**PRINCE WILLIAM COUNTY PUBLIC SCHOOLS**

**Internal Audit Committee Meeting Minutes**

**February 6, 2012, 4:30 p.m.**

**Edward L. Kelly Leadership Center**

**14715 Bristow Road**

**Manassas, Virginia 20112**

**Room 1132**

**Committee Members Present:**

Milton Johns, Chairman, School Board Representative

Gilbert Trenum, School Board Representative

Dave Cline, Associate Superintendent for Finance & Support Services

**Alternates Present:**

Lisa Bell, School Board Representative

**Staff Present:**

Vivian McGettigan, Chief Internal Auditor

James Fagan, Division Counsel

Sherry Clines, Finance and Support Services (minutes only)

1. Call to Order

The meeting was called to order at 4:37 p.m. The record reflects that a quorum was present.

1. Approval of Minutes

Minutes were approved unanimously for the November 2, 2011Meeting.

(Motion - Dave Cline, Second - Gil Trenum)

1. Internal Audit Committee Orientation Packet (Binder)

Mrs. McGettigan explained the information provided in the Orientation Binder.

1. Annual Committee Meeting Calendar

Mrs. McGettigan reviewed items for upcoming meetings in May, September, and November. A question was asked regarding periodic updates to the Internal Control Advisory Council. Mrs. McGettigan explained that this is a management group organized by the Director of Financial Services to help create financial guidelines and forms, which is partially the result of the common audit findings from the first year’s audits. The Chief Internal Auditor cannot write policies or regulations (can only make recommendations) because if she writes guidance she cannot audit those areas involving the specific guidance. Mrs. McGettigan suggested that the May meeting would be an ideal time for an update on the Committee’s work.

* 1. **February Meeting**
     1. **Policy Changes** 
        + **Required Annual Review**

Mrs. McGettigan discussed the highlights of policies and regulations relating to internal audit. She explained that policy 361 is our “charter” that defines the Office of Internal Audit’s authority and responsibilities. Because PWCS follows the Institute of Internal Auditors’ standards she is required periodically to present Policy 361 to the Committee. The plan is that annually at the February meeting she will present Policy 361 to the Committee along with the other policies and regulations for the Committee’s consideration of any proposed changes.

* + - * **Any Changes Recommended by Committee**

Mr. Johns referenced a recent investigation concerning a conflict of interest. The Internal Audit Committee was not notified that the Chief Internal Auditor had been tasked by management to perform work on this investigation. Mr. Johns referred to

Reg. 361-1, Office of Internal Audit Section V. (Audit Scope), F. which states the internal audit scope may include “Reviewing specific operations at the request of the Internal Audit Committee **or management**, as appropriate.” He was concerned with the reference to “or management” as the regulation is not approved by the School Board. He stated that this reference seems to contradict the policy which is approved by the School Board. Mr. Johns expressed his concern that the Chief Internal Auditor had been requested by management to investigate an issue without the knowledge of all members of the Internal Audit Committee. Mrs. McGettigan mentioned that, based on the direction received from previous committee members, it was her understanding that she was to use professional judgment and work as a “coordinated team” member (Regulation 351-1, III. C.) with management on any investigations because allegations are routinely received from a variety of sources and the team is to work together to determine the best investigative approach for each specific allegation. She discussed the different ways that information comes to her and that according to Policy 351, any allegations of fraud are to be promptly pursued. She stated that with new committee members she wants to make certain that they receive whatever level of information that would be helpful to them and requested that the committee members provide her with guidance on the level of communication they would like to receive.

Mr. Cline shared that the question is timing of notification and reporting. “Which types of circumstances require what type of reporting/approval (to Counsel, Committee, School Board)?”

Mr. Fagan commented that the allegation that came in is covered by policy. The question is what happens after it is brought to the attention of the Internal Auditor or Risk Management? How do we want that process to occur next time? Mr. Johns commented that tasking needs to come through the Internal Audit Committee – at least notification. It was agreed that a phone call would be the best method to relay this information to the Committee. Mr. Trenum advised that the threshold for contacting the committee members should be if senior management requests the auditor to perform a specific investigation. Mr. Johns requested Mr. Fagan to work with Mrs. McGettigan to make appropriate revisions to the policy(s) and/or regulation(s) that will identify this process and to present these changes at the May meeting.

Mrs. McGettigan asked if fraud, waste, and abuse cases should be shared with the Committee in advance. The current process follows Policy 351 and Regulation 351-1, where the Chief Internal Auditor works with the Director of Risk Management and Security Services and the Director of Financial Services to determine the best course of action based on staff skills sets. The consensus of the committee was to follow the summary reporting process at this time.

Mrs. McGettigan briefly explained policy 351 and the section that deals with “Employees who retaliate against anyone for reporting fraud or for cooperating, giving testimony, or participating in an audit or investigation . . .” and also asked who she should report these incidents to and how formally they should be addressed. She encountered the first incident of retaliation within the past few days. Mr. Johns suggested that these incidents should be reported to the Superintendent. Mr. Cline agreed that they should be brought to management and may eventually go to the School Board. Mrs. McGettigan should formally report any incidents to Mr. Cline as the management representative to internal audit. Mrs. McGettigan asked if the Committee wanted to know about these issues. Mr. Fagan’s opinion was that these issues do not need to be brought to the attention of the Committee. The Committee agreed that the Chief Internal Auditor should report any incidents of retaliation to management and that the Committee did not need to receive this information.

* + 1. **Fraud, Waste, and Abuse Annual Update**

Mrs. McGettigan presented the first annual update. She discussed the format and content of the report.

* + - * **Discuss Changes to Format to Improve Internal Audit Committee’s Use**
      1. Mr. Fagan referenced the pie chart on page 4 of the report which identifies “Cash Misappropriation – Booster Clubs” and inquired as to what types of controls are in place for Booster Clubs/PTO finances? Mr. Cline mentioned that the controls are “nuclear” as the booster clubs are either approved or not approved to operate at the specific schools. Mrs. McGettigan mentioned that the booster clubs are not audited by PWCS as they are legally separate IRS 501C3 organizations. However, PWCS has policies, regulations and Financial Guidelines Manual instructions with specific requirements that the booster clubs must follow such as obtaining an independent audit which is impractical in most circumstances so reviewing and modifying the current guidance is an example of one of the ICAC projects. She also mentioned that these five allegations reflect actual reports and in some cases the individuals reporting the allegations are not always aware that the specific area does not relate to PWCS. For example, when she was a county employee they received allegations about schools. Mr. Fagan suggested that since we do not audit the Booster Club’s books, we need to make the public aware that these are not school functions. Mrs. McGettigan suggested adding under the description that these are “Third Party Entity – Cash Misappropriations (Separate Legal)”
      * **Discuss Whether the Report is in Proper Format to Provide to the School Board**

Mrs. McGettigan explained that currently the report goes in the Information Packet to the School Board the Friday after the Committee meeting. Since a member of the public could attend an Internal Audit Committee meeting and obtain copies of the materials prior to the School Board receiving them in the Friday packet, Mrs. McGettigan asked if the Committee thought she should send the information to School Board members in the Friday packet **the week prior** to the Committee meeting. The Committee agreed that would be a good idea.

* + 1. **Required Communications per Institute of Internal Auditors**

Mrs. McGettigan reviewed this information with the Committee in detail highlighting the critical communication items. She mentioned that because PWCS follows the Institute of Internal Auditors’ standards, she is required to periodically communicate with the committee on adherence to the standards and any challenges associated with conformance. This report marks PWCS’ first review which is an important first step in preparing for external review which is required in the long term if our goal is for the internal audit function to be *World Class* to conform to the same standards as therest of the School Division. Currently she cannot provide opinions in the reports until the program has passed the external review process. She mentioned the three evaluation criteria of “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” were used throughout the report based on the Institute of Internal Auditors guidance. Anywhere that “Generally Conforms” was used she felt that our program was meeting the full requirements. Where “Partially Conforms” was used we have areas for improvement. She identified approaches for improvements in the explanation boxes. The few exceptions noted as “Does Not Conform” are associated with requirements that must be met over a multi-year period or with limitations experienced due to the staffing level. Overall, she mentioned that we have made significant process during the first year of the new program and in most areas our program generally conforms, which demonstrates the collaborative team spirit that we talk about frequently. One area she specifically mentioned could be improved upon is the work paper documentation which will be critical for external review. Her current processes are extremely manual using Word and Excel. She suggested that she research electronic work paper programs over the summer months.

1. Internal Audit Status Report (Attachment)

Mrs. McGettigan discussed the report format and a few of the specific items. She mentioned the report format is modeled after an example that Fairfax Schools’ Internal Audit Director provided to her a few months ago. The report includes:

* Update on where we are with the 2011 Audit Report
* Assistance Provided to Others
  + The Osbourn Park High School project is based on a very proactive request from the principal, Neil Beech, who requested a comprehensive review of his school’s financial processes as he is a fairly new principal and wants to ensure that he is managing his school’s finances in an effective and efficient manner. She mentioned she was very impressed by the level of cooperation and the outstanding information acquired during Phase 1 of the project which has resulted in numerous global recommendations which will be shared to benefit the entire School Division. She mentioned that Phase 2 of the project which includes developing a monitoring report for principals to enhance fiscal oversight responsibilities is not a typical audit function but she believes it will add significant value to the School Division. She requested her participation on this project. The Committee gave approval.
  + Position Control which started as a 2011 Audit Report resulted in findings that opportunities to enhance the controls exist. This project has been carried into 2012 as part of the Financial System upgrade project.
* No Audit Reports in this Status Report - the three audit reports initially planned for this meeting have not yet been finalized to provide for additional senior management review time. Once completed, Mrs. McGettigan will send out an email to Committee members with the reports attached.
  1. **Discuss Changes to the Format to Improve Internal Audit Committee’s Use**

The committee members offered no suggestions for format changes.

* 1. **Discuss Whether the Report is in Proper Format to Provide to the School Board**

The report will be included in the Friday Packet sent to the School Board members.

1. Committee’s Preference Regarding the Level of Information and Communication Detail to be Provided by the Chief Internal Auditor

This item has already been discussed.

Mr. Johns stressed that we can never “over communicate.”

Mrs. McGettigan expressed her appreciation to the committee members for providing guidance about what information they would like to receive.

No further discussion required.

1. Additional Discussion:

* Mr. Fagan shared that he is always available to attend the Committee meetings if needed. Mr. Johns indicated that his attendance would be appreciated at all of the meetings.
* At Mrs. Bells’ request, Mrs. McGettigan shared an unresolved issue regarding use of “SWAP” time by instructional staff. Ms. Darlington has formed a committee to look into this practice and define it more clearly.
* Mrs. Bell suggested that in the future the minutes should be taken by Ms. Urban or Ms. Cook from the School Board office. The Committee concurred.

1. Upcoming Meeting

May 2, 2012, 4:30 p.m.

There being no further business, Mr. Cline moved to adjourn the meeting and Mr. Trenum seconded the motion. Meeting adjourned at 6:05 p.m.

**Action Items:**

* + - 1. Mrs. McGettigan will notify the Director of Financial Services that an update on the Internal Control Advisory Council has been requested for the May meeting. She will also add the item to the May meeting agenda.
      2. Mr. Fagan and Mrs. McGettigan will work together to make appropriate revisions to the policy(s) and/or regulation(s) that will identify the notification to the committee when senior management requests the auditor to perform investigation services. The changes will be provided to the Committee for the May meeting.
      3. Mrs. McGettigan will modify the next version of the fraud report to reflect the description change to Third Party Entity – Cash Misappropriations (Separate Legal)
      4. In the future, Mrs. McGettigan will send Committee packets to the School Board members in the Friday Packets the week before the Committee meetings.
      5. Mrs. McGettigan will research electronic workpaper programs over the summer and report back to the committee in September.