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## Memo

Date: November 17, 2020  
To: Dr. Menzel; Scottsdale Unified No. 48 Governing Board Members  
From: Jann-Michael Greenburg  
Subject: Governing Board Policy DIE: Internal Auditor

Dr. Menzel and Members of the Governing Board:

I have been asked by Board President Beckham to provide a comprehensive overview for hiring an internal auditor for Scottsdale Unified No. 48 (the “District”). This memo covers this request and addresses key considerations supporting this position within our District.

### I. GOVERNING BOARD POLICY DIE

[Policy DIE](#) “directs the Superintendent to establish the department of Internal Audit to conduct audits, investigations, and special projects requested by the Governing Board or Superintendent.”

The Policy further notes that “[t]he Governing Board recognizes the need to establish and support the internal audit function as an independent appraisal function to examine and evaluate District activities.”

Despite this policy (and its accompanying regulation), the District has not had an internal auditor since 2016. Further, former and current Board Members have noted concern with the existence of this position due to the alleged failure of past District internal auditors to conduct internal audits and report findings to the board. Notably, past internal auditors are alleged to have focused on non-internal audit functions, such as helping PTOs, bookstores, and campuses properly manage their funds and cash accounts.

However, there is no record that Policy DIE has ever been waived, suspended, or repealed pursuant to [Policy BGF](#) and [Regulation BGF-R](#). Consequently, it is the District’s current policy that an internal auditor be hired.

### II. THE ROLE OF AN INTERNAL AUDITOR

#### A. Internal auditing defined

[Regulation DIE-R](#) correctly defines an internal audit as:

. . . an independent appraisal activity established to examine and evaluate District activities and the adequacy and effectiveness of internal controls. Internal Audit is dedicated to assisting District administration in the effective discharge of its responsibilities. To this end, it furnishes them with analyses, appraisals, counsel, recommendations and information concerning the activities reviewed. The audit objective includes promoting effective control at a reasonable cost.

Similarly, the Institute of Internal Auditing's ("IIA") International Professional Practices Framework [defines](#) an internal audit as

. . . 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, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## **B. External auditing defined**

The definitions of an internal audit should be contrasted with the definition of an external audit, which is an "[independent examination of the financial statements prepared by the organization](#)" conducted by a third party. The external audit concludes with an external auditor's opinion about whether the financial statements provide a true and fair picture of the organization's finances. Opinions can be unqualified, qualified (disagreement), qualified (limited scope), adverse, and disclaimed.

Pursuant to [A.R.S. § 15-914](#), public school districts in Arizona must undergo an annual external audit of our financial records. The State of Arizona provides public schools districts with some level of additional funding specifically to have these audits conducted.

There can therefore be some level of overlap between an internal audit and an external audit where the District's financial records and internal controls are being tested. However, internal audits (whether conducted by an internal team or external team) have a much larger scope of work that does not solely include review of financial records (as discussed below).

Other key differences between the two include independence, legal and ethical requirements, and core purpose.

## **C. District policy requires the hiring of an internal auditor**

Policy DIE and Regulation DIE-R clearly require that the District hire an internal auditor who is to function as a professional internal auditor and not as an individual who provides "an additional helping hand" to other departments within the District.

Textually, this requirement is clear not only by the proper use of the terms "internal audit" and "internal auditor" in the District's Policies and Regulations, but also because Policy DIE clearly

distinguishes between an external audit of the District’s financial records (Policy DIE Paragraphs 1 to 3) and the internal audit function (Policy DIE Paragraph 4).

#### **D. Types of internal audits**

There are many types of internal audits that can be conducted, but three tend to occupy the most amount of time: financial audits, compliance audits, and performance audits.

The United States Government Accountability Office’s [Government Auditing Standards \(2019 Rev’d\)](#) (“GAGAS”) at Section 1.17 defines financial audits as audits that “provide independent assessments of whether entities’ reported financial information . . . is presented fairly, in all materials respects, in accordance with recognized criteria.” The internal audit team will review accounting, recording, and reporting of financial transactions and relevant internal controls. This internal audit function overlaps with the external audit function in a number of ways.

Compliance audits focus on whether departments adhere to all federal and state laws and regulations, as well as district policies and procedures.

Performance audits are defined by [GAGAS Section 1.21](#) as audits that

. . . provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.

Other types of internal audits include but are not limited to informational technology audits, construction audits, and follow-up audits and validation testing.

The Board should expect all of these types of audits to be conducted by the internal auditor on a yearly basis based on the internal audit selection process (discussion below).

#### **E. Recommended Policy DIE amendments**

Recommended amendments are provided in draft form and are attached separately as Draft Policy DIE Amendments.

### **III. INTERNAL AUDIT PROCESS AND EXAMPLES**

Despite Regulation DIE-R properly defining what an internal auditor does, some have expressed concern about the actual work being done given prior experiences with “internal auditors” in our District. It is therefore useful to provide a few examples of internal audits.

## **A. Internal audit process**

Internal audits usually have five steps: audit selection (including risk assessment), planning, fieldwork, reporting, and follow up. It is not necessary to explain each of the steps here, as there are numerous online resources which explain what occurs during each phase of the internal audit process. It is highly encouraged for one to review general information about the internal audit process [here](#).

Further explanations can be found at Creighton University Internal Audit's "[The Internal Audit Process](#)," which provides a thorough overview of each of these five steps. One can also review Columbia University's Audit and Risk Management Department's [website](#), which explains the internal audit process in detail and provides examples of what an internal auditor may wish to implement in our District. Another example of an internal audit department (including its process) that I have previously shared with the Board is [Tufts University's Audit & Management Advisory Services](#) (see [The Audit Process](#)).

You can also review Seattle Public Schools' [Annual Risk Assessment and Audit Plan](#) here for a more detailed overview of how this is reported to the organization.

## **B. Examples of internal audits**

There are numerous examples of internal audits in the educational context, including in public school districts. For the sake of clarity, these are examples only and do not necessarily reflect what our District should expect from our internal auditor (including documents that need to be prepared, quality of work, and internal audit subject areas).

For the period of September 1, 2019 through August 31, 2020, [Seattle Public Schools](#) focused on (for example) auditing cash handling and receipting, contracts, stipends, facility usage and building rentals, proper segregation of duties between personnel (i.e., too many employees had improper access information necessary to change employee's rate of pay), employee-owned businesses, and summer school payroll administration.

You can also review some of Seattle Public Schools' completed internal audit reports [here](#). Past internal audits include [special education \(corrective action plans\)](#), [individual schools \(e.g., Hazel Wolf K-8 Schools\)](#), [employee leave time](#) and [background checks](#), and [disbursements](#).

Round Rock Independent School District provides a [Google Drive](#) of some of the internal audits they have conducted in prior years. These include but are not limited to internal audits of [criminal history background checks](#), [construction](#), and [payroll](#).

Beyond this, internal audit departments have helped develop new policies and procedures from scratch. Los Angeles Unified School District's [Office of the Inspector General](#) notes that it developed the Whistleblower Protection Policy and revised and updated the Code of Ethics and Conflict of Interest Policy, among other unique successes.

## IV. ORGANIZATIONAL STRUCTURE

### A. Independence and objectivity

“Independence” and “objectivity” in the internal audit department is crucial given that the internal auditor will be reviewing the work of other employees within an organization. The IIA’s [Standard 1100](#) notes that “[t]he internal audit activity must be independent, and internal auditors must be objective in performing their work.” The IIA has provided an interpretation of this rule, specifying that

[i]ndependence is the freedom from conditions that threaten the ability of the internal audit to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary . . . the chief audit executive has direct and unrestricted access to senior management and the board . . .

. . . Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Likewise, [Standard 1110.A1](#) requires that the “internal audit activity . . . be free from interference in determining the scope of internal auditing, performing work, and communicating results.”

Even threats to the appearance of independence – regardless of whether such independence is compromised in fact – must be reported to the board.

These standards match those promulgated by the United States Government Accountability Office’s [Government Auditing Standards \(2019 Rev’d\)](#). See Rule 3.56 and 3.57, which recommend internal auditors use the IIA’s Standards and Guidance.

To help achieve such independence and objectivity, the IIA recommends a dual-reporting structure.

### B. Dual reporting structure

From an organizational perspective, [Standards 1110](#) notes that

[t]he chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

The IIA’s interpretation of this rule provides the following:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

[Standards 1111](#) further requires that the “chief audit executive must communicate and interact directly with the board.”

### **C. Current District reporting structure and the internal audit committee**

Regulation DIE-R currently states that the internal auditor

reports on a routine basis to the Superintendent or Superintendent’s designee . . . [t]o provide for the independence of the internal audit department, the internal auditor will report administratively to the Superintendent and functionally to the Governing Board.

Regulation DIE-R appears to establish the necessary dual reporting structure in order to maintain effective organizational independence for the internal auditor.

### **D. Forming an audit committee**

The boards of many organizations have formed audit committees (some voluntarily, others out of necessity). Audit committees play an advisory role to school boards and serve as a liaison between the board and chief internal auditor. They can assume multiple key responsibilities, including many of the functional reporting responsibilities otherwise held by the Governing Board.

The Council of the Great City Schools’ white paper “[Internal Auditing in the Great City Schools](#)” provides some of the following examples:

- Reviewing and approving an Internal Audit Charter
- Providing expertise on risks affecting the school district and approving an annual internal audit plan
- Ensuring that internal auditors have unrestricted access to school district personnel, facilities, vendors, data, and documents
- Assisting in determining if management has placed any restrictions on the scope of internal audits and investigations
- Receiving completed internal audit reports, investigations, and other communications deemed necessary by the Chief Audit Executive

- Monitoring follow up on reported internal audit findings to ensure corrective actions are taken
- Reviewing and making recommendations to the school board on matters affecting the adequacy of internal controls, accounting procedures, technology systems, and financial reporting in accordance with laws and regulations
- Providing input on the Chief Audit Executive's evaluation
- Serving on behalf of the school board to oversee the internal audit function
- In conjunction with the Chief Audit Executive, providing an annual report to the school board

This is in line with standard Audit Committee Charter language (provided by Westlaw):

To review, discuss with the Company's independent auditors, and approve the functions of the Company's internal audit department, including its purpose, authority, organization, responsibilities, budget and staffing; and to review the scope and performance of the department's internal audit plan, including the results of any internal audits, any reports to management and management's response to those reports; and to review and approve the hiring or dismissal of the head of internal auditing.

Forming an internal audit committee might be useful. Notably, such committees can meet more often and without the restrictions that public school boards encounter. They also create a stronger, more routine relationship between the governing board and the chief audit executive, while also leveraging members who have expertise in the areas of auditing, accounting, law, and compliance that public school board members often lack.

There is some concern, however, that the District would not be able to form such a committee with members having the requisite expertise to develop the internal audit department. Finding volunteers for a committee of this nature, given its responsibilities and time commitments, could be challenging.

That said, based on 39 schools surveyed by [Great City Schools](#) in 2017, 79% have internal audit committees and 82% have internal audit departments which report directly to the school board. While this data is of an extremely small dataset and thus no statistical conclusions should be drawn, there is likely some preference for having internal audit committees both in the public and private sectors.

One can still question the utility of such committees in the public-school setting. The Inspector General for Los Angeles Unified School District ("LAUSD") did not share a view with me either way as to this committee's necessity. His main point was that the internal auditor (or inspector general as the case might be) must have direct access to the board and must be independent and objective. While LAUSD had a "Budget, Facilities, and Audit Committee" in the past, it does not appear that this committee has met since 2016.

To provide a foundation for any audit committee which the Board may wish to form now or in the future, I have created and attached a model Audit Committee Charter as Draft Exhibit DIE-EB.

## V. INTERNAL AUDIT CHARTER

IIA [Standard 1000](#) states that

[t]he purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. (Emphasis in original).

The IIA explains that

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter established the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

The IIA's Position Paper "[The Internal Audit Charter: A Blueprint to Assurance Success](#)" notes that the charter is "vital to success" of internal audits.

It is the chief audit executive's job to review the internal audit charter annually and submit it (along with any proposed amendments) for Governing Board approval. However, in order to provide a foundation for the chief audit executive, I have created and attached a Draft Audit Committee Charter as Exhibit DIE-EA.

## VI. EXPECTATIONS OF THE CHIEF AUDIT EXECUTIVE

### A. First three (3) months

Given that this will be a "new role" within the District, the Governing Board can reasonably expect the following objectives to be achieved within the first three months of the Chief External Auditor taking his/her/their post within the District (please note, however, that these are sample OKRs only and should be set by the Chief Audit Executive):

- Implement Internal Audit Charter
  - Draft and finalize Internal Audit Charter
  - Obtain board approval
- Draft strategic plan
- Draft internal audit plan

- Review internal audit function needs
  - Interview executive leadership and board to evaluate district internal audit needs
  - Conduct analysis (including costs) of resource needs, including procuring external internal audit consultants or temporary help on an as-needed basis
  - Present audit resource plan to board for approval

**B. Moving forward**

On a moving forward basis, the Governing Board should expect that the Chief Audit Executive will perform all responsibilities that a chief audit executive would perform in any other organization. A number of these include but are not limited to those identified in the Draft Job Posting. In the absence of forming an audit committee, the Governing Board should expect to:

- receive and approve an internal audit plan;
- receive and approve the internal audit budget and resource plan;
- receive communications from the Chief Audit Executive on the internal audit activity’s performance relative to its plan and other matters;
- receive final internal audit reports from concluded internal audits, including recommendations;
- receive updates on the internal audit department’s activities; and
- making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

**VII. DISTINGUISHING PAST INTERNAL AUDITORS FROM CURRENT AND FUTURE EXPECTATIONS**

As mentioned previously, many past and current governing board members have expressed concern about the hiring of a new internal auditor. One reason for such concern is the fact that previous individuals hired to fill this “role” have failed to provide the Board any work product documentation.

There is truth to this. Multiple past and current board members have reported never receiving any reports from any of the individuals hired as the District’s internal auditor. Only two internal audit reports have been found on file, both conducted by Pat Donohue in 2015 and 2016, respectively. Both of these were apparently the result of special requests by the finance department, and each reviewed the handling of cash payments at Tavan and Desert Canyon Middle School.

Ms. Donohue also alleged in her résumé to have “[p]erformed audits related to construction bonds, resulting in identifying over \$1M in overcharges” and “[d]eveloped annual audit plan that is reviewed quarterly and modified as needed,” though there is no known documentation of either of these assertions.

Ultimately, there is very little information available to help understand what it is that the District’s two previous internal auditors did. One possible explanation is that most of their work was not recorded in written documents, but this is not a satisfactory answer because internal

auditors are required to provide written reports on many different matters (e.g., concluded audit reports, internal audit function reviews, and internal audit charters, to name a few) pursuant to the standards adopted by the Institute of Internal Auditors. The other explanation is that the internal auditors did not truly perform much internal audit work, which is the more likely explanation.

The only way to ensure a hired internal auditor is performing and completing tasks is to establish clear goals and expectations of that position, and evaluate the internal auditor based on those goals and expectations. Those expectations are set out both in Policy DIE (which makes clear what the internal auditor must provide to the Governing Board on a quarterly and annual basis) and through the standards adopted by the Institute of Internal Auditing, which identify what is expected of internal auditors.

Policy DIE clearly establishes objectively assessable criteria for evaluation, such as:

- Did the chief audit executive draft and submit a strategic plan, risk-based internal audit plan, internal audit budget and resource plan, and internal audit charter to the Governing Board for approval this year?
- Did the chief audit executive provide updates about internal audits and written internal audit reports to the Governing Board?
- Has the chief audit executive completed internal audits on schedule?
- How has the internal audit function performed in relation to the annually adopted internal audit plan?

Draft Policy DIEA and Exhibit DIEA-E likewise establish a comprehensive performance evaluation process and instrument for performing evaluations, which blend both subjective and objective elements, in line with the Institute of Internal Auditor's broad recommendations about the evaluation process.

Ultimately, it is incumbent on the Governing Board (or an Audit Committee) to continuously monitor the chief audit executive's work. It would be concerning if the Governing Board retained a hired chief audit executive who could not produce the requisite documentation of work performed.

## **VIII. COMPENSATION ANALYSIS**

The chief audit executive (also known as a director of audit, director of internal audit, auditor general, or controller general) is the individual with overall responsibility for internal audits. I have conducted research to evaluate appropriate compensation ranges using publicly available information for this position. Please note, some of the positions listed below have been filled and/or data might be slightly different than what is listed as the data was obtained between October 21, 2020 and October 22, 2020.

**A. Salary analysis based on general data accessed October 21, 2020**

I attempted to only provide data for the highest average (or median) salary provided, regardless of how the position is listed. This data is provided below:

Source	Region	Average / Median Salary
<a href="#">PayScale</a>	United States	NA / \$152,196
<a href="#">glassdoor</a>	United States	\$139,950 / NA
<a href="#">Salary.com</a>	United States	\$157,309 / NA
<a href="#">Indeed.com</a>	United States	\$142,356 / NA
<a href="#">linkedin</a>	United States	\$150,000 / NA

**B. Exact or similar open positions in Arizona as of October 22, 2020**

Organization	Job Title	Low Salary	High Salary	Position
Valley Metro	<a href="#">Chief Auditor</a>	\$93,182	\$139,773	Full-time
Vantage West	<a href="#">Lead Internal Auditor</a>	\$59,721	\$89,582	Full-time
Gila River Indian Community	<a href="#">Internal Auditor</a>	(NA)	\$56,957	Full-time

**C. Exact or similar open positions in other states as of October 22, 2020**

Organization	Job Title	Low Salary	High Salary	Position
Parker and Lynch	<a href="#">Director of IA</a>	\$120,000	\$140,000	Full-time
Kansas Attorney General's Office	<a href="#">Medicaid Inspector General</a>	(NA)	\$128,636	Full-time
Kansas State University	<a href="#">Chief Audit Executive</a>	\$106,320	\$140,000	Full-time
Dovenmuehle Mortgage, Inc.	<a href="#">Director of IA</a>	\$115,000	\$130,000	Full-time

**D. Past salary offerings at SUSD**

Employee	Title	Ending Salary	Fiscal Year
Kevin Price	ED of Audit Services	\$110,041	2009
Patricia Donohue (Only known person with CPA and written internal audit reports)	Internal Audit and Compliance	\$80,326	2016
Maria-Isabel Collis	Business Analyst/Internal Auditor	\$89,734	2018

## **E. Initial base salary recommendation**

Based on these figures, it is recommended that the base salary initially range from \$90,000 to \$125,000 annually. This is broadly in line with the national and out-of-state compensation packages and would appear to be competitive in the Phoenix area.

It is fortuitous that Valley Metro has very recently posted a job opening for the same position, with a pay range ending slightly higher than what is proposed here. There are a few reasons for the slightly lower salary recommendation. First, this will be a brand-new position within the district with no initial oversight of other employees. Second, the board, given past experiences, understandably expects a clear value-add from this new position, including the creation and presentation of key deliverables (e.g., annual internal audit plans, internal audit reports, and internal audit charter review and revision).

However, there are two principal reasons why the Board may wish to consider a higher starting and ending range (e.g., \$105,000 to \$140,000). First, Valley metro has slightly fewer mandatory and licensing requirements than what are proposed here. Specifically, CIA or CISA licenses are only preferred, and there is no requirement that an applicant have either – nor, for that matter, be a CPA or CFE. Other postings with a slightly higher lower range (e.g., Kansas State University's Chief Audit Executive) must have at least one of these qualifications.

Second, the District's Chief Audit Executive will be a much more hands-on role than what other Chief Audit Executives might have. This is largely because our Chief Audit Executive will be expected to develop the internal audit function from scratch and will not initially (and potentially ever) have subordinates to spread the workload.

Finally, it should be pointed out that Kevin Price did receive a salary of \$110,041 in this position, despite the fact that we have no records or knowledge about Mr. Price's work in this role.

Ultimately, the chosen salary range should provide the District flexibility depending on the applicant pool, while also being in a highly competitive range for a position of this time and individuals having the experience identified in the Draft Job Posting.

## **IX. ALTERNATIVE HIRING OPTIONS**

The District is looking into whether we can enter into an inter-governmental agreement with the City of Scottsdale's internal audit department. This option will also be discussed during a public meeting. However, regardless of how and by whom the internal audit function is performed, the District must update its policies, regulations, and exhibits in order to ensure our internal reporting system is in line with best practices.