

TUCSON UNIFIED SCHOOL DISTRICT NO. 1

**P.O. Box 40400
1010 East Tenth Street
Tucson, Arizona 85717-0400
www.tusd1.org**

MEMORANDUM

TO: Governing Board
Tucson Unified School District

FROM: Ricky Hernández, Chair
TUSD Audit Committee

RE: Internal Auditor Recruitment Update and Operational Recommendations

DATE: January 12, 2017

BACKGROUND¹

The final report from the Operational Efficiency Audit issued in May 2014, included Recommendation 1-2 to the Governing Board related to the implementation of an internal audit function for the District. The internal audit function would work to minimize organizational risks related to non-compliance, theft, and inefficient practices. The recommendation included that the internal audit function develop an internal audit charter, conduct a comprehensive risk assessment and identify the amount and types of resources it needs to implement an internal audit program.

The report also cited a fiscal impact related to hiring an outside firm to conduct an independent risk assessment at an approximate cost of \$75,000. The recommendations went on to recommend that, "...based on the size of TUSD, it should invest \$250,000 a year in an internal audit function." The report cited the use of both a combination of in-house and contract resources; the report identified approximately one-to-three full-time equivalent positions.

SYNOPSIS

At the Audit Committee's November and December meetings, the members expressed concern for the current progress of the recruitment and more importantly, the ability for one individual to perform the functions from the efficiency audit report. The Committee continues to focus on recruiting and hiring a highly qualified individual to be the District's Internal Auditor. However, a common theme during conversations with candidates has been the availability of resources to perform the tasks of the internal audit function as a District unit or department. The Committee gathered information from other comparable

¹ Gibson Consulting Group. (May 2014). Operational efficiency audit for the Tucson Unified School District. Retrieved from <http://tusd1.org/contents/Documents/efficiencyaudit14.pdf>.

government entities that have their own internal audit functions to determine their structure, resources, and impact on their entities.

These are the summarized findings of the Committee from these government entities:

Pima County²

Positions: 5.0-FTE (1 Supervisor, 3 Auditor II's, 1 Auditor I)

Structure: Reports to Division Manager who reports to County Finance Deputy Director with ultimate reporting County Finance Director.

Resources: \$391,248 in salaries and employee-related costs

Activity: 12 audits completed in FY15; 16 audits completed in in FY16 and 18 projects for FY17

FY17 Total Adopted Budget: \$1,232,771,605

Pima Community College³

Positions: 4.0-FTE (1 Director, 1 Senior Auditor, 1 Investigator/Auditor, 1 Administrative Support Specialist)

Structure: Reports to the Board of Governors with a Finance/Audit Committee, appointed by the Board, to oversee Internal Audit functions. The Committee includes Board members and community members.

Resources: Approximately \$288,000 in salaries and employee-related costs

Activity: FY2017 Audit Plan includes 3 operational audits, 3 continuous auditing projects, 2 follow-up audits and 5 audits carried over from FY2016 – a total of 13 audits.

FY17 Total Adopted Budget: \$247,800,000

Maricopa Community Colleges⁴

Positions: 6.0-FTE (1 Director, 1 Administrative Support and 4 Auditors)

² Per Keith Dommer, Pima County Finance Director

³ Per Lori Cox, Pima Community College Internal Audit Director

⁴ Per Jodi LaBenz, Maricopa Community Colleges Internal Audit Director

Structure: Reports to Vice Chancellor for business Services with “dotted line access” to Audit & Finance Committee. The Vice Chancellor reports to the Chancellor of the College. The Committee includes Board members and community members.

Resources: \$840,000 for salaries and employee-related costs, which includes \$100,000 for external contract support as necessary.

Activity: Average 20-25 audit reports annually; 10 are “short checklist audits,” with the remainder as substantial audits – approximately 3-4 substantial audits per auditor.

FY17 Total Adopted Budget: \$1,425,725,839

City of Tucson⁵

Positions: 3.0-FTE (1 Manager and 2 Auditors)

Structure: Reports to the Assistant City Manager/CFO and works with the Independent Audit and Performance Commission to provide comments and review to the Mayor and City Council. The Commission is appointed by the Mayor and City Council.

Resources: \$351,120 for salaries, employee-related costs and operational expenses.

Activity: Estimated 5,500 hours of audit work through June 30, 2017.

FY17 Total Adopted Budget: \$1,372,000,000

City of Phoenix⁶

Positions: 25.5-FTE

Structure⁷: Reports to the City Manager and the Audit Committee. The Audit Committee includes City Council members, City Manager, Finance Department Director, Budget Director and 3 public members appointed by the Mayor.

⁵ Per Pete Saxton, City of Tucson Internal Audit Manager

⁶ City of Phoenix. (June 2016). The Phoenix summary budget 2016-17. Retrieved from <https://www.phoenix.gov/budgetsite/Budget%20Books/Summary%20Budget%202016-17.pdf>.

⁷ City of Phoenix. (n.d.). Retrieved January 12, 2017, from <https://www.phoenix.gov/auditor/committee>.

Resources: \$2,777,000 for salaries, employee-related costs and operational expenses.

Activity⁸: Estimated 60 audit plans from operational audits to more substantial audits for FY2017.

FY17 Total Adopted Budget: \$3,960,000,000

RECOMMENDATION

The Audit Committee recommends that as the Governing Board continues with its recruitment and investment in the Internal Audit functions of the District it is important to highlight the need to properly support this function. In order to enhance effectiveness of the Internal Audit function of the District, it is important that Governing Board focus on the proper level of investment to meet the objectives outlined by the operational audit. The synopsis provides organizations of various sizes, but overall the investment is less than 1% of the various entities' adopted budgets for the fiscal year that ends June 30, 2017. Currently, the Internal Auditor position is listed with a minimum starting salary of \$75,000, when employee-related expenses are included, this position is approximately \$95,000. The initial investment by the District, with an adopted budget of \$595,509,365, equates to 0.02%, which is on par with the investments from the City of Tucson and Pima County in their internal audit divisions. However, the scope of the work and the size of the actual dollars for the work that needs to be accomplished to help mitigate the risks in their government operations is much larger than the District's initial investment.

The Audit Committee recommends the Board and Superintendent determine the feasibility of a greater financial investment for an Internal Audit "Unit" or "Department" to ensure fidelity to the process of an internal audit. The Committee recommends:

- 1) Continue supporting the Audit Committee's process for hiring of an Internal Auditor at a salary recommended by the Superintendent.
- 2) Identification of resources and investment in a minimum of two, full-time auditor positions (2.0-FTE) to support the Internal Auditor's functions
- 3) Use the operational audit's recommendation of \$250,000 as an investment to fully operationalize a "unit" or "department" independent from other District departmental functions.
- 4) Continue support of the Audit Committee's work with the Internal Auditor.

⁸ City of Phoenix. (n.d.) Retrieved January 12, 2017, from <https://www.phoenix.gov/auditorsite/Documents/AuditPlanFY1617.pdf>.