

AUDITING: THE “CORNERSTONE OF GOOD PUBLIC SECTOR GOVERNANCE”

“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 Fisetete in 2005⁽¹⁾

I couldn’t agree more with Mr. Fisetete’s statement, particularly now that the county’s budget exceeds \$1 billion.

Arlington Lacks Robust Internal Auditing

It may be somewhat startling to learn that the Department of Management and Finance (DMF)—which includes the accounting and purchasing divisions—lacks an internal audit function or division.

In the County Manager’s proposed FY2014 budget, the manager reports that she has allocated one-time money for the “funding of an internal audit function in Department of Management and Finance (DMF).”⁽²⁾ On the same page, she also writes that her “base budget includes a few critical new initiatives,” among them “**the establishment of an internal audit function in DMF.**”⁽³⁾

Although the manager identifies \$250,000 in one-time money to fund “internal audit services,”⁽⁴⁾ she does not specify the dollar amount added to her base budget or otherwise indicate how much permanent funding she has allocated to establish and operate an internal audit function. Moreover, the manager has not proposed adding any dedicated, full-time-equivalent employees (FTEs) in FY2014 to implement her internal audit initiative, and current efforts appear to rest solely on the use of part-time staff, the occasional use of contractors, and other unspecified resources.

A quick look at DMF’s 10-year history⁽⁵⁾ reveals a cut of two internal auditor FTE positions (one in purchasing and one in accounting) from DMF in FY2011. According to Arlington’s FY2011 Adopted Budget, this “reduction is partially offset by the addition of \$37,000 to provide contract audit services on an as-needed basis. IMPACT: The duties of the positions will be redistributed to remaining staff and contracted out as necessary. This may increase the time needed to follow through on requested internal audits and update accounting policies, and review capital projects in Purchasing.”⁽⁶⁾

Not only did R&E flag Arlington’s insufficient auditing support in its FY2011 report⁽⁷⁾ (prompting calls for the appointment of an inspector general or a special auditor in its FY2012 and FY2013 reports), this shortcoming also caught the eye of Arlington’s external auditor, CliftonLarsonAllen. Along with its review of the county’s financial statements in the FY2012 Comprehensive Annual Financial Report (CAFR), Clifton provided the following assessment:

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.⁽⁸⁾

Management provided this response:

Due to budget constraints, the Internal Audit function within the Department of Management and Finance was substantially reduced through the elimination of positions. Since then, the County has utilized existing staff resources, part time audit staff as well as some contractor funding to provide internal audit support. 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.⁽⁹⁾

In summary, Arlington County did have two full-time auditor positions dedicated to its internal audit function until that endeavor was largely dismantled by budget cuts in FY2011.

Independent Auditing—An Integral Function of Government

In its *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, the Institute of Internal Auditors (IIA) Global makes a strong case for robust, independent auditing in government:

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. ...

An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable. Auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption.⁽¹⁰⁾

The IIA purposely avoids dictating a particular method (i.e., internal vs. external), focusing instead on the "essential ingredients necessary to support an effective audit function,"⁽¹¹⁾ including organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, and objective and competent staff.⁽¹²⁾

On the other hand, CliftonLarsonAllen's recommendation lists several "substantial benefits"⁽¹³⁾ that an 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 [*sic*] operating in accordance with management's wishes.
- Making procedural reviews to determine that various departments are operating efficiently.⁽¹⁴⁾

Whereas the external auditor reviews the county's financial statements annually to ensure they are free of material misstatement, CliftonLarsonAllen faces some inherent limitations. 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. Acts of collusion, forgery, deliberate failure to record transactions, management override of controls, or intentional misrepresentations can mislead auditors and affect the quality of the audit.

For example, in February 2012, a former county employee pleaded guilty to embezzlement, forgery, and money laundering. The employee embezzled nearly \$12,000 in funds belonging to the Arlington County Fair. The employee was caught when confronted by colleagues who noticed something was wrong.⁽¹⁵⁾

Unless specifically tasked to do so, an external auditor also will not evaluate whether the county or its agents have committed errors in judgment. The Artisphere provides one example. In a June 2009 board report, county staff noted, "on-going operations of the Cultural Center [subsequently named the Artisphere] can be achieved with no new County appropriations, as confirmed by an independent third party [Webb Management Services]."⁽¹⁶⁾

Despite significant public misgivings and deep skepticism, the Artisphere was approved in 2009. This decision was reached despite the fact that it required spending an estimated \$4 million for front-end capital improvements and foregoing approximately \$10 million in potential revenue that may have been derived from terminating the site's lease early—all at a time when the manager had proposed eliminating 105 FTE positions, closing a nature center, half-closings of three branch libraries, and cutting maintenance capital PAYG [Pay-As-You-Go] funds by 69%.⁽¹⁷⁾

The projected attendance and revenue figures failed to materialize. In FY2011, the facility required net tax support of "\$2.1 million (triple the original business plan)."⁽¹⁸⁾ In FY2012, it again required net tax support of approximately \$2.3 million. The adopted FY2013 net tax support figure is \$1.586 million, and the manager proposes net tax support of \$1.8 million for the Artisphere (\$900,000 in one-time funds, and \$900,000 in ongoing funds) in FY2014.⁽¹⁹⁾

On April 3, 2012, Civic Federation delegates voted in favor of a "separate resolution recommending no further funding for the Artisphere if it cannot meet its financial goals by the end of [calendar year] 2012."⁽²⁰⁾ The County Manager is now finally calling FY2014 a "transition year" for the Artisphere, but it isn't clear when there will be an end to taxpayers' support of the Artisphere.⁽²¹⁾

What makes the prior-year defunding of the internal audit function (and the mostly undefined support proposed for FY2014 and future years) even more puzzling is the fact that the county has benefited financially when its audit function was more robust. In 2005, it established the Committee on [for] Program Performance (CPP), which quickly identified three targets for performance reviews, including the Arlington County Jail's inmate medical services.⁽²²⁾ DMF received \$100,000 in FY2006 "to hire third party consultants to conduct program performance reviews to be analyzed by the newly created Committee on Program Performance."⁽²³⁾

By February 2006, the county reported on the audit results of jail inmate medical services noting, “Many of the audit’s recommendations involved tightening controls over the medical services contractor and establishing clearer lines of authority in order to control future costs. The audit provided valuable information for the Sheriff to evaluate to achieve a more cost effective way of providing jail medical services.”⁽²⁴⁾

Yet, in the manager’s proposed FY2010 budget, she recommended cutting \$104,500 to “eliminate consultant funds for CPP,”⁽²⁵⁾ with the manager acknowledging “Reviews of County programs will continue to be performed by County staff, but less frequently and without recourse to outside experts.”⁽²⁶⁾ The CPP has apparently issued no other reports since that time.

Costs vs. Benefits of Effective Auditing

When budgets are tight, governments move to trim all unnecessary expense. Eliminating meaningful oversight of the county’s finances, however, is counter-productive. A well-supported, independent auditing function can provide useful assistance in identifying savings and efficiencies—helping government to get the best bang for every taxpayer buck.

A look at two neighboring counties, Fairfax County and Montgomery County, demonstrates this point. Fairfax County operates two internal auditing offices in tandem. There is a Board of Supervisors-appointed Financial and Program Auditor of the Board, who operates a 3-person office and works under the supervision of the board’s Audit Committee. This office “provides an independent means for determining the manner in which policies, programs and resources authorized by the Board of Supervisors are being deployed by management and whether they are consistent with the intent of the Board and in compliance with all appropriate statutes, ordinances and directives.”⁽²⁷⁾ If the Arlington County Board had possessed similar independent auditing support, it may have reached different conclusions about funding the Artisphere.

In FY2010, the operating cost for Fairfax’s office of the Financial and Program Auditor of the Board was approximately \$250,000. The financial benefit to the county, based on the reports and recommendations of the Auditor of the Board, was 601% times cost, or approximately \$1.5 million.

In FY2011, the operating cost was \$279,390, and the financial benefit to the county was 3,114% times cost, or approximately \$8.7 million. In FY 2012, the operating cost was \$318,439, and the financial benefit to the county was 1,404% times cost, or approximately \$4.5 million.⁽²⁸⁾

There is also an Office of Internal Audit that works under the direction of the Fairfax County Executive (similar to our County Manager). With a staff of 14 and a budget of between \$1.2 and \$1.34 million, this office “assists senior management in efficiently and effectively implementing” county programs. “The office works to proactively identify risks, evaluate controls, and make recommendations that will strengthen County operations.”⁽²⁹⁾

A long list of reports issued by the Fairfax County Office of Internal Audit can be found at <http://www.fairfaxcounty.gov/audit/operational2.htm>. Whereas many of these reports

chronicle business process audits (which lack a specific dollar-amount calculation of the resulting financial benefit), some of the audit reports do quantify the financial benefit to the county. In its December 2011 review of the architect and engineer contract for the Department of Public Works & Environmental Services, the Office of Internal Audit identified an estimated \$1.67 million in savings/financial benefit to the county resulting from that audit.⁽³⁰⁾

Montgomery County, Maryland, created an Office of the Inspector General (IG) in 1997 “to serve as a watchdog to detect and prevent fraud, waste, and abuse in County government operations.” Although the Inspector General is appointed by the County Council, the IG “is solely responsible for choosing topics for review after carefully considering available resources and the mission of the Office.”⁽³¹⁾

The table below, from the IG office’s FY2012 Annual Report, presents its performance measures for a single year.⁽³²⁾

Performance Measure	Budget	Actual
Financial benefits resulting from implementation of OIG recommendations:	\$1.00 million	\$1.56 million
Percent of complaints reviewed and action initiated within 5 business days:	90%	95%
Complete inquiries within 60 days:	70%	80%
Percent of complaints resolved or referred to management within 90 days:	70%	94%
Percent of audit/inspection/investigation reports completed within 6 months:	50%	89%
Percentage of audit/inspection/ investigation recommendations accepted:	67%	95%

Financial benefits include cost reductions, savings, questioned costs, or County funds put to different use.

According to the IG website, there are five professional staff positions and one administrative staff position. In the IG Work Plan for FY2012–2013, the annual budget for personnel and operating expenses totaled \$665, 510 in FY2012 with a zero percent increase in FY2013.⁽³³⁾ There also is an Internal Audit Program in the Department of Finance, as mandated by the county’s charter, but there appears to be no breakout listing the program’s budget, size, or scope of activities separate from the Department of Finance.

Though Fairfax and Montgomery counties have adopted different mechanisms, each has committed significant ongoing resources and professional full-time personnel to support their respective 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.

Recent events in Arlington County—mounting discontent over the ongoing taxpayer support devoted to keeping the Artisphere afloat, taxpayers’ demonstrated opposition to the Columbia Pike streetcar at the recent town hall, and the public outcry over the eye-popping \$1 million price tag for a single bus Super Stop—provide clear evidence that citizens are losing confidence

in their local government and its ability to utilize resources in an efficient, effective, and practical manner.

Although it's a welcome step in the right direction, the County Manager's proposal in her FY2014 budget is vague and appears insufficient to support the establishment of a robust, permanent internal audit function in Arlington County. No effective internal audit function can ever be established if it is treated as an afterthought, subject to elimination or significant reduction when money is tight. In fact, the most advantageous time to have a strong, independent audit function is during economic downturns when difficult choices must be made and every dollar counts.

If Arlington County cannot or will not provide sufficient resources, authority, and independence to sustain a robust and permanent internal audit function, then the establishment of an office of inspector general or special independent auditor—or whatever statutory option may be available—is all the more necessary.

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Endnotes:

- (1) Arlington County news release dated September 20, 2005, http://www.arlingtonva.us/NewsReleases/Scripts/viewdetail_print.asp?Index=1868
- (2) Arlington County Manager's FY2014 Proposed Budget, web p. 21, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (3) Arlington County Manager's FY2014 Proposed Budget, web p. 21, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (4) Arlington County Manager's FY2014 Proposed Budget, web pp. 174 & 178, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (5) Arlington County Manager's FY2014 Proposed Budget, web p. 186, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (6) Arlington County FY2011 Adopted Budget, p. 46, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file78929.pdf>
- (7) Arlington County Civic Federation, Revenues & Expenditures Committee, Report on the County Manager's Proposed FY11 Budget, presented April 6, 2010, p. 5, <http://www.civfed.com/budgFY11reptcomb.pdf>
- (8) CliftonLarsonAllen letter to management dated October 31, 2012, p. 1
- (9) CliftonLarsonAllen letter to management dated October 31, 2012, p. 2
- (10) IIA Global, *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, February 2012, pp. 5–6, https://global.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf
- (11) IIA Global, *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, February 2012, p. 3, https://global.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf

- (12) IIA Global, *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, February 2012, pp. 6–8, https://global.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf
- (13) CliftonLarsonAllen letter to management dated October 31, 2012, p. 1
- (14) CliftonLarsonAllen letter to management dated October 31, 2012, p. 1
- (15) ARLnow.com, “Guilty Plea Entered in County Fair Embezzlement Case,” February 3, 2012, <http://www.arlnow.com/2012/02/03/guilty-plea-entered-in-county-fair-embezzlement-case/>
- (16) County Board staff report dated June 9, 2009, <http://www.arlingtonva.us/departments/parksrecreation/scripts/planning/InDesign/pdfs/file70795.pdf>
- (17) Arlington County Civic Federation, Revenues & Expenditures Committee, “Report on the Cultural Center proposed for the former Newseum space,” presented April 7, 2009, pp. 2–3, <http://www.civfed.org/budgfy10cultcent.pdf>
- (18) Arlington County Civic Federation, Revenues & Expenditures Committee, Report on the County Manager’s Proposed FY13 Budget, presented April 3, 2012, p. 12, <http://www.civfed.org/reandschools2012.pdf>
- (19) Arlington County Manager’s FY2014 Proposed Budget, web p. 683, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (20) Arlington County Civic Federation, minutes taken for April 3, 2012, meeting, <http://www.civfed.com/min1204.pdf>
- (21) Arlington County Manager’s FY2014 Proposed Budget, web p. 683, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file88788.pdf>
- (22) Arlington County news release dated September 20, 2005, <http://www.arlingtonva.us/NewsReleases/Scripts/ViewDetail.asp?Index=1868>
- (23) Arlington County FY2013 Adopted Budget, p. 136, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file86579.pdf>
- (24) Arlington County news released dated February 28, 2006, <http://www.arlingtonva.us/NewsReleases/Scripts/ViewDetail.asp?Index=1967>
- (25) Arlington County Manager’s FY2010 Proposed Budget, web p. 39, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file69321.pdf> and Arlington County FY2010 Adopted Budget, Budget Reduction List, p. 3, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file70518.pdf>
- (26) Arlington County Manager’s FY2010 Proposed Budget, web p. 145, <http://www.arlingtonva.us/departments/ManagementAndFinance/budget/file69321.pdf>
- (27) FY 2014 Fairfax County Advertised Budget Plan (Vol. 1) – 95, Financial and Program Auditor narrative section, <http://www.fairfaxcounty.gov/dmb/fy2014/advertised/volume1/00137.pdf>
- (28) All cost-benefit figures for FY2010–FY2012 were obtained in a telephone interview with the Fairfax County Auditor of the Board on March 29, 2013, and were subsequently confirmed via e-mail.
- (29) FY 2014 Fairfax County Advertised Budget Plan (Vol. 1) – 39, Office of the County Executive narrative section, see Office of Internal Audit figures at <http://www.fairfaxcounty.gov/dmb/fy2014/advertised/volume1/00102.pdf>
- (30) Final Report of the Office of Internal Audit on the Department of Public Works & Environmental Services and Fairfax County Park Authority, Review of Architect & Engineer Contract Savings, December 2011, p. 2,

http://www.fairfaxcounty.gov/audit/pdf/reports/2012reports/12-10-01_ae_contract_savings.pdf

(31) Montgomery County Office of the Inspector General website,

<http://www6.montgomerycountymd.gov/oigtmpl.asp?url=/Content/InspectorG/index.asp>

(32) Montgomery County Office of the Inspector General, 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

(33) 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>