

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER, FINANCE
DEPARTMENT
SUBJECT: RESOLUTION APPROVING A CITY COUNCIL POLICY FOR
INTERNAL AUDIT

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Long Term Financial Policy and Audit Sub-Committee and the Finance Department that the City Council, by resolution, adopt a City Council policy on Internal Audit.

EXECUTIVE SUMMARY

This item requests that the City Council adopt a formal City Council policy relative to Internal Audit. The Institute of Internal Auditors (IIA) establishes standards for internal auditing including formalizing responsibilities, reporting lines, and protocols.

BACKGROUND

The City of Santa Rosa conducts an external audit every year, and as part of that audit, a cursory review of internal controls is performed. However, the City had not completed a full review of internal controls in some time. In 2015, the City contracted with Moss Adams to perform a citywide internal controls review, of which they issued a final report on February 4, 2016.

Based on the findings of the Moss Adams report, the Finance Department felt it was in the City's interest to create an internal audit program and hire a full time internal auditor. The Internal Audit Unit is housed within the Financial Reporting Section, and the Accountant job description was revised to include internal audit duties. An Internal Auditor was hired in October 2016, and has been using the Moss Adams report as the initial corrective action Audit Plan. To date, the auditor has completed two audits from that plan (Petty Cash and Procurement Card), drafted policies resulting from those audits, and has performed other services for the City, including a performance review of CMedia.

PRIOR CITY COUNCIL REVIEW

There has been no prior City Council review of this item.

ANALYSIS

Establishing an Internal Audit Unit will provide an independent, objective review of City operations to evaluate and improve the effectiveness of risk management, control, and governance processes. The Institute of Internal Auditors (IIA) establishes standards for professional internal audit programs, and this proposed City Council policy will formalize the responsibilities, reporting lines, and protocols of Internal Audit pursuant to those standards.

Council adoption of this policy provides the Internal Audit Unit formal authority to carry out its mission. The policy also grants the Internal Audit Unit authority for full, unrestricted access of the organizations operations, and ensures confidentiality of documents presented to the Internal Audit group as part of that access. The policy formalizes roles and responsibilities within the Finance Department relative to supervision of the Internal Audit Unit, and the duties of the Long Term Financial Policy and Audit (LTFPA) Sub-Committee relative to its role as the audit board.

The policy provides that the City's executive management is responsible for developing a risk assessment for the organization, which becomes the annual Audit Plan which is approved by the LTFPA Sub-Committee.

Finally, all internal audits will be peer reviewed by an external audit firm every three years to insure IIA standards are being followed.

The LTFPA Sub-Committee has reviewed and approved the proposed policy. Since the time of the Sub-Committee's approval, staff has suggested minor revisions to the policy to better clarify roles and responsibilities. A red-line showing the suggested revisions is attached. The proposed resolution attaches a clean copy of the policy, with the revisions incorporated.

FISCAL IMPACT

Adopting this Council Policy will not result in a fiscal impact to the City.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the

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environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline §15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On August 10, 2017, the LTFPA Sub-Committee approved this policy and directed it to be forwarded to the City Council for final approval.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution/Exhibit A – Internal Audit Policy

CONTACT

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