

R&E Report Accompanying the Resolution

HEEDING THE AUDITOR'S ADVICE: "Establish an Independent Internal Audit Function"

Key to our success as a community is that the people of the community have confidence in the government and are assured that their tax resources are being used effectively.

—Arlington County Board Chair Jay Fiset in 2005⁽¹⁾

On October 31, 2012, Arlington County's external auditor, CliftonLarsonAllen, noted the following in a letter accompanying its audit report on the county's fiscal year (FY) 2012 financial statements:

At present, the County does not have an independent internal audit function. We believe that an organization with the County's size and complexity warrants consideration of an internal audit function.(2)

Clifton's letter describes several "substantial benefits" that an independent internal audit function could provide:

- *Strengthening the County's internal controls over assets and increasing the reliability of the accounting records.*
- *Increasing assurance that County policies are being adhered to and that departmental procedures are being reviewed objectively.*
- *Ensuring that each department is accounting and reporting in a consistent manner and that they are operating in accordance with management's wishes.*
- *Making procedural reviews to determine that various departments are operating efficiently.*(3)

The auditor's letter mirrors concerns expressed in the Arlington County Civic Federation Revenues & Expenditure (R&E) Committee's FY2011 budget report⁽⁴⁾, which noted that two full-time-equivalent employee (FTE) internal auditor positions (one in purchasing and one in accounting) were cut from the Department of Management & Finance (DMF) budget in FY2011.

⁽⁵⁾ In reaction to this reduction in audit staffing, R&E recommended the appointment of an inspector general or a special auditor in its FY2012 and FY2013 reports.⁽⁶⁾

The County's Response to the Auditor's Recommendation

In its response to CliftonLarsonAllen the county stated, "The County recognizes the importance of an independent internal audit function and anticipates presenting a proposal to revitalize this function as part of the FY 2014 budget."⁽⁷⁾ However, the county's only visible step toward establishing an independent internal audit function is confined to a single line in its FY2014 Adopted Budget:

[O]ne-time funding for internal audit services (\$250,000)⁽⁸⁾

The FY2014 Adopted Budget lists only one-time (carryover) money for the establishment of an independent internal audit function. It otherwise does not indicate how much permanent funding, if any, has been allocated to establish and operate an ongoing internal audit function. Moreover, there are no new FTE or part-time slots identified in DMF's FY2014 budget, and thus the cuts to the auditing staff in FY2011 appear to be permanent.

Faced with similar issues regarding the sufficiency of its internal audit function, in September 2013 the Arlington Public School Board took a step forward and adopted a formal internal audit policy:

The Arlington School Board is committed to accountability throughout the division, ensuring that public funds are spent wisely and responsibly, that operations are efficient, and that there is full transparency in all Arlington Public Schools (APS) business activities. This commitment has led the School Board to implement an internal audit function.... To ensure that these responsibilities are effectively carried out, the School Board has formed an Audit Committee (the Committee) and has established the position of Internal Auditor (IA)... Internal auditing in APS shall be defined by the Institute of Internal Auditors, as an independent appraisal activity within an organization for the review of operations as a service to the administration or governing body.⁽⁹⁾

Independent Oversight of Governmental Operations

Authors of a 2012 research paper published in the Albany Law Review argue in favor of the inspector general (IG) model, noting, "the use of an auditor alone may be insufficient to fully guard the public's interest, as this authority is typically limited to financial and performance audits. In contrast, an office of inspector general combines the duty of an auditor to conduct financial and performance audits with the authority to further investigate fraud, waste, and misuse of government assets."⁽¹⁰⁾

In considering ways to bolster the Arlington's existing internal auditing efforts, R&E has looked to nearby Fairfax (VA) and Montgomery (MD) counties' independent internal audit models.

Fairfax’s Office of Financial and Program Auditor (OFPA) and Montgomery’s Office of the Inspector General (OIG) are internal audit bodies that report their findings to the Audit Committee of the Fairfax County Board of Supervisors and the Montgomery County Council, respectively. They work in tandem with and do not replicate the work of their fellow internal audit bodies: the Office of Internal Audit (Fairfax) and the Internal Audit Program (Montgomery), which report to their respective county executives (analogous to our County Manager).

Though Fairfax and Montgomery counties have adopted slightly different mechanisms, each has committed significant ongoing resources and professional full-time personnel to support their independent internal audit functions. And each county’s efforts have produced a measureable return on investment, resulting in savings and greater efficiency for those counties and their taxpayers.⁽¹¹⁾

The “independent” requirement applies equally to internal and external audit operations, which is why the Institute for Internal Auditors (IIA) requires certain “essential ingredients necessary to support an effective audit function,”⁽¹²⁾ irrespective of whether those functions are conducted by internal or external means. These “essential ingredients” include organizational independence in which the auditing body (either internal or external) is given sufficient resources, has control over its own budget, is permitted to hire qualified staff, has the authority to determine what should be evaluated or reviewed, and enjoys unfettered access to all relevant information and personnel.

Inspector General Model Gains Momentum

In a July 2013 Governing.com article—“States and Localities Realize the Importance of Inspectors General”—Katherine Barrett and Richard Greene (national experts in government management and policy) note the growing trend among state and local governments to establish an office of inspector general.⁽¹³⁾

Offices of inspectors general are now operating in or near many urban centers across the nation, including Albuquerque, NM; Chicago, IL; Cook County, IL; Jacksonville, FL; Miami-Dade County, FL; Montgomery County, MD; New Orleans, LA; Palm Beach County, FL; and Yonkers, NY.⁽¹⁴⁾

In a post to the State Council of Governments’ website, Philip Zisman, Executive Director at the Association of Inspectors General, explains the growing acceptance of the IG model:

Inspectors general at all levels of government operate under similar mandates. They provide independent oversight of governmental operations and monitor government for accountability and transparency by conducting investigations and audits in an effort to promote economy, efficiency and effectiveness and to detect and prevent fraud, waste, abuse and corruption.⁽¹⁵⁾

In conclusion, OIGs and similar independent internal audit bodies that are created to evaluate program efficiency and effectiveness can provide meaningful oversight to inform the budget

process, identify savings and efficiencies to ensure the best allocation of limited resources, and give citizens confidence that their government is utilizing tax dollars wisely.

Respectfully submitted:

Suzanne Smith Sundburg

Member of the ACCF Revenues & Expenditures Committee

Endnotes:

- (1) Arlington County 9/20/05 news release: http://www.arlingtonva.us/NewsReleases/Scripts/viewdetail_print.asp?Index=1868
- (2) CliftonLarsonAllen 10/31/12 letter to management, p. 1
- (3) CliftonLarsonAllen 10/31/12 letter to management, p. 1
- (4) (7) ACCF R&E Committee Report on the County Manager’s Proposed FY11 Budget, presented April 6, 2010, p. 5, <http://www.civfed.com/budgFY11reptcomb.pdf>
- (5) Arlington Co. FY2011 Adopted Budget, p. 46, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file78929.pdf>
- (6) ACCF R&E Committee Report on the County Manager’s Proposed FY12 Budget, presented 4/5/11, pp. 11–13, <http://www.civfed.org/reandschools2011.pdf> and ACCF R&E Committee Report on the County Manager’s Proposed FY13 Budget, presented 4/3/12, pp. 6–7, <http://www.civfed.org/reandschools2012.pdf>
- (7) CliftonLarsonAllen 10/31/12 letter to management, p. 2
- (8) Arlington Co. FY2014 Adopted Budget, p. 157, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file89779.pdf>
- (9) Arlington Public Schools Policy, 10-4.01–Internal Audit, effective 9/12/13, p.1, [http://www.boarddocs.com/vsba/arlington/Board.nsf/files/9BEK9W50CEA3/\\$file/F-1%20School%20Board%20Policy%202010-04.01%20Internal%20Audit.pdf](http://www.boarddocs.com/vsba/arlington/Board.nsf/files/9BEK9W50CEA3/$file/F-1%20School%20Board%20Policy%202010-04.01%20Internal%20Audit.pdf)
- (10) Patricia Salkin & Zachary Kansler, *Albany Law Review*, Vol. 75, No. 1, 2012, Albany Law School Research Paper No. 41, 2011–2012, “Ensuring the Public Trust at the Municipal Level: Inspectors General Enter the Mix,” pp. 95–96, https://papers.ssm.com/sol3/papers.cfm?abstract_id=1974330##

(11) FY 2014 Fairfax Co. Advertised Budget Plan (Vol. 1) – 95, Financial and Program Auditor narrative section, <http://www.fairfaxcounty.gov/dmb/fy2014/advertised/volume1/00137.pdf>; FY 2014 Fairfax Co. Advertised Budget Plan (Vol. 1) – 39 & 41, Office of the County Executive narrative section, see Office of Internal Audit figures at <http://www.fairfaxcounty.gov/dmb/fy2014/advertised/volume1/00102.pdf>; Montgomery Co. OIG, Annual Report of Activity for the Fiscal Year Ended June 30, 2012, p. 16, http://www6.montgomerycountymd.gov/content/InspectorG/pdf/oig_annual_report_fy_2012.pdf; and Montgomery County Office of the Inspector General, Fiscal Years 2012–2013 Work Plan & Fiscal Years 2012–2013 Projected Budget, August 2011, p. 5, <http://www6.montgomerycountymd.gov/content/InspectorG/pdf/IGWorkPlan.pdf>

(12) IIA Global, *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, February 2012, p. 3, & 6–8, https://global.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf

(13) Katherine Barrett and Richard Greene, Governing.com website, “States and Localities Realize the Importance of Inspectors General,” July 2013, <http://www.governing.com/columns/smart-mgmt/col-states-localities-realize-importance-of-inspectors-general.html>

(14) Salkin & Kansler, *Albany Law Review*, Vol. 75, No. 1, 2012, pp. 102–103

(15) Philip Zisman, The State Council of Government’s *Capitol Ideas* website, “The People’s Watchdog—Inspectors General Foster Accountability, Transparency”: http://www.csg.org/pubs/capitolideas/2013_mar_apr/inspectorsgeneral.aspx