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SUNDAY, MAY 24, 2015

COMMENTARY

Why internal audits of government agencies matter

By Laura Doud

As Long Beach's city auditor, I will be the first to acknowledge that auditing is not always the first topic discussed at a dinner party.

So, when I announce that May is International Internal Auditors Awareness Month, I can almost hear the collective groans. Before you turn the page, please give me a moment to explain why I believe internal auditors play an important role in local government.

Simply put, most organizations do not or cannot effectively govern themselves. This does not mean they do not try, but it is difficult to be objective when evaluating your own operations. Internal audi-

tors can evaluate financial and operational processes objectively with the sole purpose of focusing on improvements. Internal auditors provide an independent and transparent view of city operations without bias or preconceived outcomes. We are not out to ruin careers or embarrass city management. Our goals are the city's goals — a better government to meet the needs of the people of Long Beach.

Worldwide, organizations lose millions every year due to fraud. According to a 2014 report from the Association of Certified Fraud Examiners, organizations typically lose 5 percent of revenues each year to fraud. The only way to reduce the risk of fraud is to ensure adequate processes are in

place that limit the opportunity for inappropriate behavior to occur.

This sounds simpler than it is. In the delivery of services to the public, management is tasked with meeting multiple responsibilities. When faced with limited time and resources, having good anti-fraud controls in place is not always seen as convenient or important. However, lack of proper controls is an automatic red flag as it creates an environment which is highly susceptible to fraud. That is why internal auditors are critical. They possess the knowledge and expertise to evaluate anti-fraud controls and alert management to weaknesses that could result in the loss of significant revenue to the city.

Yes, discussing internal controls may not be the most exciting topic, but not discussing them can be catastrophic.

That is what the city of Pasadena recently faced. Last year, Pasadena noticed accounting irregularities in its underground utility program. They hired an outside auditor to perform a review and found that an employee allegedly embezzled more than \$6 million over a decade by funneling money through two local churches. Pasadena's city manager blamed a complete breakdown of internal controls for the reason the fraud was able to occur.

In 2011, faced with budget shortfalls, Pasadena eliminated its internal audit function. At the time of

the embezzlement report last year, Pasadena was already taking steps to hire new internal auditors.

When governments are being asked to do more with less, the time and resources allocated toward effective anti-fraud controls is minimized which can create a perfect storm for fraud. However, with the exposure of each fraud case, the solution always involves having an independent source review what went wrong and make recommendations so it does not occur again.

Long Beach is not immune to the occurrence of fraud. Not too long ago, an employee in Animal Care was convicted of embezzling \$600,000 in license fees. My office confirmed controls safeguarding revenue were basically non-

existent and directly contributed to the employee's ability to embezzle the money.

Actually identifying fraud, however, is extremely difficult because fraud usually occurs when controls are not sufficient to detect there is a problem. Without proper controls, trying to find fraud is like trying to find a needle in a haystack.

My job is to keep evaluating processes and alert management and the public of instances where the city's assets are in jeopardy. You can help by anonymously reporting tips through the Fraud Hotline, 1-888-FRAUD07, My Auditor app or at cityauditorlauradoud.com.

Laura L. Doud is Long Beach city auditor.