

Ensuring City Financial Integrity

9/13/2024

Financial integrity in an organization is achieved by following well established financial accounting processes that ensure the **breadth and depth of scrutiny** of transactions, commensurate with their dollar value and organizational impact. Put a simpler way, the more money involved and the more critical the intended use, the **more people, and people at higher levels in the organization, need to "sign off"**. As a further attempt to ensure financial integrity, financial laws require that organizations undergo scrutiny by **independent outside financial auditors**. These external audits **attempt** to confirm that the financial management processes instituted by the organization are adequate, are being consistently followed, and not being subverted by employees who are incompetent or have criminal intent. To be effective (finding problems), the auditors have to become familiar with the organization to understand where and how to audit. To be efficient (keep the cost and duration of the audit reasonable), they have to limit their inquiries to focus on a subset of accounting areas and a subset of all the transactions in those areas. If the same auditing firm is employed in successive years, there is less effort (cost) required to familiarize the auditors with the organization, and the focus of the audit can be moved from year to year to broaden and deepen the coverage of the audit over the several-year period. Also, auditors can more readily follow-up on whether efforts to correct problems found in a previous audit have been successful. However, too many years using the same auditors could result in a complacent/less thorough audit, or create an opportunity for auditor-client collusion in obscuring criminal or incompetent actions.

I believe the City's auditor for the last several years has done an excellent job of flagging audit issues, especially issues that have repeated from the previous year. However, good financial stewardship would recommend using a new firm to minimize the possibility of auditor-client collusion. **Unfortunately, this year our Finance Director was one of the many key personnel who departed** in response to actions by the New Council. Furthermore, under the New Council, **some financial actions for the last half of the 2023-2024 fiscal year appear to have been more disorganized than is normal**. Finally, **the selection of the auditor for the 2023-2024 fiscal year audit, if it were to involve a new audit firm, should have been started months ago so as to allow a considered selection process (RFP) and an opportunity for the new firm to become familiar with the City's very complex financial operations. In my opinion, a new firm coming in late will jeopardize meeting the state mandated audit completion deadline and/or the quality of the audit** (at a time when the audit will be more difficult).

In spite of the above, one Councilperson is strongly advocating moving to a new firm and has argued against the selection of the City's current auditor at the previous Council Meeting. I would not be surprised if the decision to use a local audit firm is made very soon. Perhaps an attempt will be made even tonight...