

MEMORANDUM

To: Mayor and City Council

From: Chris Pike, Finance Director OBO Audit Committee

Date: September 23, 2013

Subject: **Consider recommendation of Audit Committee to appoint the Internal Auditor**

ITEM DESCRIPTION

Section 3.12 of the City Charter specifies that Council "shall appoint an internal auditor to audit the financial records and expenditures of city funds and to report the results of such audits in writing to the city council at times and intervals set by the city council but no less than quarterly." Bill Mulcahy has served as Internal Auditor since February 2011. His contracted appointment expires at the end of this year.

EVALUATION

During the May 2013 Audit Committee meeting, it was the unanimous recommendation of the Audit Committee that Bill Mulcahy's position as the City's Internal Auditor be extended for another three years. Because the amount of the annual contract is significantly under the competitive bidding threshold, a Request for Proposals was not required. However, in order to ensure an open and fair procurement process, Finance staff attempted to solicit bids from several area CPA firms with experience in this very specialized function. Unfortunately, all the firms approached indicated the estimated contract value did not justify the travel and time involved to properly serve Dunwoody or they had a conflict prohibiting them from providing service to the City. The finance director communicated these findings to the Audit Committee who reconfirmed the consensus of the Audit Committee to award the contract for Internal Audit to William Mulcahy based on the facts that the vendor is qualified and has performed satisfactory during the past three years.

ALTERNATIVES

Council could accept the recommendation of the Audit Committee and choose William Mulcahy. Council could choose to appoint an alternative review team to report back to Council with a recommendation. Council could reject all proposals and instruct staff to reissue the RFP.

RECOMMENDED ACTION

The Dunwoody Audit Committee respectfully requests the Council reappoint Bill Mulcahy for Internal Auditor and authorize the City Manager to execute the contract for services.



William J. Mulcahy, CPA, CIA, MS

Section I: COVER LETTER

August 26, 2013

Purchasing Department
City of Dunwoody
41 Perimeter Center East, Suite 250
Dunwoody, GA 30346

Thank-you again for selecting, Mulcahy Accounting and Risk Consulting (Mulcahy Consulting) in your Request for Proposals RFP 10-11, Provision of Internal Audit Services. I have enjoyed my time as your Internal Auditor. This is my updated proposal to have The City of Dunwoody renew my contract for another three years. I have thoroughly reviewed the prior RFP and am pleased to submit the following updated proposal for renewal of our contract.

As a Dunwoody resident, I am particularly interested in continuing to utilize my internal auditing skills to benefit our great city and its taxpayers. This is not just a professional project for me, but also a personal endeavor to ensure our city stays one step ahead of potential financial risks.

I again applaud the City of Dunwoody in taking this important step to provide Internal Audit Services for its citizens. Having an Internal Auditor reporting functionality to the Audit Committee and working administratively as part of management is in compliance with Institute of Internal Audit (IIA) Standard 1000, Purpose, Authority, and Responsibility of Internal Auditing. Far too many organizations especially newer organizations wait and create an Internal Audit function in a reactive situation as a result of fraud. The City of Dunwoody took this step as part of prevention of internal control incidents. Again, as I said, I applaud the City of Dunwoody.

My qualifications are based on my experience and certifications. I would (a) be using my more than 15 years of experience in internal auditing, as the Chief Audit Officer of Emory University, where I earned my Certified Internal Auditor (CIA) designation; (b) be using my spirit of community and professional involvement which includes serving as Chairman of the Board 2006 to 2010 of the Atlanta Chapter of the Institute of Internal Auditors where I continue to serve as a Board member, (c) be applying my credentials of being a Certified Public Account (CPA) which I earned during my eleven year career with Arthur

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Andersen & Co. I have a Bachelor of Science degree in accounting from Philadelphia University and a Master of Science in Healthcare Policy and Administration from Mercer University.

In Section II of my proposal, my management plan, which according to the RFP 10- 11 is the most important, calls for me to provide personally the Internal Audit Services in line with the deliverables listed. To provide emphasis here in the cover letter on certain deliverables, know that:

1. I have been the leader of an Internal Audit Division where we performed audits in compliance with the Institute of Internal Auditors standards on internal auditing, as evidenced by compliance with IIA Standard 1312 to have an outside Quality Assurance Review (QAR) validated by qualified outside evaluators. My work includes a QAR of the Board of Regents of the University System of Georgia, and I have been trusted with and have performed over a dozen other QARs. Note; I have numerous published articles on the subject of QARs.
2. I have the capacity to perform special projects as directed by the City of Dunwoody. I founded Mulcahy Accounting & Risk Consulting with the vision to save companies money and time by providing them an interim executive for short-term and less than full-time needs. While I have other clients, including the City of Atlanta, I manage my clients where I am flexible and not so busy that I can't handle quick turnaround reports, special projects, and investigations.
3. I plan to perform risk based internal audits and compliance reviews in line with an audit plan using the COSO framework and appropriate Sarbanes Oxley Act of 2002 (SOX) sections. Note; in The Emory Report in 2007, I'm credited for internal audit service related to SOX, a fraud awareness program and a financial attestation process implementation.

The financial consideration for the Provision of Internal Audit Services described is \$15,500 per year, which is the same as the current contract.

Thank you for this opportunity to propose on the renewal of the contract. I believe you will find my management plan, qualifications, experience, references, and financial considerations second to none.

Sincerely,

William J. Mulcahy
President and Owner
Mulcahy Consulting

Section II – PROPOSED MANAGEMENT PLAN

Below, you will find an outline of the Mulcahy Consulting Internal Audit proposed management plan for the City of Dunwoody. The audits and the objectives will be determined jointly between the Audit Committee, line management, and Mulcahy Consulting, the Internal Auditor. The example below proposes one continuous monitoring and one specific risk subject selected each quarter.

Timeline	Mulcahy Consulting Recommendation (Example)	Budget
Quarter 1	# 1 Quarterly Continuous Monitoring Audit Report # 2 Strategic Risk Assessment Audit Report	\$4,000
Quarter 2	# 3 Quarterly Continuous Monitoring Audit Report # 4 Contract Compliance Audit Report	\$4,000
Quarter 3	# 5 Quarterly Continuous Monitoring Audit Report # 6 Purchasing / Credit Cards Audit Report	\$4,000
Quarter 4	# 7 Quarterly Continuous Monitoring Audit Report # 8 IT controls	\$3,500

The Mulcahy Consulting cost to implement this project with eight audit reports would be \$15,500 per year.

In addition, below is a summary of the Mulcahy management plan as it corresponds to each expected deliverable. All deliverables will be executed **on time** and **on budget** and delivered in a professional manner.

1.2.1 Develop a risk based internal strategic plan based on the best approach given the budget limit of the project. Your price shall not exceed this limit, but may be less. The plan should be coordinated together with the Audit Committee.

Mulcahy Management Plan – I would envision performing eight internal audits per year. Such audit reports will at a minimum, identify all city expenditures and other financial matters that I as the internal auditor either determines are not in compliance with or can not conclusively be determined to be in compliance with (a) the provisions of the charter, (b) the applicable city budget, and (c) applicable ordinances, resolutions, or other actions duly adopted under the provisions of the charter. I would define that four of those audits would be quarterly continuous monitoring reviews where I would do enough work to be able to describe the independent internal audit procedures performed such as analytical review, discussion and inquiry with Management including the City Manager, CFO and City Attorney plus such substantive tests of the internal controls as a bank reconciliation review, account reconciliations and analytical review of the quarterly financial statements.

I would continue with our agreed upon quarterly written financial attestation of the process.

In addition, I would perform four internal audits per year based on high-risk areas. Each year, an overall strategic risk assessment would be performed to identify and bring consensus to what the highest audit risk areas are. After that first risk assessment identifies the ranking of the risks I would personally perform audits we select and put together an audit plan for the insights, comments, review and approval by the Audit Committee, I would perform the audits.

1.2.2 Provide a proposed timeline for each assignment.

Mulcahy Management Plan – As part of the overall plan, Mulcahy Consulting will perform eight internal audits per year with the normal benchmark to perform two per quarter. I am planning on the first quarter to be a Risk Assessment and the Quarterly Continuous Monitoring Internal Audit report, as explained in the answer to Deliverable 1.2.1 above.

Prior to each assignment, Mulcahy Consulting will develop specific timeline for each assignment as requested.

1.2.3 Discuss coverage with management and the Audit Committee.

Mulcahy Management Plan – I will discuss coverage with management before each Audit Committee meeting and with the Audit Committee at each meeting.

1.2.4 Perform risk based internal audit control and compliance reviews in terms of the proposed internal audit plan.

Mulcahy Management Plan – Risk based audits and compliance reviews are required by COSO, SOX and the IIA standards. I would continue to plan, select and perform the audits based on risk.

1.2.5 Perform audits in compliance with the Institute of Internal Auditors standards on internal auditing.

Mulcahy Management Plan – I have lead an Internal Audit Division where we performed audits in compliance with the Institute of Internal Auditors standards on internal auditing as evidenced by compliance with IIA Standard 1312, to have an outside Quality Assurance Review (QAR) validated by outside evaluators. My work includes a QAR of the Board of Regents of the University System of Georgia, as well as Georgia Tech and I have been trusted with more than ten others.

1.2.6 Develop client satisfaction survey /questionnaire for each audit assignment conducted.

Mulcahy Management Plan – I believe in client satisfaction surveys. Currently, the client satisfaction survey consists of feedback being communicated to the staff, the Audit Committee and elected officials. Examples of the types of feedback includes: professionalism, technical ability and communication skills.

1.2.7 Develop value add tracker for all the assignments conducted.

Mulcahy Management Plan – Value tracking in Internal Audit and Compliance requires a good balance and cooperation. As, when measuring in dollars, dollars saved can at times can unfairly show the Internal Auditor is taking credit for team results. Also sometimes the best internal audit input comes from those meetings where it's decided to “not” be doing something. With all the above said, value tracking is important and I know how to strike the right balance.

Examples of ways Mulcahy Consulting would implement value add tracking for assignments conducted include: strategic risk assessments, cost savings, cost avoidance, continuous monitoring, revenue enhancements, insights and most important foresights.

1.2.8 Perform risk based performance audits.

Deliverable Deleted per City of Dunwoody Addendum #1 to original RFP # 10-11.

1.2.9 Ensure that line management is fully aware of the audit findings' implications to business operations and subsequent recommendations.

Mulcahy Management Plan – Line management will be kept fully informed. I believe all written audit materials should be reviewed first with line management before going to the Audit Committee, except in the extremely rare case such as where possible fraud is involved or the Audit Committee has asked for confidentiality. I know how to keep confidences and at the same time be a team player with line management.

1.2.10 Provide a final report on the outcome and findings of audits with recommendations and agreed management corrective action for follow up.

Mulcahy Management Plan – Reporting and follow up until agreed corrective action has taken place is the standard I will follow. I believe the best findings are the ones where line management implements the recommendation before the internal audit report is issued. In cases where corrective action is planned, the report will have the agreed date for when corrective action will be implemented.

1.2.11 Provide risk mitigation and control advice to management regarding the management of risks, with a summarized report to the Audit Committee.

Mulcahy Management Plan – I believe providing this advice is values add service that I can uniquely provide based on my qualifications and experience including that I am currently performing internal auditing with the City of Atlanta’s City Auditor’s Office.

The City of Dunwoody would benefit from having me dedicated to this project. I would be able to provide strategic counsel based on my years experience. The City of Dunwoody would receive personalized service and guidance from a senior level executive.

1.2.12 Provide summary reports and present such to the Audit Committee on high risk findings.

Mulcahy Management Plan – I will provide summary reports on high-risk findings to the Audit Committee. The written reports where appropriate will be provided in advance.

Examples of projects in which I have presented to Audit Committees include: compliance, accounts receivable, inventory and emerging issues.

1.2.13 Attend Audit Committee meetings and provide feedback on audits completed, the management of risks including a regular overview of the control environment

Mulcahy Management Plan – I would attend the Audit Committee and based on internal audit work be prepared to provide my feedback on audits, risk and the control environment. I will be able to provide both insights and foresights as a result of my experience in the governmental industry as well my internal and external auditing experience.

1.2.14 Provide overall annual conclusion for the Audit Committee on the audited control environment.

Mulcahy Management Plan – I will provide an overall conclusion on the audited control environment.

1.2.15 Work closely with the external auditors and other assurance providers to ensure there is synergy of approach with little duplication of effort and ensure reliance on work performed.

Mulcahy Management Plan – I’ve worked extensively with assurance providers and external auditors in everything from work paper preparation, to analysis of Government Auditing Standards to administratively coordinating their work with the Audit Committee.

1.2.16 Have capacity to deal with any special audit projects as directed by the City.

Mulcahy Management Plan – I have the capacity to perform special projects as directed by the City of Dunwoody. I founded Mulcahy Accounting & Risk Consulting with the vision to save companies money and time by providing them an interim executive for short-term and less than full-time needs. While I have other clients, I manage my clients where I am flexible and can handle quick turnaround reports, special projects, and investigations.

Section III – Qualifications

1.3.1 Experience providing advice or services to an independent local governing body and/or its audit committee. Alternatively, experience with internal and/or external audit work, preferably for local government and subject to a peer review every three years.

Mulcahy Qualifications – As Special Assistant to the City Auditor of Atlanta, I meet regularly with the Audit Committee of the City of Atlanta. The work I am doing is public information so I can say that recently, I completed a report on mitigation of material weaknesses and significant deficiencies from the prior year external CPA audit. I reported this to the Audit Committee. The City Auditor’s office is subject to a peer review every three years. In addition, I perform peer reviews. I have been part of the team performing a peer review for the Board of Regents of the University System of Georgia as well as Georgia Tech and over ten other organizations.

1.3.2 Demonstrated familiarity with the five essential elements of a comprehensive integrated framework of internal control as identified by The Council of Sponsoring Organizations (COSO) of the Treadway Commission.

Mulcahy Qualifications – I perform at the City of Atlanta and before that at Emory University internal audits consistent with the COSO framework which calls internal control a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in categories of (a) effectiveness and efficiency of operations, (b) reliability of financial reporting and (c) compliance with applicable laws and regulations.

1.3.3 Understanding and/or experience applying elements of the Sarbanes-Oxley Act of 2002. Ability to extrapolate and incorporate useful elements of this Act for utilization in local government.

Mulcahy Qualifications – I led the effort at Emory University to implement and apply elements of the Sarbanes-Oxley Act of 2002. Among elements implemented included Financial Attestation, Section 302; Whistleblower line, Section 806; and Financial expert on the Audit Committee, Section 407. Emory is a not for profit and like the City of Dunwoody, not subject to SOX. The elements selected and implemented therefore were not required by law but were put in place as good business practices.

1.3.4 Significant experience with government accounting standards, generally accepted government auditing standards; knowledge of municipal finance administration; principles and practices of municipal finance administration; principles and practices of municipal accounting systems and controls, budgeting, procurement and investments; modern techniques of accounting; integrated computer based accounting systems; municipal regulations; and practices of internal and administrative controls.

Mulcahy Qualifications – At the City of Atlanta, currently I perform internal auditing tests on the OMB Circular A-87 Cost Allocation Plan. I am performing the work in line with generally accepted government auditing standards. In addition, currently and over the years, I've been involved with OMB Circular A-133 Audits of Federal Contracts and Grants. This experience would benefit the City of Dunwoody going forward especially with the American Recovery & Reinvestment Act also known as Federal Stimulus or Recovery Act. In addition, I have significant experience with accounting, finance, information systems, and practices of internal and administrative controls.

1.3.5 Ability to help Audit Committee members evaluate and understand audit-related issues and to assist them in performing their oversight role over financial reporting and disclosure.

Mulcahy Qualifications – I have the ability to make complex accounting and auditing issues understandable to Audit Committee members. I have been meeting with Audit Committees for years. At Emory University in the years subsequent to the Sarbanes- Oxley Act of 2002, the Audit Committee met eight times a year and I produced the agenda and explained financial reporting and disclosure. I am currently attending meetings of the City of Atlanta Audit Committee. I have coordinated having Audit Committee members present at Internal Audit local, regional and international conferences of the Institute of Internal Auditors.

Qualifications, Resume - William J. (Bill) Mulcahy, CPA, CIA, MS

I served as the Chief Audit Officer for Emory University, from 1994 until 2007. At that time, Emory University had over 11,000 students, \$2.5 billion in revenue, \$6 billion in assets and 22,000 employees. After my sabbatical, I founded Mulcahy Accounting & Risk Consulting in 2008 and have performed projects such as business development, university accreditation process & procedures update & defense and Internal Audit Quality Assurance Reviews (QAR). Currently the largest of my clients is the City of Atlanta where I serve as Special Assistant to the City Auditor.

Starting at Emory University in 1989, I served as the Director of the Office of Grants and Contracts Accounting, an Associate Vice President for Finance and Administration, and as the Chief Audit Officer. Prior to Emory, I earned his Certified Public Accountant designation during my 11 years with Arthur Andersen & Co.

I developed the Internal Audit function at Emory and led the formation of a team of talented internal audit professionals that serve both the University and Emory Healthcare. Under my leadership, the Internal Audit staff strengthened internal controls, implemented several innovative compliance programs, and promoted higher accountability standards throughout the University and Emory Healthcare. I was one of Emory's leaders in implementing Emory's compliance efforts under the Sarbanes-Oxley Act of 2002, the Enterprise Risk Management Process, the institution-wide Financial Attestation process, and the Emory Trust Line.

I am both a Certified Public Accountant and a Certified Internal Auditor. I am recognized for my leadership as the Chairman of the Healthcare Committee of the Georgia Society of CPA's and as the past National Chairman of the Board of the Association of Healthcare Internal Auditors (AHIA). I received the AHIA national "Founders Award" in 2004.

I served as Chairman of the Institute of Internal Auditors 2010 International Conference in Atlanta, Georgia. The International Conference is the Institute's premier annual event which according the Atlanta Convention & Visitors Bureau had a \$3 million economic impact to Atlanta. In 2007, The Atlanta Chapter of the Institute of Internal Auditors designated their annual leadership award as "The William J. Mulcahy Excellence Through Leadership Award"; it is awarded annually to an outstanding leader. I serve on the Board and I am past Chairman of the Board, 2006 to 2010 and President of the 1,900 member Institute of Internal Auditors, Atlanta Chapter.

I earned my Bachelor's degree in Accounting from Philadelphia University and a Master in Healthcare Policy and Administration from Mercer University.

Section IV RELEVANT REFERENCES

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