

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 2

Subject: Hiring an Auditing Professional to Assist the Audit Committee

OVERVIEW

At the Audit Committee meeting on May 14, 2007, there was continued discussion related to the desire and need for a qualified audit professional to directly assist the Committee. The desired professional would assist the Audit Committee in providing independent, legislative oversight of the audit work performed by and for the City. In order to further Committee discussion and action, the IBA was asked to analyze how \$225,000 could either be utilized to hire an audit professional as a full-time staff person or, alternatively, to hire an audit consulting firm with designated consultants to assist the City on an as-needed basis. This report briefly addresses the costs associated with each option and identifies related considerations for Committee discussion.

FISCAL/POLICY DISCUSSION

The need for a professional audit consultant to support the Audit Committee has been discussed at several Audit Committee meetings and at a meeting of the Budget and Finance Committee. Until the public has an opportunity to vote on a City Charter amendment (anticipated in June 2008) that would enable an independent Internal Auditor, with staff, to report to and receive direction from the Audit Committee as recommended in the Kroll Report, the Committee is without direct professional audit support. The IBA has issued two reports, Report Numbers 07-39 & 07-49), discussing the need and desired qualifications for a professional audit consultant. In our report reviewing the Mayor's Proposed FY 08 Budget (Report Number 07-46), the IBA has recommended that \$225,000 be appropriated in FY 08 to retain needed audit expertise for the Audit Committee.

Hiring a High-Level Audit Professional as a Full-Time Employee

The Audit Committee has discussed hiring a senior level audit professional with experience and credentials that would be comparable to those for the Chief Financial Officer or the Independent Budget Analyst. Applying a fringe benefit factor (to cover employee benefits, pension, worker's compensation insurance, etc.) of approximately 41% to a salary of \$160,000 equates to an annualized expense of \$225,000. This senior level audit professional would be a full-time City employee providing dedicated assistance on all audit-related matters to members of the Audit Committee, the City Council and the IBA.

Hiring an Audit Consulting Firm with Designated Consultants to Serve the City

The Audit Committee could alternatively hire an audit consulting firm or individual consultant to assist them on a to-be-defined schedule or on an as-needed basis. If we assume that a high-level auditing consultant will charge \$300 an hour inclusive of any related expenses, then applying the same \$225,000 of expense equates to approximately 750 hours of assistance annually or roughly 15 hours a week for one year. It is plausible that an audit consulting firm could utilize a variety of staff, some at lower compensation levels, to provide additional hours of service for the same expense.

In discussing these options, the IBA provides the following bullet points for consideration:

- If a senior audit professional is hired as full-time City staff, the Audit Committee benefits from an individual who: will be on-site and readily accessible; will have the opportunity to become better acquainted with City operations and the City's audit/financial organization; and will be charged with pro-actively helping the Audit Committee, City Council, IBA and the selected Internal Auditor to be more effective in their respective roles pertaining to all audit-related matters.
- If a professional audit firm or consultant is hired, the Audit Committee benefits from a firm with: dedicated consultants who will quickly familiarize themselves with pertinent issues and the City's audit/financial organization; experience meeting the needs of public agencies; outside standing/credibility to capably present or address technical/complex auditing matters before the Committee or the Council; back-up staff or staff with unique expertise; and the ability to assign multiple staff to a City audit-related issue that may require additional attention.
- Considering the needs referenced in the aforementioned IBA reports and the respective resources that may or may not be available from ad-hoc citizen advisory committees, the Internal Auditor (through June 2008), and the IBA, does the Audit Committee envision a need for a full-time senior level audit

professional on staff or would a dedicated, relatively accessible audit consultant be a better fit on an as-needed basis?

- Is there a need for permanent professional Audit Committee assistance irrespective of the contemplated City Charter amendments (which may or may not occur) switching the direct reporting relationship for the Internal Auditor from the Mayor to the Audit Committee? If yes, is it reasonable to assume that the required level of assistance may diminish after another year of Audit Committee operation with dedicated assistance from an auditing professional?

CONCLUSION

Understanding that several audit-related issues currently require attention and that the Audit Committee is still in a formative stage, the IBA believes the Committee needs and will immediately benefit from direct access to an independent auditing professional. Either method of procuring auditing expertise for the Audit Committee is viable and can be expeditiously pursued. If the decision is to hire a full-time staff person, the IBA recommends that the Committee consider utilizing the recruiting process that is currently underway for the Internal Auditor. If the decision is to hire an audit consulting firm, the IBA is prepared to assist with developing a Request for Proposal and facilitating a consultant selection process.

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