure	150	\$17,625	148	\$22,015	
Accounts Payable & P-Card Audit	200	\$23,500	280	\$46,049	(\$8,866)
HR Benefits	200	\$23,500	192	\$26,229	
Cash Handling Audit	125	\$13,475	200	\$34,095	(\$9,589)
Follow-up & Hotline	80	\$7,287	76	\$7,732	
Citywide Budget Monitoring Audit	150	\$17,625	9	\$1,114	(\$1,114)
Citywide Revenue & AR	200	\$23,500	9	\$1,114	(\$1,114)
<b>Admin</b>				\$10,771	(\$10,771)
<b>Travel &amp; Expense</b>				\$7,823	(\$7,823)
<b>Sub Total</b>	<b>1,355</b>	<b>\$155,887</b>	<b>1,109</b>		
<b>Budget Excess over Contract</b>		(\$1,887)			
<b>Total Contracted Amount &amp; Amount Billed</b>		<b>\$154,000</b>		<b>\$193,277</b>	<b>(\$39,277)</b>

Internal Audit (IA) completed 5 of the 7 planned audits; (Citywide Social Media, Citywide Fee Structure, Accounts Payable & P-Card, HR Benefits, and Cash Handling). In addition to the audits, IA completed the 2020 Risk Assessment & Annual Audit Plan, conducted follow-up on prior audit findings, and administered the City’s Hotline. We were unable to complete the Citywide Budget Monitoring and Citywide Revenue & Accounts Receivables audit due to budget overages. All amounts over the approved budget of \$154,000 were donated to the City which is approximately \$39,277.

Eide Bailly works diligently to meet the agreed upon audit plan and budget that is approved by the audit committee. We realize that we were quite aggressive in our plan of completing 7 audits within the \$154,000 budget. There are multiple factors that created this situation which we will discuss with the Audit Committee and Board of Supervisors, but basically it came down to aggressive pricing well below what we typically charge, averaging 50% below our firm’s internal audit billing rates. Internal audit plans are projected and flow from year to year, based upon the Board and Audit Committee’s budget and reaction to risks that may substantially change due to circumstances throughout the year. 2020 is an example of how risks are projected completely differently than 2019 or any year previous. This internal audit plan flow allows the audit committee to pick and choose or change directions as they see the needs of the City evolve based on the budget. If the audit committee chooses to continue with the 2019 plan and carry over the 2 projects that were not completed, we will re-introduce those 2 projects into the 2020 Internal audit plan.