

Prince William County Public Schools

2013 Annual Audit Plan

Office of Internal Audit

Vivian Calkins-McGettigan, MBA, CPA, CIA, CFE, CPFO

Chief Internal Auditor



Prince William County

PUBLIC SCHOOLS

Providing A World-Class Education ®

Table of Contents

Foreword	3
Introduction to the Office of Internal Audit	4
Mission, Vision, and Goals	5
Knowledge Gained from the First Two Year's Audits	6
Audit Plan (January 1, 2013 – December 31, 2013)	11
2013 Annual Audit Projects:	
On-going Audits:	
Unannounced School Audits (Fifteen Schools)	12
School Audits (One School)	13
Procurement Card Audits (Fifteen Cards)	13
Follow-up Audits (Three Schools)	14
Food Service (Two Schools)	14
Allegations of Fraud, Waste, and Abuse (Hotline)	15
Annual Risk Assessment and Annual Audit Plan	16
Meetings with New Principals to Review their School's Prior Audit Findings and to Review Processes	16
Developing and Presenting Training Materials	17
Coordinating Global Audit Findings and Recommendations with Management and Internal Controls Advisory Council (ICAC)	17
Updating Internal Audit Web Page	18
Audit(s) Based on Risk Assessment:	
Leave Audits	18

Advisory Services Projects:

Process Review – Additional Compensation Human Resources and Payroll Processes	19
High Risk Projects Determined During Audit Year	19
Office of Internal Audit Staffing	20
Risk Assessment Process and Calendar Year 2013 Audit Plan Development	21
Status of 2012 Audit Plan	23

Prince William County Public Schools

Office of Internal Audit

Calendar Year 2013 Audit Plan

FOREWORD

The Prince William County Public Schools' (PWCS) Office of Internal Audit was established in July 2010 with the hiring of the first Chief Internal Auditor. Last year's report marked the second official Audit Plan for PWCS which was the result of input from numerous management and staff throughout the School Division who assisted with the identification of the audit risk universe and suggestions for audit work program items based on PWCS' unique environment. This report was based on an update of the audit risk universe combined with knowledge gained from the first two years' internal audits.

The Office of Internal Audit herein presents the Calendar Year 2013 Audit Plan for the period of January 1, 2013 through December 31, 2013. In accordance with Institute of Internal Auditors' Standard 2010 of the "*International Standards for the Professional Practice of Internal Auditing*," the audit plan is a risk-based plan. The audit universe, definitions of risk factors, and risk factor weights were discussed with the School Board, Internal Audit Committee, the Superintendent, and senior management. The scheduled audits address high risk areas, critical issues, and programs that are of interest to the School Board and management.

Our audit plan focus corresponds with the School Board's and management's objectives and provides assistance in their efforts to provide economical, efficient, and effective programs. The Office of Internal Audit will work cooperatively and in partnership with management to contribute to PWCS' mission of *Providing a World-Class Education* to our citizens.

In accordance with the Institute of Internal Auditors' standards, auditors may participate on committees or task forces in a purely advisory capacity to advise management on issues related to the knowledge and skills of the auditors without impairing their independence. However, auditors should not make management decisions or perform management functions. Auditors can provide routine advice to management to assist in activities such as establishing internal controls or implementing audit recommendations and can answer technical questions and/or provide training. The decision to follow the auditor's advice remains with management.

Vivian A. Calkins-McGettigan, MBA, CPA, CIA, CFE, CPFO

Chief Internal Auditor

Introduction to the Office of Internal Audit

Description

The Office of Internal Audit provides financial and performance audit services to the School Board and the Superintendent. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve operations. It provides a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Objectives and Responsibilities

The overall objective of the Office of Internal Audit is to assist all members of the PWCS administration and the School Board in the effective discharge of their responsibilities by providing them with objective analyses, appraisals, recommendations, and pertinent audit comments concerning the following activities:

- Reviewing and appraising the soundness, adequacy, and application of accounting for financial and other operating controls;
- Promoting an effective system of internal controls at a reasonable cost;
- Determining that assets are accounted for and controls are in place to minimize losses;
- Ascertaining the reliability of financial data;
- Recommending operating improvements;
- Determining whether a department or program is achieving its mission, goals, and objectives in an effective manner;
- Assessing compliance with internal policies and procedures as well as local, state, and federal laws; and
- Providing sufficient follow-up on audit findings to determine the degree of implementation of audit recommendations.

Standards of Practice

The Office of Internal Audit follows the Institute of Internal Auditors' standards.

Reporting Responsibilities

The School Board established the Office of Internal Audit, which reports directly to the Internal Audit Committee and through the Internal Audit Committee to the School Board. The Audit Committee consists of three members, including two members of the School Board and the Associate Superintendent for Finance and Support Services, with one School Board alternate and the Deputy Superintendent as the management alternate.

Mission, Vision, and Goals

<p>Prince William County Public Schools Mission <i>Providing a World-Class Education</i></p>	<p>Office of Internal Audit Mission The Office of Internal Audit is committed to assisting the School Board and members of management to effectively discharge their responsibilities while <i>Providing a World Class Education</i>.</p>
<p>Vision In Prince William County Public Schools, all students will learn to their fullest potential. The education of each student will be individualized and developmentally appropriate. Student learning will be enhanced by national, global, and multicultural perspectives. Students who graduate from Prince William County Public Schools will possess the basic knowledge and skills that will assure their proficiency in problem solving and the use of technology. Graduates will have a desire to learn and the skills to be life-long learners. They will be responsible citizens. All graduates will be competent to enter the work world and prepared to pursue advanced educational opportunities.</p>	<p>Vision We strive to serve as an independent, objective assurance and consulting activity designed to add value and improve operations of Prince William County Public Schools by providing high quality internal audit services recognized by our customers and our peers for innovation, the integrity of our audit work, and the quality of our reports. The Office of Internal Audit strives to assist Prince William County Public Schools in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, control, and governance processes. We are committed to promoting teamwork in a diverse workforce.</p>
<p>Goals</p>	<p>Goals</p>
<p>Goal 1: All students meet high standards of performance.</p>	<p>Goal 1: Develop and implement an audit plan based on annual risk assessment.</p>
<p>Goal 2: The teaching, learning, and working environment is caring, safe and healthy, and values human diversity.</p>	<p>Goal 2: Ensure that PWCS programs, schools, and departments comply with applicable policies, regulations, and laws.</p>
<p>Goal 3: Family and community engagement create an environment focused on improved student learning and work readiness.</p>	<p>Goal 3: Improve understanding of internal audit functions and services. Maintain a dynamic, team oriented environment which encourages personal and professional growth and challenges and rewards our employees for excelling and reaching their full potential.</p>
<p>Goal 4: Faculty, staff, and leaders are qualified, high performing, diverse, and motivated.</p>	<p>Goal 4: Encourage self-reviews of systems and procedures.</p>
<p>Goal 5: The organizational system is aligned, integrated, and equitable.</p>	<p>Goal 5: Investigate observed, alleged, or suspected wrongdoing to prevent and detect fraud, waste, and abuse in PWCS schools and activities.</p>

Knowledge Gained from the First Two Years' Audits

With the goal of continuously improving the internal audit function, the tremendous amount of knowledge acquired in the constantly evolving first two years' internal audit environment was applied in the development of the 2013 Audit Plan. The key areas included:

- 1. Focus on Increasing Unannounced Audits to Enhance Compliance with Policies, Regulations, and the Financial Guidelines Manual and as a Fraud Deterrent while Maximizing Audit Resources** - The possibility that the auditor may visit a school at any time to review financial documents and to observe procedures, resulting in an audit report documenting findings, encourages compliance with financial guidelines while deterring fraud. However, because the current internal audit staffing level is low for a school division the size of PWCS, the focus on coverage is even more important for the overall Audit Plan. The proposed 2013 Audit Plan includes the following:
 - a. Increase Unannounced School Audits** – With 93 schools, the plan includes an increase from 10 schools to 15 schools (50%) which will provide for 16% coverage and a six-year rotation. A three-year rotation would be ideal.
 - b. Increase Procurement Card Coverage** – Procurement cards are high risk due to the after-the-fact review of purchases and the reliance on individual card holders to ensure that items purchased are appropriate. With 639 active procurement cards, obtaining a higher level of audit coverage is recommended. While the recommendation shows an increase from 10 cards to 15 cards (50%), this only represents 2% coverage and a 43-year rotation. A three-year rotation would be ideal.
 - c. Reduce Comprehensive School Audits to Provide for Expanded Coverage for Unannounced Audits** – Rather than focus limited audit resources toward a few schools with more detailed audit testing than the Unannounced Audits, which are focused on observations and inquiries, this recommendation is to reduce the Comprehensive School Audits by one school, which will provide for an increase of three Unannounced Audits. Please note that over the past two years, Comprehensive School Audits have been utilized when an Unannounced Audit has resulted in the need to expand the audit due to confirmation of non-compliance issues received from a tip or the observation of non-compliance as a result of the Unannounced Audit. In those cases, the concern that other non-compliance issues may exist warranted the expansion of the audit. In the event that more than one Unannounced Audit results in the need to expand an audit, the unallocated hours for the line item “High Risk Projects Determined During the Audit Year” may be utilized.

- 2. Internal Control Environment is Unique to Each School and Flexibility Provided by Site-Based Management Increases Time for Individual School Audits** – One of the unexpected outcomes of the first two years’ audits is the realization of how profound PWCS’ site-based management philosophy is on defining the internal control environment for each school. Basically, each principal sets the tone for the internal control environment for their school. The initial school audit work programs were designed around policies, regulations, and other guidance such as the Financial Guidelines Manual. However, the initial audits revealed that in many cases guidance which provided flexibility for site-based management with reduced standardization of forms and processes, resulted in many different approaches to handling financial and payroll transactions expanding the risk for non-compliance and requiring the audit work program steps be customized for each audit. The hours associated with conducting and communicating the audit results have not changed from last year and recognizes the importance of meeting with the principals and discussing the audit results, recommendations, and management’s actions and responses.
- 3. Develop Follow-up Audit Program** – With two years of finalized audits which include management responses to the individual findings, it is now time to develop the processes and timing of follow-up audits. Allocating resource hours to develop a follow-up program to enhance communications and verify that initial audit findings have been addressed is critical to an effective internal audit function. The follow-up audit program includes three follow-up audits for the current year. Ideally, a follow-up audit should occur for every audit within two years.
- 4. Meeting with New Principals to Discuss Prior Audit Findings and Review School Financial Processes (New to Audit Plan)** – Whenever a principal has contacted the Office of Internal Audit requesting a meeting to discuss financial processes at their school, recognizing that these requests are a strong indicator that the principal places the internal control environment in their school as a high priority, the Chief Internal Auditor has arranged to meet with the principal and staff of the school. To ensure that the line between Internal Audit and Finance is clear, as Internal Audit should not provide financial advice, the Director of Financial Services has accompanied the Chief Internal Auditor to the meeting to provide answers to financial process questions while the Chief Internal Auditor has discussed specific audit findings from the school audits and common audit findings for awareness to increase compliance.

A few times the Chief Internal Auditor has met with new principals who had recently assumed responsibility for a school where a recent audit had occurred. These meetings are important, as it provides for the opportunity to share previous findings, address steps

to reduce the chance that the findings will recur, and essentially “wipe the slate clean” for the new principal. In addition, a few times new principals have requested that the Chief Internal Auditor meet with them to discuss the specific processes at their schools, as they want to make certain that they are doing what they need to do to be in compliance with the multitude of financial requirements. These meetings, especially in the early years of the audit program, will improve communications while strengthening the internal control environment in the individual schools.

- 5. Audit of the Leave Process (New to Audit Plan)** – Unrecorded leave directly results in overpaying employees either when they cash out their leave balances upon retirement or when they use leave more than one time because the previous leave use was not recorded. PWCS’ leave process is very clearly defined. Every employee has responsibility to ensure that their leave is deducted appropriately and each principal and director has responsibility to ensure that a process exists within their school, office, or department that ensures that approved leave is deducted for employees. The Chief Internal Auditor encountered several situations that increase concerns that unrecorded leave may be overstating Divisionwide leave balances and may be resulting in overpayments to employees. This audit program item will focus on a review of the leave capture and entry processes from a sample of schools and offices to provide recommendations for management’s consideration and to focus on enhancing communications of the importance of maintaining a system to ensure that leave is properly recorded within each school, office, and department.
- 6. Process Review - Additional Compensation Human Resources and Payroll Processes (New to Audit Plan)** - Because payroll-related expenses represent the most significant component of PWCS’ budget, ensuring that compensation guidelines are defined, communicated, and reviewed for compliance is essential to reduce the risk of overpaying employees. Over the past two years, the Chief Internal Auditor has encountered situations where employees have received additional compensation which was not defined in the policies, regulations, or other guidance such as the Budget Manual. Because current policies and regulations do not define all of the additional pay components, there is a risk of overcompensating employees which directly results in additional costs to PWCS. The Audit Plan recommends allocating audit hours to perform a review of additional pay components, determine who the current authorized approvers are for each pay component, and determine the current processing steps in the schools, Office of Human Resources, and Office of Financial Services’ Payroll Section to process the additional pay items with a focus on internal controls.

This audit program item was recommended to the Internal Audit Committee for two reasons. First, several examples of undefined employee compensation items have come to

the Chief Internal Auditor's attention during the initial audits which has moved payroll up the Risk Assessment Universe. Because current policies and regulations do not define all of the additional pay components, there is a risk of overcompensating employees which directly results in additional costs to PWCS. Second, the Director of Financial Services has formally requested that the Office of Internal Audit perform a risk assessment review of the human resources and payroll processes to provide an objective look at these processes to strengthen internal controls. With the upgrade to the human resources/payroll system, a project team has been working on developing the processes for the new system, so reviewing the internal controls in conjunction with the new system is excellent timing.

- 7. Continue to Perform Two Food Service Audits** - Review of the comprehensive Food Service manuals, observations at elementary, middle, and high schools of Food Service operations to develop the Food Service audit work program in 2011, and the risk assessment meeting with 20 Food Service personnel demonstrated outstanding controls over Food Service revenues. While cash collections will always be a high risk item, the detailed processes in place including regular reviews of the processes, mitigate the risks significantly. Food Service audits continue to be in the audit plan as a fraud deterrent; however, with the reduced risk the low testing level of two Food Service audits per year provides for coverage in higher risk areas such as Unannounced Audits and Procurement Card Audits. The coverage is slightly more than 2% which is a 45-year rotation.

- 8. Continued Emphasis on Providing Time to Prepare Audit Reports, Discuss Findings and Recommendations with Principals and Directors, and to Follow up on Findings**
One of the most important aspects of the audits is ensuring that findings and recommendations are understood to reduce risks that the findings will continue. The initial audit plan included very little time to produce the audit reports and communicate the results, but the Chief Internal Auditor has learned that because the audit function is still fairly new, the time spent with the principals and directors is extremely important. The time allotted for 2013 is consistent with the time allotted for 2012. In the future, as the program matures and familiarity with the audit process becomes more common, the time spent with the individual principals and directors may be reduced.

- 9. Continue to Provide Time for Developing Training Materials for Meetings** - With limited audit staff, to maximize communication of common audit findings and to avoid those findings in the future, development of presentations and active participation in meetings including in-services (bookkeepers), PWCS conferences (classified employees), principals (new principals, level meetings), senior staff (Superintendent/Deputy meetings) and specific meetings related to audits (examples – drivers' education, SACC, Food Service, Transportation) is the most effective way to communicate to larger groups.

While this is very important in the initial years of establishing the internal audit function, in future years, it is anticipated that the time spent will be significantly reduced.

10. Continue Coordinating Global (common) Audit Findings and Recommendations with Management and Participation with Internal Controls Advisory Council

(ICAC) – The tremendous support and inclusion of internal audit by the managers from throughout the organization over the first two years has been extraordinary. Rather than focusing on the individual schools’ audit findings, the emphasis has been on addressing the common findings with enhanced communications, standardized instructions or forms, and identification of potential areas for policy and regulation changes. The formation of the ICAC adds a structure to continuously address changes using groups focused on specific topics. This is a very responsive approach providing the most useful forms and procedures to users while ensuring that the internal control environment is assessed before implementing the changes. In addition, the opportunity for Internal Audit to participate on the front end demonstrates the collaborative approach that the Internal Audit Committee established as one of the primary goals for Internal Audit while enhancing the internal control environment and providing for future audit efficiencies. The 2012 projects were focused on the procurement card process and the booster club guidelines with 2013 anticipated to be focused on management of property assets and the human resources/payroll processes.

11. Provide Flexible Hours for Projects Defined During the Year – While each year’s audit plan will be set based on the best knowledge that the Internal Audit Committee and School Board has at the time, during the Audit Plan year unanticipated high priority situations may arise. For example, during the first two years, there has been higher activity than expected for hotline items and tips; several audits resulted in identifying non-compliance issues which required expanding the audit scope; the opportunity for the Chief Internal Auditor to participate on the front end of the Finance/HR system upgrade was provided; and development of recommendations for the Internal Control Advisory Council provided an opportunity to share findings and for the Council to provide recommendations that enhance the internal control environment. Any additional projects will be discussed with the Committee. If the time is not needed at the end of the year, any additional time will shift to school audits.

**Prince William County Public Schools
Office of Internal Audit
2013 Audit Plan**

Assignments:	Hours	% Of Available Hours
Estimated Available Hours (Excludes Leave & Holidays)	1,648	
Professional Development (Certifications/License Requirements)	100	6%
Administrative Activities (includes Internal Audit Committee Preparation & Meetings)	100	6%
Subtotal	<u>200</u>	
	Units to	
	Total	Be
	Units	Audited
		Hours Per
		Unit
Audits - Ongoing: (Includes Audit Reports and Communication Time)		
Unannounced School Audits	93	15
School Audits (Activity Funds, Procurement, Payroll)	93	1
Procurement Cards	639	15
Follow-up Audits		3
Food Service	89	2
Allegations of Fraud, Waste & Abuse (Hotline)		100
Subtotal	<u>884</u>	54%
Other Direct Audit Activities:		
Annual Risk Assessment and Annual Audit Plan	40	
Meetings with New Principals to Review their School's Prior Audit Findings and to Review Processes	24	
Developing/Presenting Training Materials (Senior Staff, Users Groups, New Principals)	120	
Coordinating Global Audit Findings and Recommendations with Management & ICAC	80	
Updating Web Page	20	
Subtotal	<u>284</u>	17%
Audit Based on Risk Assessment (includes creating first time audit work programs)		
Leave Audits (Schools and Departments)	80	
Subtotal	<u>80</u>	5%
Value Added Projects		
Process Review - Additional Compensation Human Resources and Payroll Processes	120	
Subtotal	<u>120</u>	7%
High Risk Projects Determined During Audit Year	<u>80</u>	5%
Unassigned Audit Hours	-	

2013 Annual Audit Plan

Subject: **Unannounced Audits (Fifteen Schools)**

Staff Hours: **360**

DESCRIPTION OF AUDIT SERVICES:

One element of an effective anti-fraud program aimed at deterring fraud is the potential for unannounced audits. This audit will involve dropping in unannounced at individual schools selected based on the Chief Internal Auditor's judgment to observe processes, interview bookkeepers, and review documents. Principals and bookkeepers have been informed of the unannounced audits and the possible items to be observed or reviewed so that they can be perpetually prepared with appropriate documentation. The individual audits will vary from audit to audit. A sample of the items audited may include observing:

- Security of cash;
- Timeliness of deposits;
- Collections of cash from teachers and sponsors throughout the day;
- Security of passwords; and
- Security over check stock

The audits may include formal reviewing and testing of:

- Sponsor forms and reports;
- Cooperative activities forms and reports;
- Payroll and leave records;
- Procurement cards and credit card files;
- Petty cash and change funds;
- Check registers and bank reconciliations; and
- Non-expendable and expendable property inventory records

The unexpected nature of the unannounced audits and communication of results of the audits have historically been an incentive for those contemplating fraud to reconsider their actions due to the increased risk of detection.

Subject: **School Audit(s) (One School)**

Staff Hours: **80**

DESCRIPTION OF AUDIT SERVICES:

These audits will be conducted at a sample of schools and/or offices. Because the individual schools’ “School Activity Funds” are audited by external auditors, the focus of the internal audits will be on overall financial controls and expenditures funded by general fund (site based) revenues. This review will provide an overall evaluation of the controls over the business processes performed at the school and/or office locations. Due to the unique PWCS site-based management approach, each audit work program will be modified based on observations and inquiries of school staff and the unique processes and forms related to the individual schools. These processes will include, but will not be limited to:

- Activity Funds;
- Procurement – including procurement card activities;
- Payroll (contracts, supplements, etc);
- Time and Attendance;
- Travel and Employee Reimbursement;
- Cash Collections Process;
- Overall Financial Controls; and
- Property Assets

Subject: **Procurement Card Audits (Fifteen Cards)**

Staff Hours: **240**

DESCRIPTION OF AUDIT SERVICES:

These audits will be conducted for a sample of card holders and will concentrate on the adequacy of the controls over access, handling, and safekeeping of cards; maintenance of appropriate documentation, approval, oversight, and reconciliation; and compliance with PWCS policies and regulations.

Associated risks may include:

- Improper or abusive purchases;
- Inaccurate or incomplete records;
- Inadequate monitoring and reconciliation; and
- Purchase of services or items not received by the School Division

Subject: Follow-up Audits (Three Schools)

Staff Hours: 72

DESCRIPTION OF AUDIT SERVICES:

The purpose of performing follow-up on audit recommendations is to determine that corrective actions have been put into place to address audit observations. The Office of Internal Audit will perform steps necessary to determine that agreed upon actions have been implemented in a timely manner and whether operations continue to have an adequate control structure in place. These follow-up efforts, as required by Institute of Internal Auditors' standards, will assist in ensuring that efficiencies and controls are achieved. When preparing a response to an audit, management indicates what actions they plan to take to address audit observations and the anticipated date of completion. While it is management's responsibility to implement agreed upon actions, Internal Audit will institute a procedure for contacting management to obtain feedback regarding progress made and to obtain justification for actions that are not taken within the agreed upon timeframe.

Subject: Food Service (Two Schools)

Staff Hours: 32

DESCRIPTION OF AUDIT SERVICES:

The goal of the food service audits is fraud deterrence. The Office of School Food and Nutrition Services provides a comprehensive operations manual which details compliance control steps. While cash collections will always be a high risk item, the detailed processes combined with centralized controls in place including regular review of the processes, mitigate the risks significantly. Individual audits may include the following:

- Observe food service employees for compliance with procedures;
- Observe cash collections, reporting, and reconciliation process;
- Review management reporting;
- Review procurement and inventory controls; and
- Observe and evaluate physical security over cash and deposits

Subject: **Allegations of Fraud, Waste, and Abuse (Hotline)**

Staff Hours: **100 (Subject to change based on activities)**

DESCRIPTION OF AUDIT SERVICES:

Upon notification or discovery of suspected fraud, the Office of Internal Audit will oversee and coordinate actions taken in following up on the suspected fraud. PWCS has a team approach to responding to suspected fraud with members from Internal Audit, Risk Management, and Financial Services.

The Office of Internal Audit's primary role is to be aware of all fraud related allegations and to provide assurance to the Internal Audit Committee that management has addressed the fraud incidents and made corrections associated with the knowledge gained from the incidents. Fraud related cases may be the result of calls to the hotline, employee and management reports of suspicious activities, and fraud identified during audits. Incidents reported directly to the Office of Internal Audit through the hotline or employee calls are initially reviewed by the Office of Internal Audit to determine validity. Many reports are routine issues which will be referred to the department responsible for compliance of the policy allegedly violated. Internal Audit will follow up on the actions taken by the department.

If an allegation requires investigation, the Office of Internal Audit will request an investigation from the Office of Risk Management and Security Services through the Associate Superintendent for Finance and Support Services. Investigations consist of performing extensive procedures necessary to determine whether fraud, as suspected, has occurred. It includes gathering sufficient evidence about the specific details of a discovered fraud. These investigations are a team effort with Risk Management, Internal Audit, Financial Services, Division Counsel, and police officers.

Financial Services will review the results of the alleged fraud incidents and modify internal control processes to reduce the risk of future incidents, as appropriate. Internal Audit will review the investigation files and meet with management, as appropriate, to provide assurance to the Internal Audit Committee of management's responses to alleged fraud, waste, and abuse. Internal Audit will follow up with employees providing tips to ensure that retaliation has not occurred.

Subject: [Annual Risk Assessment and Annual Audit Plan](#)

Staff Hours: 40

DESCRIPTION OF AUDIT SERVICES:

This report is the result of a comprehensive risk assessment process reflecting the contributions of numerous management, principals, directors, bookkeepers, and staff to identify and prioritize the audit universe. The result of the risk assessment process is the annual Audit Plan. The audit universe is a dynamic, continuously changing environment which requires constant updates. Each year, at a point in time, the audit universe will be updated and the subsequent year's Audit Plan will be developed for the Internal Audit Committee's and School Board's approvals. The process for update may include focus group meetings, contributions from individual department's staff meetings, review of new programs, and a review of significant changes to existing programs.

Subject: [Meetings with New Principals to Review their School's Prior Audit Findings and to Review Processes](#)

Staff Hours: 24

DESCRIPTION OF AUDIT SERVICES:

When a new principal assumes responsibility for a school, they assume a tremendous amount of responsibility while inheriting financial processes that exist in the school and, on occasion, inherit challenges as the result of previous audit findings. Whenever a principal has contacted the Office of Internal Audit requesting a meeting to discuss financial processes at their school, recognizing that these requests are a strong indicator that the principal places the internal control environment in their school as a high priority, the Chief Internal Auditor has arranged to meet with the principal and staff of the school. To ensure that the line between Internal Audit and Finance is clear as Internal Audit should not provide financial advice directly resulting in management decisions, the Director of Financial Services has accompanied the Chief Internal Auditor to the meeting to provide answers to financial process questions while the Chief Internal Auditor has discussed specific audit findings from the school audits and common audit findings for awareness to increase compliance.

A few times the Chief Internal Auditor has met with new principals who had recently assumed responsibility for a school where a recent audit had occurred. These meetings are important, as it provides for the opportunity to share previous findings, address steps to reduce the chance that the findings will recur, and essentially "wipe the slate clean" for the new principal. In addition, a few times new principals have requested that the Chief Internal Auditor meet with them to discuss the specific processes at their schools, as they want to make certain that they are doing what they need to do to be in compliance with the multitude of financial requirements. These

meetings, especially in the early years of the audit program, will improve communications while strengthening the internal control environment in the individual schools. The audit plan reflects allowing for approximately six meetings.

Subject: **Developing and Presenting Training Materials**

Staff Hours: **120**

DESCRIPTION OF AUDIT SERVICES:

One of the components of a strong anti-fraud program is the ongoing communication, education, and training process. With limited audit staff, to maximize communication of common audit findings and to avoid those findings in the future, development of presentations and active participation in meetings is the most effective way to communicate to larger groups. These meetings may include: in-services (bookkeepers), PWCS conferences (classified employees), principals (new principals and level meetings), senior staff (Superintendent and Deputy Superintendent meetings), and specific meetings related to audits (examples - drivers education, SACC, food service, transportation). Regular presentations at these meetings and other meetings will enhance the familiarity with the Internal Audit function, improving communication processes and emphasizing deterrence of fraud due to the increased possibility for detection. While this is very important during the initial years when establishing the internal audit function, in future years, the time spent is anticipated to be significantly reduced.

Subject: **Coordinating Global Audit Findings and Recommendations with Management and Internal Controls Advisory Council (ICAC)**

Staff Hours: **80**

DESCRIPTION OF AUDIT SERVICES:

The tremendous support and inclusion of internal audit by the managers from throughout the school division over the first year has been extraordinary. Rather than focusing on the individual schools' audit findings, the emphasis has been on addressing the common findings with enhanced communications, standardized instructions or forms, and identification of potential areas for policy and regulation changes. The formation of the ICAC in April 2011, adds a structure to continuously address changes using groups focused on specific topics. This is a very responsive approach providing the most useful forms and procedures to users while ensuring that the internal control environment is assessed before implementing the changes. In addition, the opportunity for internal audit to participate on the front end demonstrates the collaborative approach that the School Board and Internal Audit Committee established as one of the Office of

Internal Audit's primary goals, while enhancing the internal control environment and providing for future audit efficiencies.

The ICAC has identified the initial projects which are divided into two categories; those that require enhancements to instructions and forms which can be developed by a working group and implemented by management, and those where current policy and regulation requirements create challenges for anyone attempting to be compliant which will require an expanded process to develop recommended changes to policies and regulations.

Several projects were the result of internal audit findings which were due to specific policy and regulation requirements not being consistently followed by schools and departments. These projects can be handled in a fairly streamlined process utilizing small working committees with the goal of providing clearer definitions, more detailed instructions, or development of standard forms to improve efficiencies while strengthening the internal control environment. The initial projects in 2012 were focused on the procurement card process and the booster club guidelines with 2013 anticipated to be focused on management of property assets and the human resources/payroll processes.

Subject: [Updating Internal Audit Web Page](#)

Staff Hours: 20

DESCRIPTION OF AUDIT SERVICES:

To provide transparency to the internal audit activities, a Web site was developed in 2011 which provides public access to Internal Audit Committee agendas, minutes to Internal Audit Committee meetings, Annual Audit Plans, Annual Reports, and Fraud, Waste, and Abuse Hotline instructions. The Web site requires regular updates.

Subject: [Leave Audits](#)

Staff Hours: 80

DESCRIPTION OF AUDIT SERVICES:

This audit program will focus on a review of the leave capture and entry processes from a sample of schools and offices to provide recommendations for management's consideration while focusing on enhancing communications of the importance of maintaining a system to ensure that leave is properly recorded within each school, office, and department.

Subject: **Process Review – Additional Compensation Human Resources and Payroll**

Staff Hours: **120**

DESCRIPTION OF AUDIT SERVICES:

Because current policies and regulations do not define all of the additional pay components, there is a risk of overcompensating employees which directly results in additional costs to PWCS. This audit program will focus on a review of additional pay components, determining who the current authorized approvers are for each pay component, and determining the current processing steps in the schools, Office of Human Resources, and Office of Financial Services' Payroll Section to process the additional pay items with a focus on internal controls.

Subject: **High Risk Projects Determined During Audit Year**

Staff Hours: **80**

DESCRIPTION OF AUDIT SERVICES:

While each year's audit plan will be set based on the best knowledge at the time, during the year unanticipated high priority situations may arise. The 2012 examples include: higher activity than expected for fraud hotline items, non-compliance issues discovered during unannounced audits resulting in expansion of school audits, and development of the Internal Control Advisory Council. This project reflects a 5% time reserve for unanticipated projects. Any additional projects will be communicated with the Internal Audit Committee. If the time is not needed at the end of the year, any additional time will shift to school audits.

Office of Internal Audit Staffing

In July 2010, the Office of Internal Audit was established with the hiring of the first Chief Internal Auditor. The first two years were dedicated to developing the new program by establishing the protocols for meetings with the Internal Audit Committee; creating a collaborative environment of internal audit working with management and staff in a positive manner that enhances processes; performing the first global risk assessment; establishing the priorities for the first two Annual Audit Plans; conducting the first audits; preparing the first audit reports; working with management and staff on addressing the audit findings; preparing and presenting internal audit information to a multitude of user groups; and applying the knowledge learned from the first audits and risk assessments to assess future audit work programs. As the third year is underway, the foundation for PWCS' internal audit function has been established with audits and risk assessments continuing to develop and audit findings and recommendations continuing to be shared with a variety of user groups.

The focus has turned toward assessment of the long-term staffing plan for the Office of Internal Audit to provide a recommendation for consideration during the FY2014 budget process. The recommendation is to incorporate one senior internal auditor and one support position into the FY2014 budget request. This budget request will follow the standard process established by the School Board and management.

Due to the timing of the calendar year Audit Plan and the fiscal year budget process, the 2013 Audit Plan will be approved before the FY2014 budget deliberations begin. Therefore, the 2013 Audit Plan is based on current staffing of one position, the Chief Internal Auditor. In the event that the Internal Audit Committee's staffing recommendation for FY2014 is approved, the impact on the 2013 Audit Plan would be the mid-year hire of an auditor providing approximately 800 hours of additional auditing time in 2013. The proposed audit focus for the new auditor would be on developing an information system auditing program concentrating on information and security risks in the multitude of systems utilized by PWCS, in addition to expanding audit coverage for unannounced school audits, comprehensive school audits, procurement card audits, and food service audits. The support position would be focused on developing a quality control system to manage the creation of audit work programs, documenting audit testing and review for creating audit reports, and managing the responses from principals and managers to audit findings reports.

Risk Assessment Process and Calendar Year 2013 Audit Plan Development

The Calendar Year 2013 Audit Plan was developed using the following methodology:

Purpose of Risk Assessment

The level of risk associated with Prince William County Public Schools varies from department to department, program to program, and school to school. Risk assessment is a three-step process including:

- Risk Identification – Determination of the risks
- Risk Measurement – Determination of the size of the risks
- Risk Prioritization – Determination of which risks are the most important

In order for the Office of Internal Audit to effectively create its Audit Plan, a structured risk assessment methodology was created that allows Internal Audit to examine the level of risk of each auditable unit.

Risk Identification and Risk Management

The first step of developing a risk assessment methodology is to determine key risks. Because the Office of Internal Audit was only recently established, one of the primary focuses has been to identify the global Prince William County Public Schools' Audit Universe. This process consisted of reviewing financial documents and meetings with senior management, principals, directors, and bookkeepers to identify Divisionwide and unique risks. Focus groups were also formed to concentrate on specific high risk areas such as school principals and bookkeeper teams to identify high risk areas at the school level. The second step of developing a risk assessment methodology is to determine the weight factors. Weight factors were chosen based on importance of the risk factors to the determination of the audit selection.

Risk Prioritization

The third step of developing a risk assessment methodology is to rank the audit universe. Each area is then separately evaluated and assigned a point value. In our early stages of developing the audit universe, we used a basic model rating the programs using High, Medium, and Low which essentially translates to a one-to-three scale with one representing the lowest level of risk and three the highest. In the future, the Office of Internal Audit will be expanding the model to include multiple weighted factors. The weighted factors will be added together to obtain the

representative total impact and probability score for each auditable unit. Once the total scores have been calculated, the list of auditable units can be sorted from highest to lowest by their respective total risk.

Resource Model

Due to its size, the Office of Internal Audit first rates all audits from highest to lowest risk then selects those that can be completed by available staff during the calendar year. This approach is the Resource Model of risk assessment based on available resources of the audit function. The auditable unit with the highest risk assessment will be selected for audit on a more frequent basis while the auditable units with the lowest risk assessment will be audited less frequently.

Office of Internal Audit
Status of 2012 Audit Plan
As of September 30, 2012

Page 1 of 2

Assignments	Status
-------------	--------

Audits - Ongoing:

Unannounced Audits (10 Schools)	
1 Cedar Run Elementary School	Completed
2 Glenkirk Elementary School	Completed
3 Henderson Elementary School	Completed
4 Old Bridge Elementary School	Completed
5 Pattie Elementary School	Completed
6 Tyler Elementary School	Completed
7 Williams Elementary School	Completed
8 Beville Middle School	Audit completed, results shared, formal report to be drafted
9 Pennington Traditional School	Audit completed, results shared, formal report to be drafted
10 School has been selected randomly	Unannounced visit has not occurred yet
School Audits (2 Schools)	
1 Kilby Elementary School	Audit completed, results shared, formal report to be drafted
2 Saunders Middle School	Audit completed, results shared, formal report to be drafted
Procurement Cards (10 Cards) (Randomly Selected)	
1 Battlefield High School	Completed
2 Belmont Elementary School	Completed
3 Benton Middle School	Completed
4 Graham Park Middle School	Completed
5 Instructional Technology	Completed
6 Maintenance	Completed
7 Marshall Elementary School	Completed
8 Osbourn Park High School	Completed
9 Personnel Department - 2	Completed
10 Student Learning and Professional Development- Art	Completed
Food Service: (2 Schools)	
1 Kerrydale Elementary School	Audit completed, results shared via email, formal report to be drafted
2 School has been selected randomly	Unannounced visit has not occurred yet
Allegations of Fraud, Waste & Abuse (Hotline)	
	Ongoing

Other Direct Audit Activities

Annual Risk Assessment and Annual Audit Plan	Completed
Risk Assessment - Transportation (Review of Processes Time & Attendance, Property)	Scheduled for December
Audit Report Follow-up	Scheduled for December

Office of Internal Audit
Status of 2012 Audit Plan
As of September 30, 2012

Page 2 of 2

Assignments	Status
Developing/Presenting Training Materials (Senior Staff, Principals, Directors, Bookkeepers, etc.)	
Developed Presentation for February Bookkeeper In-	
1 service	Completed
2 Developed Presentation for May Bookkeeper In-service	Completed
Developed two training presentations (Aug & Oct) for	
3 Educational Leader (New principal) Training	Completed
Developed and presented comprehensive materials for	
4 the three principal level meetings in May and June	Completed
Developed first Internal Audit presentation for an office	
5 (Human Resources) and met with office staff in June	Completed
Individual meetings with principals and managers to review and discuss financial processes in the schools or programs	
1 Amy Jordan, New Principal of Kilby Elementary School	Completed
2 Alfie Turner, New Principal of Potomac Middle School	Completed
Edward Stephenson, Principal of the new Ronald	
3 Reagan Middle School (July)	Completed
Meeting with Joyce Zsembery, Supervisor of Arts, to	
gain understanding of PWCS' inventory process for	
4 music instruments (May)	Completed
First Meeting with Patti Pittman, new Director of Risk	
Management and Support Services to develop	
5 coordination process (July)	Completed
Coordinating Global Audit Findings and Recommendations with Management & ICAC	
1 Developed Presentation for SWAP meeting	Completed
Developed Presentation for March kick off meeting of	
2 Procurement Card Subcommittee	Completed
Developed Presentation for April kick off meeting of	
3 Booster Club Guidelines Subcommittee	Completed
4 Position Control Project	Completed
Updating Web Page	Ongoing
Audits Based on Risk Assessment: (Includes creating first time audit work programs)	
Property Audits (Schools, Departments & Funds)	Review completed, formal report to be drafted
Payroll Supplements Audit	Testing is Underway
Information Technology Warehouse	Audit is scheduled for the October/November timeframe
Value Added Projects:	
Financial System Upgrade (Review of New Processes and Internal Controls)	Ongoing - Attending weekly Wednesday meetings
Projects Determined During Audit Year	
Osborn Park High School Financial Review Project	Completed