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Inspector General

OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY



Inspector General
Accredited

Date: May 9, 2018

To: Ms. Verdenia Baker, County Administrator
Board of County Commissioners

CC: Inspector General Committee

From: John A. Carey, Inspector General

Subject: Consolidating Office of Inspector General and Internal Auditor

In follow up to my conversation yesterday with Ms. Baker, this correspondence addresses the issue of reducing duplication of resources and efforts between the County Internal Audit (IA) and the Office of Inspector General (OIG). **My proposal to consolidate the two oversight organizations into one OIG team would eliminate a layer of management, hence save taxpayer dollars and create more staff level audit positions. It would provide enhanced audit services, create unity of effort, and would be more in line with current federal, state, and local practices.**

The body of this correspondence will address what I proposed in yesterday's meeting. At the end of the correspondence, I offer two alternatives to the proposal that I believe would address an area Ms. Baker raised regarding one of the current services provided by the County IA.

Both the OIG and the County IA conduct performance and financial related audits for the County. Both organizations conduct an annual risk assessment on the County, receive input from County leaders, and respond to audit requests. The OIG's Audit Division is comprised of eight (8) personnel composed of six (6) auditors and two (2) management supervisory auditors. The County IA mirrors the OIG Audit Division's structure.

Many government organizations, at all levels, have evolved and enhanced oversight by moving internal audit functions into offices of inspectors general. They determined that OIGs provide a higher degree of accountability to the public, enhanced/expanded services (integrated investigations and reviews with audits), and higher output.

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Historically, many organizations have moved away from IAs to OIGs. With the enactment of the Inspector General Act of 1978 establishing federal statutory OIGs, IAs at the federal level were merged into the OIGs or dissolved. As a former federal IG, I am unaware of any IA at the federal level where an OIG exists. In Florida, IA staffs within all state agencies have been merged into the state OIGs. In Palm Beach County (PBC), the Clerk and Comptroller used its IA as the base to establish an OIG and no longer has an IA. Likewise, the PBC School Board converted its IA into its OIG and does not have an IA. In this evolution, the IA function becomes part of the OIG.

Moving the County IA into the OIG will provide the following benefits:

1. All audit operations under one office will match current evolved models of oversight more prevalent at the federal, state, and local levels.
2. Efficiencies (taxpayer dollar savings) will be realized.
 - A. The two current unit heads receiving executive salaries reduced to one.
 - B. The two current audit manager positions receiving senior pay reduced to one.
 - C. The two current management positions converted to operational level auditors to produce more audit coverage.
 - D. The two oversight boards will be reduced to one. The County Audit Committee overseeing the IA would be eliminated. All County audit activities would be reported to the existing IG Committee.
3. Effectiveness will be realized.
 - A. The PBC Board of County Commissioners (BCC) and PBC Administration will have a single office to make audit requests and to pose oversight questions.
 - B. One, instead of two, annual audit risk assessments and audit plans will provide one consolidated approach and plan.
 - C. One audit office conducting all audits with enhanced/expanded services (investigations, reviews, and contract oversight) will provide enhanced oversight and consistency for the County.
 - D. The OIG approach of conducting audits alone (not including results of OIG investigating and contract oversight activities) in just eight years has resulted in over \$26.5M in questioned costs, over \$7M in potential cost savings, and eight (8) arrests or prosecutions of fraudsters stealing taxpayer dollars. This approach will be applied to all County audits¹.
4. No one will lose his/her job, or suffer a decrease in salary with this merge.
5. The current benefits provided to the County by the IA will not be diminished, they will be enhanced.

Consolidating the County IA and OIG will provide more audit coverage for the County because there will be more operational auditors with less management overhead. It will provide enhanced coverage by way of the OIG (audit, investigations, contract oversight) team approach. It will further move toward meeting the staffing requirements of the OIG, currently staffed at only 57%.

¹ The total eight-year impact/return on investment of the PBC OIG synergized approach of audits, investigations, and contract oversight: over \$42M in questioned costs and over \$23M in potential cost savings; 18 arrests or prosecutions; 131 referrals to law enforcement or to the County or State Commissions on Ethics.

I realize there are two factors that must be addressed in moving IA operations and personnel under the OIG, namely the County IA is part of the PBC Charter and the head of IA has a personal contract with the BCC. For this reason, I propose a phased approach in moving the IA into the OIG.

1. Moving funded positions into the OIG should be phased over a three-year period: FY 2019 – 3 positions, FY 2020 – 3 positions, and FY 2021 – 2 positions. Funded positions can be moved in FY 2019 with the IA still performing some County audits and without a change to the Charter.
2. Actions should be taken to amend the County Charter to eliminate the IA coinciding with the end of the current head of IA current contract in September 2021.
3. The current head of IA would serve out his contract providing oversight to his staff working with the IG in transition of operations to the OIG.

In yesterday's meeting, one of Ms. Baker's discussion points on the advantages, or services provided by the County IA, was that of informal inquiries. Ms. Baker stated that, at times, the IA was asked to informally look into matters, report back on issues of compliance, and provide suggestions. In further reflection of this concern, I offer two alternative solutions.

1. The consolidated IA/OIG could, on occasion, informally look into matters, report back on issues of compliance, and provide suggestions without conducting formal audits. OIGs do perform these types of services considered "professional services other than audits" under Government Auditing Standards.
2. The County could retain one (1) of two (2) internal auditors in the County IA to perform these services and other internal control related functions and transfer six (6) or seven (7) IA auditors into the OIG.

This may present the best compromise and workable solution where the County retains an IA, some increased efficiencies, effectiveness, and unity of effort are realized, and the County Charter does not require any changes.²

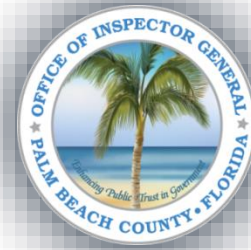
As demonstrated in other federal, state, and local organizations, consolidating audits under the OIG will provide efficiencies in using taxpayers' dollars and enhance audit services.

² The County Charter requires an IA but does not stipulate any staffing levels. Some of the PBC municipalities have IA organizations as small as one auditor.

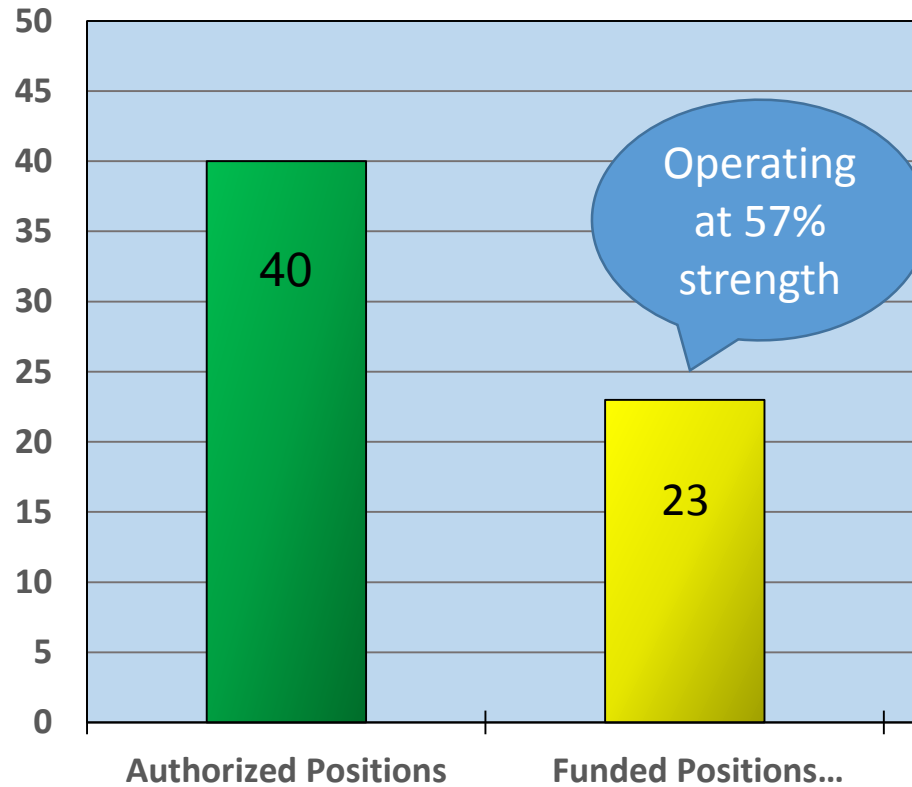


Budget, Staffing, and Personnel

INSPECTOR GENERAL BUDGET & STAFFING



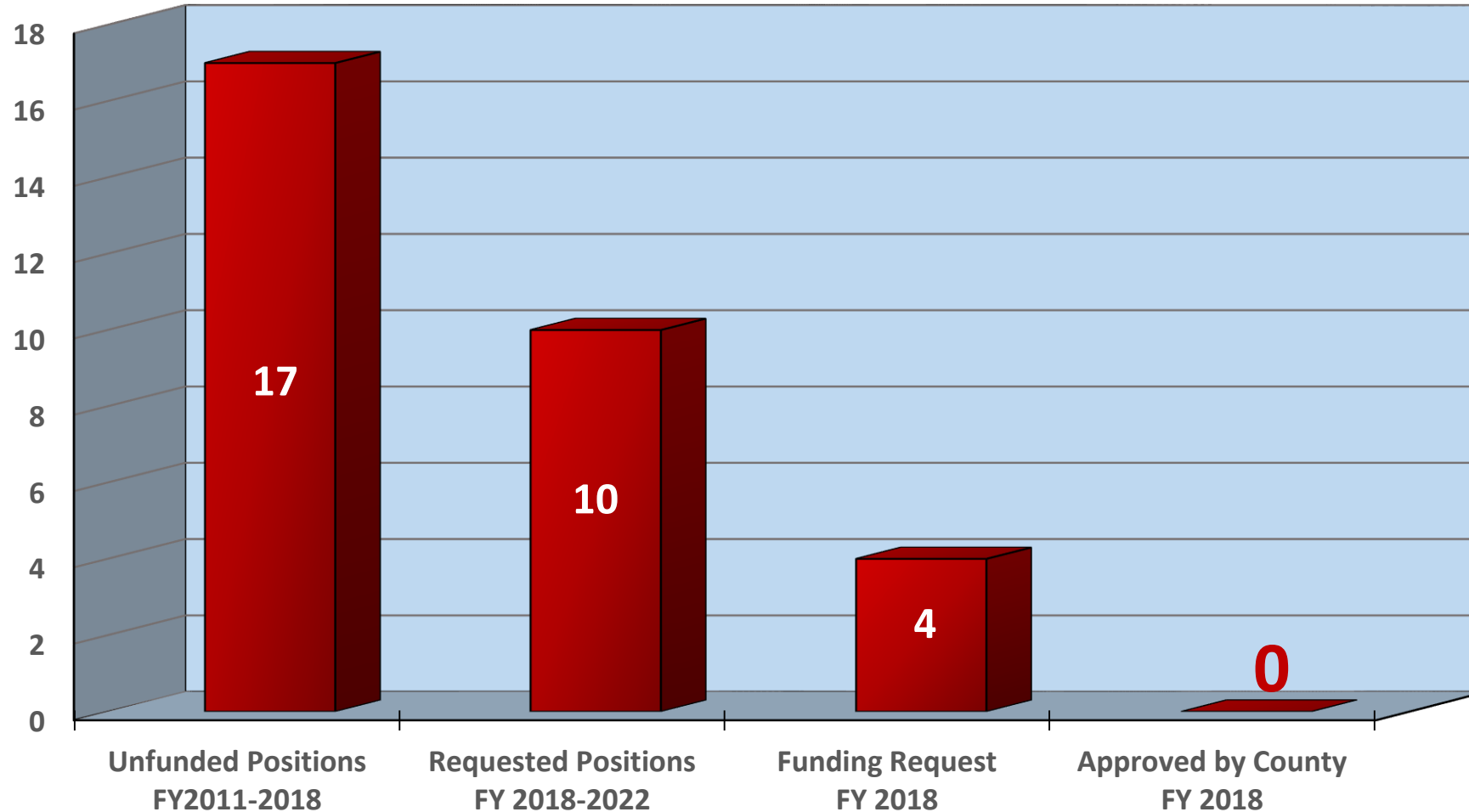
OIG Budget & Staffing



INSPECTOR GENERAL BUDGET & STAFFING



FY 2018 OIG Staffing Request for Unfunded Positions



INSPECTOR GENERAL BUDGET & STAFFING



FY 2019 OIG Staffing Request for Unfunded Positions

SITUATION: The OIG is still only funded/staffed at 57% and does not have adequate resources to provide proper oversight of the 42 entities under its jurisdiction.

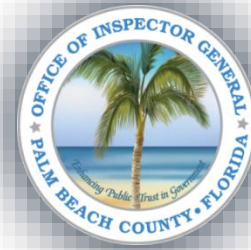
THE CHALLENGES:

- The Court of Appeal determined the County cannot bill municipalities.
- County's 2017 request for municipalities to voluntarily provide additional funding for the OIG was unsuccessful.
- The potential decrease in property tax revenue.

THE SOLUTION: Consolidate the OIG and County Internal Audit (IA).

Reduces costs / gain efficiencies.

INSPECTOR GENERAL BUDGET & STAFFING



FY 2019 Proposed Consolidation

INDEPENDENT GOVERNMENT OVERSIGHT:

- Many government organizations have evolved from IAs to OIGs.
- With the enactment of the IG Act of 1978, IAs at the federal level were merged into OIGs or dissolved.
- In State of Florida government, the IAs were merged into OIGs.
- In the County, the Clerk and Comptroller and School Board used their IAs as their foundations to create their OIGs and do not have separate IAs.
- **In this evolution, the IA becomes part of the OIG.**

INSPECTOR GENERAL BUDGET & STAFFING

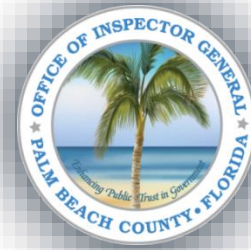
FY 2019 Proposed Consolidation



BENEFITS OF IA BECOMING OIG:

- More **efficiencies** (taxpayer dollar savings)
 - **Two** current organizational heads receiving executive pay **reduced to one**.
 - **Two** current audit manager (deputy) positions receiving senior pay **reduced to one**.
 - **Two** current executive and senior pay positions (above) can be **downgraded** to operational level auditors to provide more resources.
 - The **two** current oversight boards (County Internal Audit Committee and IG Committee) **reduced to one** board (IG Committee).

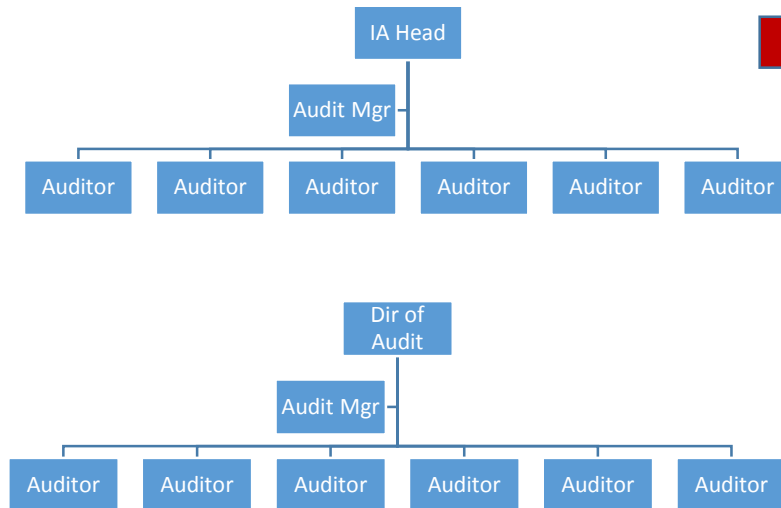
INSPECTOR GENERAL BUDGET & STAFFING



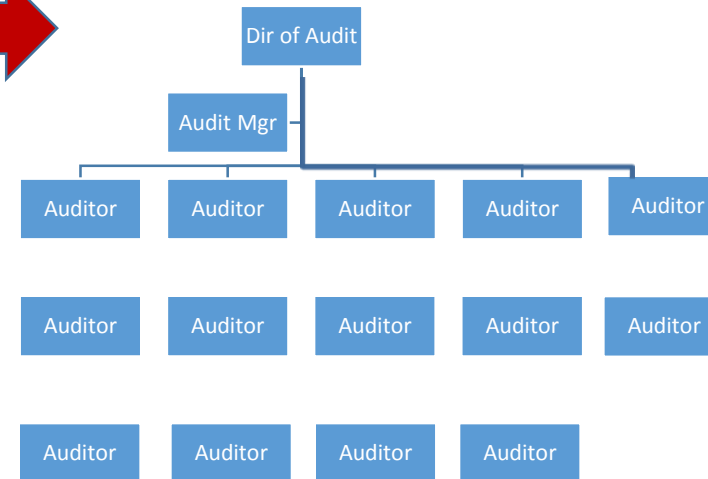
FY 2019 Proposed Consolidation

BENEFITS IA INTO BECOMING OIG DISPLAYED:

Current Model: Two Audit Orgs



Proposed Model



INSPECTOR GENERAL BUDGET & STAFFING



FY 2019 Proposed Consolidation Benefits (continued)

More **effectiveness (doing audit business smarter)**

- **PBC Commissioners and Administration will have a single office (OIG) to make audit requests and pose oversight questions.**
- **One, instead of two, annual risk assessment and audit plan.**
- **One audit office conducting all audits with enhanced/expanded services (investigations, reviews, and contract oversight) will provide enhanced oversight and consistency.**
- **No auditor will lose his/her job or suffer decrease in salary.**
- **Current audit services provided to the County will not diminish – they will be enhanced.**

INSPECTOR GENERAL BUDGET & STAFFING



FY 2019 Proposed Consolidation - Challenges

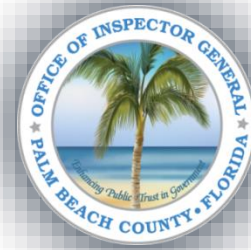
- 1. The County IA is in the County Charter.**
 - **Solution: During phased transitions of personnel from IA to the OIG, the County Charter will be amended.**

- 2. The current IA head has a contract with the County ending September 30, 2021.**
 - **Solution: The Current IA head will serve out his contract during phased transitions of personnel from IA to the OIG.**

ALL CHALLENGES CAN BE OVERCOME

INSPECTOR GENERAL BUDGET & STAFFING

FY 2019 Proposed Consolidation



THREE-YEAR TRANSITION PLAN:

- **FY 2019 - transfer three positions from IA to OIG and begin actions to change County Charter.**
- **FY 2020 - transfer three more positions from IA to OIG.**
- **FY 2021 – with the end of the IA head contract, transfer the final two positions from IA to OIG.**

RESULTS:

- **One enhanced oversight team – at a cost savings to the taxpayers. More and enhanced services for less.**
- **Removes duplicate activities and requests from County Administration.**
- **In line with other evolved government oversight organizations.**

INSPECTOR GENERAL BUDGET & STAFFING



FY 2019 Proposed Consolidation – Alternatives to Proposal

BASED ON DISCUSSIONS WITH PBC ADMINISTRATOR:

- **PBC BCC and Administration may wish to retain IA.**
- **One IA function has been to conduct less formal inquiries and provide suggestions to management.**

This function is considered “professional services other than audits” under Government Auditing Standards.

ALTERNATIVE #1:

- **The consolidated IA/OIG can perform these services.**

ALTERNATIVE #2:

- **Retain IA with one to two internal auditors to perform these services.**
- **Transfer six to seven IA positions to the OIG.**
- **This option does NOT require any changes to the County Charter.**