


Subject:	Internal Audit - Authority, Responsibilities, Types of Audits Performed, and Reporting	Number: 1-10
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Responsible Department:	Finance – Internal Audit	Approved: 

Preface: The Internal Audit Section within the City of Fresno is to follow Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. These standards pertain to auditors’ professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. Thus, this Administrative Order has been developed in compliance with GAGAS.

Accountability

The concept of accountability for public resources is key to the City of Fresno’s governing process. Accountability is expected by the public and internal/external government officials in order to ensure whether:

- Government resources are managed properly and used in compliance with laws and regulations;
- Government programs are achieving their objectives and desired outcomes; and
- Government services are being provided efficiently, economically, and effectively.

Purpose and Mission

It is the purpose and mission of the City’s Internal Audit Section to provide all government officials such as Mayor, City Council, City Manager and Department Directors with objective, accurate, concise and timely information about City operations in order for the Mayor, City Council and City Management to make informed decisions to improve City operations and accountability.

Responsibility

City Management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed.

Internal Audit is responsible for evaluating the adequacy of the internal control environment, the operating environment, related accounting, financial and operational policies and procedures, and then reporting the results and associated recommendations. Internal Audit also has responsibility for ensuring that (1) independence and objectivity are maintained in all

phases of the assignment, (2) professional judgment is used in planning and performing the work and in reporting the results, (3) the work is performed by personnel who are professionally competent and collectively have the necessary skills and knowledge, and (4) an independent peer review is periodically performed, resulting in an opinion issued as to whether an audit organization's system of quality control is designed and being complied with to provide reasonable assurance of conforming with professional standards.

In all matters relating to audit work, the Internal Audit Section and the individual auditor, should be free both in fact and appearance from personal, external, and organizational impairments to independence. Internal Auditors have a responsibility of maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Internal Auditors should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditors are not able to maintain independence and, thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

The Internal Audit Section will remain outside the control of management as related to its audit procedures, reported findings and recommendations. Internal Audit staff will have no direct responsibility for or authority over, any of the activities, functions, or tasks it reviews. Accordingly, Internal Audit staff will not develop or write policies and procedures that they may later be called upon to evaluate. They may review draft materials developed by management for propriety and completeness; however, ownership of and responsibility for these materials will remain with management.

Audit Standards and Ethics

Internal Audit will adhere to applicable industry standards and codes of ethics issued by authoritative sources, such as those issued by the Institute of Internal Auditors and the U.S. General Accounting Office, Generally Accepted Government Auditing Standards (GAGAS). Each internal auditor is expected to consistently demonstrate high standards of conduct and ethics as well as appropriate judgment and discretion.

Authority and Access

The City's Principal Internal Auditor and his/her staff shall have access to, and authority to examine any and all documents including but not limited to books, accounts, internal memoranda, writings and tapes, reports, vouchers, correspondence files and other records, bank accounts, money and other property of any City Department, office or outside agency having a contractual arrangement with the City. It is the duty of any Department Director, Manager, Officer or employee of the City having control of such records to permit access to, and examination thereof, upon the request of the City's Principal Internal Auditor or his/her staff. It is also the duty of any such City Department Director, Manager, Officer or employee to fully cooperate with, and to make full disclosure of all pertinent information to the City's Internal Auditors.

Premise and Objectives

Internal Audit's basic premise is - City resources are to be applied efficiently, economically, and effectively to achieve program/service objectives and outcomes. There are four objectives that those entrusted with City resources are responsible for establishing and maintaining effective controls to ensure:

- Compliance with applicable Laws and Regulations
- City programs and services meet or exceed their goals and objectives
- Valid and reliable data are obtained, maintained and fairly disclosed, and
- Resources/assets are safe-guarded against waste, loss and misuse

Types of Audits Performed

Performance Audits: Evaluation of the effectiveness and efficiency of a program or activity and whether it is achieving its goals and objectives and desired program results.

Compliance Audits: Verification that the City, its contractors and/or related agencies comply with required laws, regulations, and policies and guidelines, including contractual requirements.

Special Projects or Non-audit Services: Consulting services/limited scope reviews carried out at the request of the Mayor or City Manager. These reviews may include an assessment of a particular function or activity where the level of involvement by Internal Audit is at a higher and/or more sensitive and critical level because of the requesting party. These consulting services/reviews can also include project management for citywide or multi-departmental projects. These type services may or may not result in the issuance of a report.

Investigations: Investigate certain situations that could be caused by acts of fraud, misappropriation of City assets or other similar irregularities (See Suspected Misappropriation, Fraud and Other Similar Irregularities Section of this AO).

Revenue Audits: Maximize City revenue streams through audits of City revenues for compliance with City Ordinances, Administrative Orders and Master Fee Schedule. To provide City Management with information regarding potential new or enhanced revenue sources.

Benefits of Internal Audit to the City of Fresno:

- Provides the City with an objective and independent function to review and report on projects from a position of improvements for the City as an organization.
- Performs work which meets the needs of the Mayor and City Manager in a timely and relevant format.
- Strengthens the City's performance and accountability in managing resources and achieving outcomes.
- Focus City priorities on the most significant and future challenges, including current fiscal year citywide goals.
- Strengthens the ethical work environment and improve public trust in the City.
- Recommend methods of increasing operational effectiveness including the following:

- Achievement of desired program results;
 - Using resources more efficiently;
 - Identifying opportunities to increase revenues or provide cost savings;
 - Safeguarding assets; and
 - Ensuring compliance with laws, regulations, and policies and procedures
- Strengthens “Test of Controls” requirements of annual independent external financial audit of the City.

Internal Audit Plan and Audit Process

Each fiscal year, a Proposed Audit Plan, based on “risk assessment auditing”, is prepared by the City’s Principal Internal Auditor and submitted through the Budget Manager and to the City Manager for review and approval. Special Projects are requested by the Mayor, City Manager or Department Directors, during the year, which are unscheduled. These requests are considered of high priority by Internal Audit and may impact the completion of all other scheduled/planned audits for the fiscal year.

The audit objectives, scope and methodology of every audit/special project performed by Internal Audit is clearly defined up front and audit procedures are then performed in accordance with Generally Accepted Government Auditing Standards. A review of internal controls and other audit procedures are performed as considered necessary under the circumstances. (See **EXHIBIT A** for Overview of the Internal Audit Process.)

Final Report Distribution

All final audit reports and follow-up review reports are distributed to the Mayor, City Council Members, City Manager, Department Management and to the City’s external auditors, in accordance with Generally Accepted Government Auditing Standards.

Follow-up Reviews

A follow-up review may be conducted by Internal Audit of completed audits 6-12 months after the final audit report date. This review determines the status of audit recommendations implemented by the Department.

Suspected Misappropriation, Fraud and Other Similar Irregularities

The City of Fresno desires to create an environment in which employees and/or citizens are encouraged to report any suspicion of fraud, misappropriation of City assets or other irregularities. This policy provides management and Internal Audit staff with specific guidelines and responsibilities regarding appropriate actions in conducting investigations of alleged fraud and similar improprieties.

Definitions

The terms “fraud,” “misappropriation” and “other irregularities” include, but are not limited to:

1. Forgery or alteration of checks, drafts, promissory notes and securities;
2. Any misappropriation of funds, securities, supplies or any other asset;
3. Any irregularity in the handling or reporting of money transactions;
4. Disappearance of furniture, fixtures and equipment;
5. Seeking or accepting anything of material value from vendors, consultants or contractors doing business with the City in violation of the City's Charter, Administrative Order Manual, etc.;
6. Any computer-related activity involving the alteration, destruction, forgery or manipulation of data for fraudulent or malicious purposes or misappropriation of City-owned software; and
7. Any similar or related irregularity.

Included in the above definition is any irregularity or suspicion of an irregularity involving vendors, contractors, consultants, City personnel, agencies (or employees thereof), agents, servicing agents, unknown parties or City property.

Applicability

This procedure applies to all employees of the City of Fresno.

It is intended that all managers are aware of this procedure, since good business practice dictates that every suspected fraud, misappropriation or other irregularities are promptly identified and investigated.

General Policy and Responsibilities

1. It is the City's intent to fully investigate any suspected acts of fraud, misappropriation or other irregularity. The investigation will be conducted regardless of the suspected wrongdoer's length of service, position, title or relationship with the City. Any employee who commits a criminal act will be referred for prosecution.
2. Department Directors or managers are responsible for instituting and maintaining a system of internal controls to provide reasonable assurance of the prevention and detection of fraud, misappropriations and other irregularities. They should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indication that any fraud, misappropriation or irregularity is or was in existence.
3. When a fraud, misappropriation or other irregularity is detected or reasonably suspected, Internal Audit should be contacted immediately. Internal Audit will then notify the City Controller, City Manager and City Attorney's Office. The City Attorney will determine the extent of any potential criminal activity. If any potential criminal activity exists, the Fresno Police Department will conduct the investigation, assisted by Internal Audits. If no potential criminal activity exists, the matter will be reviewed by Internal Audit, with assistance from the City Attorney's Office, as appropriate.

4. The Principal Internal Auditor will notify the City Controller, City Manager and the Department Director of a reported allegation of fraudulent conduct, upon the start of the investigation, to the extent practical. Throughout the investigation these officials will be informed of pertinent investigative findings.
5. Upon conclusion of the investigation, the results will be reported to the appropriate City officials.

The City intends to pursue every effort to obtain recovery of City losses from the offender, including notification of the bonding company, court-ordered restitution or other appropriate source(s).

Procedures

1. A City employee or member of the public who suspects dishonest or fraudulent activity is to notify the City's Principal Internal Auditor. Callers may remain anonymous if they wish. **All information received will be treated in a confidential manner, including the name of the reporting person, if so desired by that person, to the extent permitted by law.**
2. It is the City's intent to protect any employee or person who discloses information of suspected violation of this policy from retaliatory actions by other individuals, employees, managers, agencies or independent contractors.
3. City employees not directly involved in an investigation shall not attempt to contact the suspected individual in an effort to conduct interviews or direct an investigation to determine facts or demand restitution.
4. Employees will cooperate with the investigative process and with law enforcement agencies in the detection, investigation and reporting of conduct covered by this policy, including prosecution of offenders.
5. Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is underway, or making any statements that could provide a basis for a suit for false accusation or other offenses.
6. Employees should not discuss the case unless necessary to the conduct of the investigation and until the same is concluded. The proper response for any inquiries from the suspected individual, his representative or attorney should be, "I am not at liberty to discuss this matter."
7. Information obtained as a result of an investigation is subject to the laws regarding public records and confidentiality.

EXHIBIT A

OVERVIEW OF THE INTERNAL AUDIT PROCESS

1. Internal Audit develops an annual Audit Plan and submits it through the Budget Manager and to the City Manager for approval. This plan may change throughout the year as organizational needs change and as Special Projects are requested by the Mayor, City Manager or Department Directors.
2. Preliminary audit work is performed to determine the objectives, scope and methodology of each audit/special project.
3. An audit entrance meeting is held with the department management involved in the audit. The objectives, scope, methodology and timing of the audit are discussed.
4. Field work is performed by the Internal Auditor(s) with the assistance and cooperation from department management and staff.
5. Audit findings are communicated by Internal Audit to Department Management during the course of the fieldwork and at completion of the audit.
6. The audit fieldwork is completed by the Internal Auditor(s).
7. Internal Audit prepares the draft report and reviews it with the Budget Manager for input and suggested changes.
8. A draft audit report is issued to Department Management.
9. Further audit work and/or meetings with the department to clarify or resolve any issues are conducted as needed.
10. Management's written response (comments) to the draft audit findings and recommendations are to be submitted to Internal Audit within two weeks of receiving the draft audit report.
11. The final audit report including management's response is issued to the Mayor, City Council, City Manager and Department Management.
12. A follow-up review may be conducted approximately 6 -12 months after the final report is issued. This review determines the implementation status of recommendations from the original audit.
13. A final follow-up review report is issued to the Mayor, City Council, City Manager and Department Management.