

**Reviewing Arlington County's Internal Audit Function FY2011–FY2022**  
**ACCF Revenues & Expenditures Committee**  
**April 2021**

**EXECUTIVE SUMMARY**

Since April 2013, the Arlington County Civic Federation's (ACCF's) Revenues & Expenditures Committee (R&E) has written several reports on Arlington's internal audit function that urge the county to strengthen this function and its internal controls. These reports and their links (for quick reference) are listed below:

- *Report Accompanying the R&E Committee's Resolution Supporting the Adequate Funding of the Arlington County Board Auditor* (FY2021): 3-18-2020 <http://www.civfed.org/newContent/2020-04/2020-04%20R%26E%20County%20Auditor%20Resolution%20and%20Report%20DRAFT.pdf>
- *Report on the County Budget for Fiscal Year 2020* (see "Proposed \$87,000 Cut in Internal Audit Funding"): 4-2-2019  
<http://www.civfed.org/newContent/2019-04/2019-04%20R&E%20FY2020%20RE%20Tax%20Rate%20Resolution%20REPORT.pdf>
- *Arlington County's Internal Controls*: 5-6-2014 <http://www.civfed.org/wp-content/uploads/2014/03/ArlingtonCtyInternalControls.pdf>
- *Heeding the Auditor's Advice: "Establish an Independent Internal Audit Function"*: 10-1-2013  
[http://www.civfed.org/wp-content/uploads/2013/10/Report-accompanying-IG-Resolution\\_10.1.13.pdf](http://www.civfed.org/wp-content/uploads/2013/10/Report-accompanying-IG-Resolution_10.1.13.pdf)
- *Auditing: The "Cornerstone of Good Public Sector Governance"*: 4-9-2013 [http://www.civfed.org/wp-content/uploads/2013/09/ACCF-R+E-FY2014-Budget-IG\\_AuditingSectionFINAL4\\_4\\_13.pdf](http://www.civfed.org/wp-content/uploads/2013/09/ACCF-R+E-FY2014-Budget-IG_AuditingSectionFINAL4_4_13.pdf)

**Why Press to Strengthen Arlington's Internal Audit Function?**

One may ask why R&E has devoted so much attention to Arlington's internal audit function. The answer is simple: Arlington's previous external auditor, CliftonLarsonAllen, repeatedly cited weaknesses in Arlington's internal audit function in its 2012 and 2013 letters to management.<sup>1</sup>

For two years running, CliftonLarsonAllen expressed concern after then-County Manager Barbara Donnellan had cut internal audit staff in FY2011, leaving just a single, 0.5 full-time equivalent (FTE) employee responsible for the county's financial internal audit function. The staff cuts were part of a larger cost-cutting effort to reduce spending after the 2008–2009 housing market collapse and resulting Great Recession.<sup>2</sup>

**In short, a robust internal audit function increases the public's confidence in the sufficiency of the county's financial safeguards and controls, which ensure that money is being handled properly and safeguards are in place and working as intended.** When economic crises occur, which they inevitably do, having ample internal audit bandwidth is crucial to providing timely, objective analysis that informs decision-making—thus assuring that elected officials and staff can allocate finite resources in the most effective and efficient manner.

**Underresourcing and Budget Cuts**

Though Arlington had been making strides in strengthening its internal audit function as recently as calendar year (CY) 2016—by increasing the number of full-time equivalents (FTEs) to 1.50 auditors in the Dept. of Management and Finance (DMF) and adding an internal auditor who reports to the County Board (called the "County Auditor")—that progress has stalled.

In April 2020, R&E expressed concern regarding the county's continued underresourcing of the County Auditor, leading to incompleteness of performance audits in the County Auditor's approved audit work plan. The County

---

<sup>1</sup> Excerpts from the 2012 letter are available here, as the original document is unavailable online: [http://www.civfed.org/wp-content/uploads/2013/10/Report-accompanying-IG-Resolution\\_10.1.13.pdf](http://www.civfed.org/wp-content/uploads/2013/10/Report-accompanying-IG-Resolution_10.1.13.pdf)

<sup>2</sup> *County Manager's FY2011 Proposed Budget*, web p. 41, <https://budget.arlingtonva.us/wp-content/uploads/sites/18/2013/10/FY-2011-Proposed-ALL-IN-ONE-BUDGET.pdf>

Manager also has called for a 2% reduction in the County Auditor’s FY2022 budget, though the basis for this cut isn’t explained in the budget document.<sup>3</sup>

The county’s Audit Committee met just once in 2020 (Jan. 30, 2020), not meeting again until Jan. 28, 2021—with the pandemic being offered as the reason for the lapse in regular, quarterly meetings.

The 2020 Audit Committee meeting materials note that the 1.0 FTE internal financial audit position had remained vacant for the “past 11 months,” leaving the county with just a single 0.5 FTE (part-time) internal auditor to conduct audits of the county’s internal controls, contracts and operations or to investigate calls to the fraud, waste and abuse hotline.<sup>4</sup>

The unfilled 1.0 FTE internal financial audit position is again mentioned in meeting materials for the Audit Committee’s Jan. 28, 2021 meeting.<sup>5</sup>

This 1.0 FTE position remained vacant throughout CY2020 and into CY2021, despite staff’s attempts to fill it. In his FY2022 proposed budget, the County Manager now seeks to “freeze” this open 1.0 FTE position for an indefinite period, reducing inhouse financial audit strength to just two 0.5 FTE positions:

**FY 2022 Proposed Budget Reductions**

**DMF Internal Audit**

↓ Temporary hiring freeze of a portion of a Senior Staff Financial Analyst position (\$89,957, 0.5 FTE)

**IMPACT:** This reduces the Internal Audit function from 1.5 to 1.0 FTE limiting the number of internal audits completed each year and slowing the timeframe of follow-up audits related to remediation actions. It also slows the ability to investigate hotline complaints. Reducing the audit coverage results in an increased likelihood of not remediating areas of risk.<sup>6</sup>

So, for the past two years, DMF’s inhouse internal audit function has relied on single, half-time (0.5 FTE) staff member—essentially the same staffing level as in FY2011 when the then-external auditor cited unacceptable weakness of Arlington’s internal audit function. And now, the County Manager intends to forego hiring a full-time auditor, instead freezing the position at half-time strength for all of FY2022.

In the past, the County Manager has, at times, added money to hire supplementary contractors when the internal audit staff was at less than full strength. For FY2022, however, County Manager is proposing an \$68,500 cut to contract audit support. And at least 4 internal audits appear to be outstanding and postponed. The proposed FY2022 budget document itself explains the impact of these cuts:

**FY 2022 Proposed Budget Reductions**

**DMF Internal Audit**

↓ Reduction of contracted support (\$68,500)

**IMPACT:** This reduction will reduce the number of internal audits conducted each year by three to four audits. Reducing the audit coverage may result in increased likelihood of not remediating areas of risk.<sup>7</sup>

---

<sup>3</sup> *County Manager’s Proposed FY2022 Budget*, p. 134, <https://budget.arlingtonva.us/wp-content/uploads/sites/18/2021/02/FY-2022-Proposed-Budget-All-In-One-02.20.21.pdf>

<sup>4</sup> Jan. 2020 “Update on Internal Audit and the Financial Fraud, Waste and Abuse Hotline to the Audit Committee,” p. 3, <https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/5/2020/01/Z-1-Audit-Committee-Update-January-2020.pdf>

<sup>5</sup> Audit Committee 1-30-2020 meeting minutes, pp. 2–3, <https://commissions.arlingtonva.us/wp-content/uploads/sites/5/2021/01/Audit-Committee-meeting-material-1-28-21.pdf>

<sup>6</sup> *County Manager’s Proposed FY2022 Budget*, p. 153, <https://budget.arlingtonva.us/wp-content/uploads/sites/18/2021/02/FY-2022-Proposed-Budget-All-In-One-02.20.21.pdf>

<sup>7</sup> *County Manager’s Proposed FY2022 Budget*, p. 153, <https://budget.arlingtonva.us/wp-content/uploads/sites/18/2021/02/FY-2022-Proposed-Budget-All-In-One-02.20.21.pdf>

In addition to reducing the number of audits that can be undertaken, these cuts also negatively impact the follow-up of previous audits to ensure that recommended changes are implemented. As of Dec. 2020, there were 58 outstanding items of risk identified in previous financial audits, with “remediation” testing still in process or still awaiting follow-up “testing” by internal audit staff—37 of those items (still to be confirmed) are deemed a “high” or “medium” risk.<sup>8</sup>

Looking at the number of outstanding items of risk identified as of Dec. 2019, there were 55 outstanding items, of which 32 were either “high” or “medium” risk. Year over year (2019 to 2020), the total outstandings increased 5.5%, and the number of high- or medium-risk outstanding items increased 15.6%.<sup>9</sup>

## In Summary

An internal audit function can provide good value only when it receives sufficient resources with regularity. Imposing budget and personnel cuts every time an economic downturn occurs or chronically starving it with too little personnel or funding to meet identified needs is counterproductive and limits the efficacy of this important investment.

Because last year’s R&E report focused on the ongoing resource challenges faced by the County Auditor (a one-person operation), this report concentrates on the impact of the manager’s proposed cuts (and the hiring “freeze”) on DMF’s internal audit function. Supplementary information for each area appears below and offers additional details and context to support R&E’s updated resolution.

Appendix A defines, in general terms, the roles of Arlington’s external and internal auditors as well as its Audit Committee. Appendix B highlights a recurring regulatory noncompliance item—timely filing of complete and accurate conflict-of-interest disclosures—found in the current external auditor’s (Cherry Bekaert’s) regulatory compliance audit. Appendix C contains information on internal audit staffing levels for Virginia agencies as well as a staffing comparison chart from the Institute of Internal Auditors. Appendix D contains a Cherry Bekaert chart illustrating the presence of an internal audit function for top cities with populations of 200,000 or greater.

## SUPPLEMENTARY INFORMATION

### Looking Back

Despite the CliftonAllenLarson’s (the external auditor’s) 2012 and 2013 advice to management, strongly recommending that the county strengthen its internal audit function, the county’s efforts moved slowly. Underresourcing of the internal audit function continued—even as the budget topped \$1.4 billion in FY2014.

### Measurable Progress 2013–2016

After the ACCF passed its resolution supporting a study of in October 2013 and with sustained support from then-County Board member John Vihstadt, the County Board and county staff began planning to restore audit personnel cuts and to make additional improvements to the county’s internal audit function in FY2015.<sup>10</sup>

*From the County Manager:*

“Non-personnel expenses decrease due to the removal of FY 2014 one-time funding for internal audit (\$250,000).”<sup>11</sup>

---

<sup>8</sup> Meeting materials, “FY2020 Summary of Findings,” p. 8, <https://commissions.arlingtonva.us/wp-content/uploads/sites/5/2021/01/Audit-Committee-meeting-material-1-28-21.pdf>

<sup>9</sup> Jan. 2020 “Update on Internal Audit and the Financial Fraud, Waste and Abuse Hotline to the Audit Committee,” p. 11, <https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/5/2020/01/Z-1-Audit-Committee-Update-January-2020.pdf>

<sup>10</sup> “Establish an Independent Authority to Review the Arlington County Budget and Selected Programs and Projects,” [http://www.civfed.org/wp-content/uploads/2013/10/IG-resolution\\_10.1.13.pdf](http://www.civfed.org/wp-content/uploads/2013/10/IG-resolution_10.1.13.pdf)

<sup>11</sup> *County Manager’s Proposed FY2015 Budget*, web p. 159, [http://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/18/2014/02/FY15P\\_Sec-C-DMF.pdf](http://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/18/2014/02/FY15P_Sec-C-DMF.pdf)

*From county staff:*

“We have allocated one position internally within DMF for the internal audit function, bringing it to 1.5 FTE. We do have one position on staff now (in addition to the 1.5) that spends some time on internal audit functions, but when the external audit season happens, he tends to get pulled off on other critical tasks. Additionally, we have \$40k in ongoing funding for audit services as well as the one-time money (\$250k) that we received in FY 2014 and expect to carryover a portion of.”<sup>12</sup>

*From the County Board’s guidance to the County Manager:*

“33. Internal Audit—The County Board fully supports the County Manager’s plans to enhance the County’s internal audit program and the expansion of the County’s ethics program, including the addition of an ethics and fraud hotline. The enhanced audit function should follow best practices in auditing. The Board directs the County Manager to provide an interim report by Oct. 31, 2014, and an assessment of whether the audit function should be independent and to whom it should report by January 2015.”<sup>13</sup>

Over the next two years, the County Manager identified operating funds (not just one-time money) to set up a fraud, waste and abuse hotline (for internal and external reporting of concerns) and to fund the newly created position of the County Board’s internal auditor (the “County Auditor”). Arlington also created an Audit Committee, and for the first time, the county’s website included web pages dedicated to the county’s internal audits—making completed audits fully accessible to the public.<sup>14</sup>

R&E grew increasingly hopeful that the county had finally turned the corner in strengthening its internal audit function once the new County Auditor was hired and the newly formed Audit Committee began meeting quarterly.

### **Calendar Year 2020 and the Proposed FY2022 Budget**

However, by April 2020, R&E grew increasingly concerned by the county’s continued underresourcing of the County Auditor and the slow pace of completed audits. As a one-person shop, lacking even basic administrative support and very limited contract audit support, the County Auditor can only accomplish so much.

Even with the removal two audits (transferred to inactive status) from the County Auditor’s list of FY2020 active audits and an additional \$60,000 in FY2021 funding for supplemental contract audit support, the Manager projected that the County Auditor would complete just 50% of his approved audit work plan.<sup>15</sup>

**However, the manager’s projection proved to be overly optimistic, with the County Auditor actually being able to complete only 17% of the approved audit work plan.** Though the FY2022 budget document explains this miscalculation on the “pandemic,” it isn’t inconsistent with audit work plan completion percentages from earlier years. Without sufficient resources, this internal audit effort cannot be expected deliver the substantial results that it otherwise would. And it is reasonable to begin asking why the manager believe that more audit work can be accomplished with the same or fewer resources.

---

<sup>12</sup> 4-14-2014 e-mail from Michelle Cowan, then-director of DMF (not available online)

<sup>13</sup> Arlington County Board 4-22-2014, Recess Meeting, “budget guidance item 33,” discussed beginning at 4:41:14  
[http://arlington.granicus.com/MediaPlayer.php?view\\_id=2&clip\\_id=2764&meta\\_id=120249](http://arlington.granicus.com/MediaPlayer.php?view_id=2&clip_id=2764&meta_id=120249)

<sup>14</sup> 11-9-2016 Arlington County new release, <https://newsroom.arlingtonva.us/release/arlington-launches-public-financial-fraud-waste-and-abuse-hotline/>; Arlington County Financial Fraud, Waste and Abuse Hotline web page, <https://topics.arlingtonva.us/ffwa/>; Arlington County Auditor web page, <https://countyboard.arlingtonva.us/county-auditor/>; Arlington County Internal Audit Services (DMF) web page, <https://departments.arlingtonva.us/arlington-county-internal-audit-services/> and Arlington County Audit Committee web page, <https://commissions.arlingtonva.us/audit-committee/>

<sup>15</sup> County Manager’s Proposed FY2021 Budget, <https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/18/2020/02/FY-21-Proposed-All-in-one-02242020.pdf>

It's also important to remember that the County Board's charge for its County Auditor specifically requires sufficient funding to "carry out the County Auditor's annual audit work plan." The County Board in consultation with the Audit Committee approves the County Auditor's work plan each year.<sup>16</sup>

Compare Arlington's County Auditor's performance indicators with those of Fairfax's Office of the Financial Program Auditor (Fairfax's counterpart) for FY2021:

### Office of the Financial Program Auditor

#### Objective

To review County agency operations to identify opportunities for savings and/or more efficient and effective operations, and achieve agreement with agency directors on implementing at least 90 percent of recommended improvements.

#### Performance Indicators

Indicator	Prior Year Actuals			Current Estimate	Future Estimate
	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate/Actual	FY 2020	FY 2021
<b>Output</b>					
Quarterly reports issued to the BOS	4	4	4/4	4	4
<b>Efficiency</b>					
Fiscal Resources/Cost Mitigation identified as a percent of agency expenditures	8,675%	11,263%	200%/3,196%	200%	200%
<b>Service Quality</b>					
Percent of audit reports completed on time	100%	100%	100%/100%	100%	100%
<b>Outcome</b>					
Percent of recommendations accepted by the Audit Committee	100%	100%	90%/100%	90%	90%

With proper resources and support, Fairfax's Office of Financial Program Auditor (with two, full-time auditors) is able to complete 100% of its audit work plan, and 100% of that office's recommendations are accepted by its Audit Committee.

Note: In Arlington, it is NOT the Audit Committee that accepts the auditors' recommendations; instead, staff members who responsible for the areas being audited apparently are permitted to pick and choose which of the County Auditor's recommendations they agree with.

#### Impact of FY2022 Budget Cuts on Arlington's Fraud, Waste and Abuse Hotline

As noted earlier in this report, Arlington launched its Fraud, Waste and Abuse Hotline (open to the public as well as to county employees) in November 2016. Here is what the county says about the hotline:

Arlington County's Financial Fraud, Waste and Abuse Hotline builds on our values of good government and transparency operating from a foundation of integrity. The hotline offers a confidential and secure way to report suspected incidents of financial fraud, waste and abuse that will have a negative impact on County operations and/or resources...

<sup>16</sup> County Board charge for the County Auditor, <https://countyboard.arlingtonva.us/wp-content/uploads/sites/22/2016/03/Revised-Auditor-Board-Charge-FINAL-6-20-17.pdf>

Examples of financial fraud, waste and abuse include (but not limited to):

- Conflicts of interest
- Falsification of records
- Misuse of County resources
- Procurement irregularities
- Bribes, kickbacks, illegal gratuities
- Embezzlement or theft<sup>17</sup>

Unfortunately, the understaffing of DMF's internal audit function not only reduces the number of financial audits it can conduct, it also means that there isn't enough staff to investigate all of the tips received by the Fraud, Waste and Abuse Hotline.

Allegations of fraud, embezzlement or the intentional circumventing of financial controls, in particular, are events that must be investigated promptly. Otherwise, evidence can disappear and that can make recovering funds or holding people accountable difficult or impossible.

If DMF has been unable to hire anyone to fill a full-time internal audit position for two years—especially at a time when unemployment is high—then cutting the position back to half-time status is unlikely to attract qualified candidates. Typically, when professional positions remain unfilled for years, there is an underlying problem with pay or working conditions or whatever that need to be examined and remedied.

---

<sup>17</sup> Arlington County Financial Fraud, Waste and Abuse Hotline web page, <https://topics.arlingtonva.us/ffwa/>



## APPENDIX A: External and Internal Auditors and the Audit Committee—What Roles Do They Play?

**DMF's Internal Audit Staff.** The county's internal auditors (inhouse and contract support) report directly to the Director of the Dept. of Management and Finance and, ultimately, to the County Manager.

They utilize statistical sampling methods to select records or test internal controls at random. If an auditor finds problems with a certain percentage of that random sampling, he or she will dig deeper. If there are few or no problems, then the auditor moves on to examine a different set of records or internal controls.

One aspect of internal financial auditing is the testing of internal controls or a review of operations and compliance. This function would be analogous to the balancing of our own checkbooks or reviewing our credit card statements for errors. Or, the internal auditors might match purchase orders to vendor payments to confirm the amounts or timeliness of payments.

**Auditor to the County Board (the "County Auditor").** Though he reports to the County Board and Audit Committee, the County Auditor is considered part of the county's internal audit function. This position is similar in function to the Office of Inspector General in Montgomery County, Maryland, or Fairfax County's Auditor of the Board/ Office of Financial and Program Audit. Frequently referred to as "performance" audits, this type of auditing involves the independent assessment of a department's or program's operations to determine whether specific aspects or functions are working as intended to achieve the stated goals.

According to the U.S. Government Accountability Office, "Performance auditing provides objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability." Source: GAO website, <https://www.gao.gov/products/gao-13-868t>

**Audit Committee.** Arlington County's Audit Committee comprises two County Board members; the County Manager; the Director of the Department of Management; and Finance, and three citizen members, including a representative from the Fiscal Affairs Advisory Commission (FAAC). The County Board established the Audit Committee "to provide advice to the Board regarding the exposure of Arlington County government to risk, such as financial, operational, and reputational risks."

The Audit Committee reviews the County Auditor's draft audit work plan, receives final reports on audits and periodic follow-up reports from the County Auditor, consults with the County Manager and Board on funding for the County Auditor, receives updates from DMF on its internal audit work, and receives the external auditor's review of the county's financial statements. Source: Audit Committee web page, <https://commissions.arlingtonva.us/audit-committee/>

**External Auditor.** Currently, the external auditor is Cherry Bekaert. Arlington hires its external auditor to audit the county's financial statements in its Comprehensive Annual Financial Report, or CAFR, to ensure that they are free of material misstatement. Due to the size and complexity of the county's budget, the external auditor cannot review everything and must use statistical sampling to spot-check the county's accounts and records. Intentional or unintentional mistakes or misrepresentations may mislead auditors and affect the quality of the audit.

In addition to financial audits, Cherry Bekaert also performs compliance audits to ensure that Arlington County is in compliance with the Commonwealth of Virginia's laws, regulations, contracts and grant agreements. Appendix B provides an example of a recurring noncompliance issue found by the external auditor in FY2018, FY2019 and FY2020.

## APPENDIX B: Non-material Noncompliance—Conflicts of Interest in FY2018, FY2019 and FY2020

As part of its audit, the external auditor reviews the county's compliance with laws, regulations, and various requirements associated with contracts and grant agreements. It produces a report listing items of noncompliance. Over the past three fiscal years, Arlington County and Arlington Public Schools have failed to comply with Virginia law requiring the timely filing of conflict-of-interest disclosures. It is one example of the types of "non-material" noncompliance items found in these reports.

Relevant sections from each report appear below:

### 2018-001: Non-material Noncompliance—Conflicts of Interest

**Criteria:** Section 2.2-3115 of the Code of Virginia requires that certain local government officials and employees file a Statement of Economic Interest ("SOEI"), Financial Disclosure Statement, and Real Estate Disclosure form with the Clerk of the local governing body by February 1st or prior to assuming office or taking employment.

**Condition:** During our testing of fifty-six (56) County and School Board members, County constitutional officers, and other County officials and personnel required to complete the forms, we identified three (3) instances where forms were not timely filed and seven (7) instances where the forms were not accurately completed.

**Cause:** The County relies on each member, officer and official to completely and timely provide the required forms.

**Effect:** Non-compliance may result in action by the Commonwealth.

**Recommendation:** We recommend the County continue to remind each individual required to complete these forms and of their responsibility for accuracy in completing and timely filing the forms with the Clerk. We further recommend the Clerk's office review the forms for completeness.

**View of Responsible Officials: County:** With regards to a new hire that filed late, the County has revised the offer letter and assignment change templates for required filers to include the language that on or before the first day of employment, the State and Local Statement of Economic Interest form must be completed. We are also requiring new impacted hires to sign a form acknowledging they are a required to file on or before their first day and annually thereafter. The County has taken the steps to re-train Human Resources Liaisons and provided materials with updated information on the timing requirements. With regards to incomplete and missing forms, the County will include additional instructions for completing the form and staff will improve the thoroughness of reviewing each form upon receipt. The County will store the forms electronically to improve organization and reduce the potential for misplaced/misfiled forms.

**Schools:** We will continue to remind each individual School Board member to complete these forms and of their responsibility for accuracy in completing and timely filing the forms with the Clerk. The Clerk will also be requested to review the forms for completeness.

Source: <https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/18/2018/12/Arlington-County-Virginia-6-30-18-Issued-APA-Report.pdf>

### 2019-001: Non-material Noncompliance—Conflicts of Interest (Repeat Finding - 2018-001)

Source: <https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/5/2020/01/Audit-Committee-Arlington-County-6-30-19-APA-Client-Ready.pdf>

### 2020-001: Non-material Noncompliance – Conflicts of Interest (Repeat Finding - 2019-001)

Source: <https://commissions.arlingtonva.us/wp-content/uploads/sites/5/2021/01/Audit-Committee-meeting-material-1-28-21.pdf>



## APPENDIX C: Internal Audit Staffing Levels

### Internal Audit Staffing: How Much Is Enough?

There is no set answer to this question. It isn't a simple numbers game. The training and competence level of staff is a factor, as is the actual independence of the auditors to ask questions and have the necessary access to information.

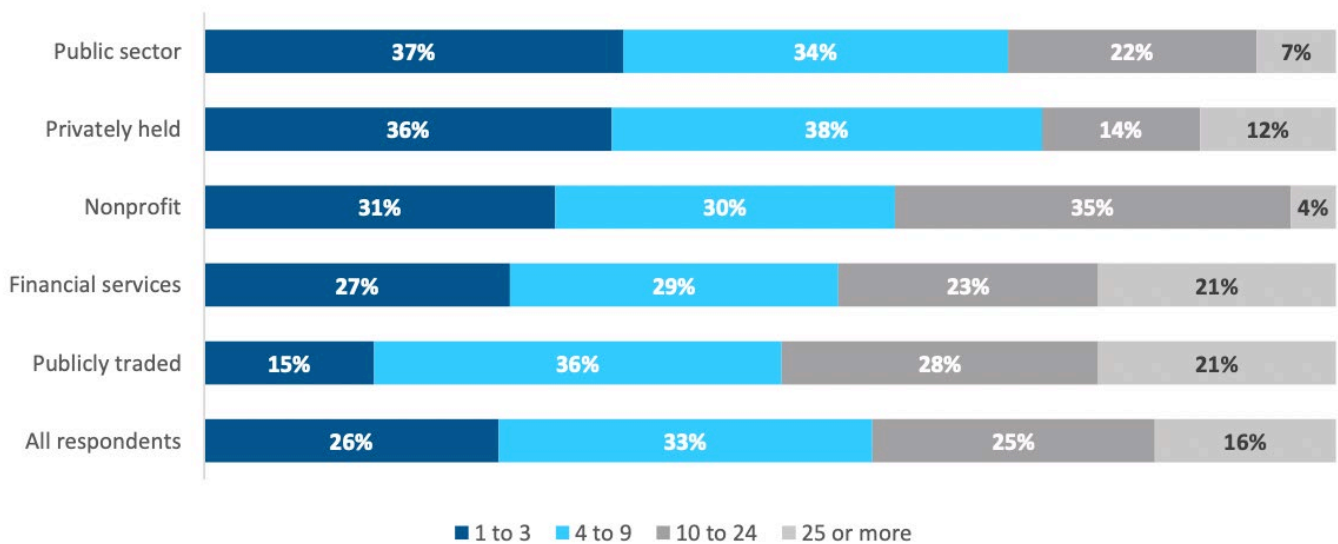
Internal audit functions can work with in-house auditors alone or in concert with contract audit support whose efforts supplement the in-house staff.

In short, an organization's internal audit staff should be adequate for the size and complexity of the organization's budget. Internal audit staff should be able to reliably assure that the organization's financial controls are sufficient and operating as intended. Staff also should be able to cover the annual audit plan, report findings in a timely manner, and follow up on past audits to ensure that corrective recommendations are implemented.

In Virginia, state agencies and higher education institutions with budget sizes similar to Arlington's range from three (3) internal auditors at the Virginia Employment Commission (with a staff of over 800 and an annual budget of \$1.2 billion) to seven (7) internal auditors at the Virginia Community College System (with a staff of over 8,000 and an annual budget of over \$1.03 billion). Source: Virginia Auditor of Public Accounts, "Review of the Internal Audit Function, March 2010," p. 17, <http://www.apa.virginia.gov/reports/InternalAuditReview2010.pdf>

A 2017 survey of 520 organizations by the Institute of Internal Auditors revealed a similar variety of staffing levels, with 56% of public sector entities staffed with four (4) to twenty-four (24) internal auditors:

**Exhibit 1: Number of Full-time Equivalent Staff by Organization Type**



**Note:** Q35: Approximately how many full-time equivalent employees make up your internal audit department? *n* = 520.

Source: "Internal Audit Management Insights," p. 3, <https://dl.theiia.org/AECPublic/Internal-Audit-Management-Insights-A-Pulse-of-Internal-Audit-Supplemental-Report.pdf>

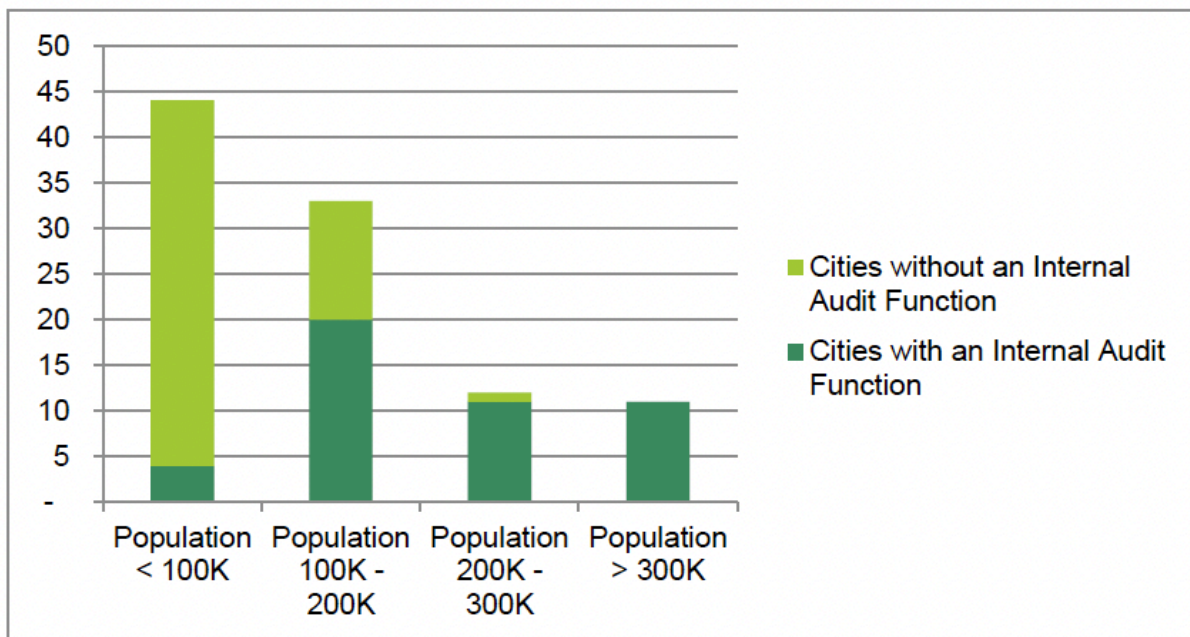
## APPENDIX D: Cherry Bekaert’s Review of Local Government’s Internal Audit Function

As with Arlington’s previous external auditor (CliftonAllenLarson), Cherry Bekaert, supports the Government Finance Officers Association’s (GFOA’s) best-practice recommendation for the establishment of an internal audit function. Source: GFOA website, <https://www.gfoa.org/materials/internal-audit-function>

Using population as its benchmark, Cherry Bekaert determined the status of the internal audit function for the top 10 cities nationwide and the Southeast’s top 100 cities.

Its presentation—“How Does Your Local Government Stack Up? A Brief Look into the Existence of the Internal Audit Function” (not publicly available online)—confirms that nearly all local governments serving communities of with a population of 200,000 or more have an internal audit function.

The below chart further demonstrates the existence and absence of Internal Audit based on population:



- ▶ Only 1 of 23 Cities with a population > 200,000 did not have an Internal Audit Function.
- ▶ Of 33 Cities with populations 100,000 – 200,000, 13 did not have an Internal Audit Function.
- ▶ Conversely, of 44 Cities with populations < 100,000, only 4 had an Internal Audit Function.

Data Sources: Analysis<sup>3</sup> of the existence of an internal audit function in the top 10 cities<sup>1</sup> in the U.S. and the top 100 cities<sup>1</sup> in the Southeast<sup>2</sup>

1 – based on U.S. Census Bureau 2011 Population Estimates

2 – based on the Association of American Geographers definition, which includes Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia

3 – based on availability of information from each City’s website