



Tucson Unified School District
CGMA

Office of the
Chief Financial Officer

Yousef Awwad, CPA, MBA,

"Delivering Excellence in Education Every Day"
Grow - Reach - Succeed

TO: John J. Pedicone, Ph.D.
Superintendent

FROM: Yousef Awwad
Chief Financial Officer

SUBJECT: Internal Audit Function

I put this memo together regarding the internal audit function that will be discussed by the board. While I support the idea of internal auditing, I would like to point out a couple of things as you make your recommendations to the board:

- Internal Audit function is an administration function and it will increase the cost of the administration for the district. Adding this function would require further reductions in other units to secure funding for this position.
- I question the value added that one Internal Auditor would provide. For this function to be effective, an assessment needs to be made to determine how many staff is needed to get the value needed from this function.

Below you I summarized the definition of internal auditing explained the scope of work, the difference between Internal versus External Auditors and my recommendation for the reporting structure.

Definition of Internal Auditing

According to the Institute of Internal Auditors (IIA), the definition of Internal Auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Lawrence Sawyer is known to be the father of modern internal auditing and is the author of "The Practice of Modern Internal Auditing." According to Lawrence Sawyer, Internal Auditors are known to be the Eyes and Ears of Management.

Scope of work for Internal Auditing:

The scope of Internal Auditing is very broad and varies depending on the size and type of the organization and can include the following functions:

- Assess and provide recommendations regarding the organization's risks.
- Assess the effectiveness of the organization's internal controls whether it relates to operations, information systems or governance.
- Assist management by evaluating the reliability and integrity of the financial and operational information.
- Assist management by ensuring that operations are both effective and efficient.
- Assist management by ensuring that the organization has an effective system to safeguard its assets.
- Assist management by ensuring that the organization is in compliance with laws and regulations, and any contractual agreements.
- Coordinate the external auditor's work with other units within the organization.

John J. Pedicone, Ph.D.
Internal Audit Function
Page 2

Internal Auditing Versus External Auditing:

The statement on auditing standards is issued by the Auditing Standard Board (ASB) which is charged with issuing the auditing standards for external auditors. Certified Public Accountants (CPA) must adhere to these standards in conducting their audits. According to the auditing standards (SAS 65), the role of the internal auditors compared to the external auditors is summarized as follows:

- *External auditor's responsibilities in an audit conducted in accordance with generally accepted auditing standards is to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion on the entity's financial statements. In fulfilling this responsibility, the auditor maintains independence from the entity.*
- *Internal auditors are responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity's management and those charged with governance. To fulfill this responsibility, internal auditors maintain objectivity with respect to the activity being audited.*

Reporting Structure:

The reporting structure of the Internal Auditors stirred a debate among the Auditing, Accounting and Governance communities; some argued that it is an integral part of management and should report to the CFO or the CEO depending on the organization; whereas, others argued that it should have a dual reporting structure and report to the CEO and the Board.

In my view, Internal Auditors should report to the CFO in school districts.

- School districts are typically led by an instructional leader who is extremely busy with public engagements, student concerns, community and school events which leaves

them very little time to oversee the audit function. Additionally, the audit function is an integral part of the school district's management to implement effective internal controls that ensure safeguarding the organization's assets, effective and efficient operation, and reporting reliable financial and operation information.

- Dual reporting to the Superintendent and the Board creates the perception of an External Auditor who is seen as an outsider and, accordingly, may not be privy to all sources of information throughout the organization.
- Dual reporting creates conflict, confusion and lack of accountability.
- The Board president or designee may not have the time, expertise or budget to adequately oversee the day-to-day operation of the Internal Auditors.

John J. Pedicone, Ph.D.

Internal Audit Function

Page 3

- The internal audit function requires reviews of internal sensitive information that could affect their ability to be effective if discussed in public and could potentially create unnecessary media headlines if discussed in public prematurely.
- It is management's responsibility to ensure that the organization has adequate internal controls. If the internal audit function reports to the Board, this could limit the administration's ability to use the Internal Auditors to implement such controls.

In reviewing the organizational structure of other school districts in Arizona, the only district that has an internal audit function is Mesa Public Schools. The Internal Audit Director reports directly to the Assistant Superintendent for Business and Finance. In other districts, including TUSD and Scottsdale, this function reported to the CFO before being eliminated due to administrative cost reduction efforts.