

Prince William County Public Schools

2011 Annual Audit Plan

Office of Internal Audit

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Chief Internal Auditor



Prince William County
PUBLIC SCHOOLS
Providing a World-Class Education

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Prince William County Public Schools

Office of Internal Audit

Calendar Year 2011 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. This report marks the first official Audit Plan for PWCS which is the result of input from numerous management and staff throughout the School Division who have assisted with the identification of the audit risk universe and suggestions for audit work program items based on PWCS' unique environment.

The Office of Internal Audit herein presents the Calendar Year 2011 Audit Plan for the period of January 1, 2011 through December 31, 2011. 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 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, 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.

Mission, Vision, and Goals

<p>Prince William County Public Schools Mission</p> <p>Providing a <i>World-Class</i> Education</p>	<p>Office of Internal Audit Mission</p> <p>The Office of Internal Audit is committed to assisting the School Board and members of management to effectively discharge their responsibilities while providing a <i>World Class</i> Education.</p>
<p>Vision</p> <p>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</p> <p>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>

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

January 1, 2011 through December 31, 2011

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	200	
	Units to	
	Total	Be
	Units	Audited
		Hours Per
		Unit
Audits - Ongoing:		
School Audits (Activity Funds, Procurement, Payroll)	90	4
Procurement Cards	700	70
Food Service	90	5
Surprise Audits		
Allegations of Fraud, Waste & Abuse (Hotline)		
Subtotal		100
		436
		26%
Other Direct Audit Activities:		
Annual Risk Assessment and Annual Audit Plan		60
Audit Recommendations Follow-up		40
Creating First Time Audit Workprograms: (Reviewing Policies & Learning Computer Systems)		
School Audits (Activity Funds, Procurement, Payroll/Leave, Cash Collections)		80
Position Control (Reviewing Budget - Authorized & Filled without Funding)		40
Food Service (Including Review of Procedures and Processes)		40
Drivers Education		20
School Facility Use Rental Agreements		5
SACC		40
Developing Training Materials (Ethics Training, EEE session, Bookkeeper training)		40
Updating Web Page		20
Subtotal		385
		23%
Audit Based on Risk Assessment		
Position Control (Reviewing Budget - Authorized & Filled without Funding)		120
Food Services - Global Review of Revenue Collection Processes and System		120
Drivers Education (New process)		40
School Facility Use Rental Agreements (89 Schools)		75
SACC Program (New to Schools FY2011)		120
Subtotal		475
		29%
Advisory Services Projects		
Procedures, Guidelines and Scale for Booster Club Audits		112
Review of New Processes, System Modifications and Internal Controls:		
New Student Information System (Overview of Security Set-up)		40
Subtotal		152
		9%
Unassigned (Additional) Audit Hours	-	

2011 Annual Audit Plan

Subject: **School Audits (Four Schools)**

Staff Hours: **96**

DESCRIPTION OF AUDIT SERVICES:

These audits will be conducted at a sample of schools and 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 revenues. This review will provide an overall evaluation of the controls over the business processes performed at the school and 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; and
- Overall Financial Controls

Subject: **Procurement Card Audits (70 card holders)**

Staff Hours: **140**

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 County

Subject: **Food Service (Five Schools)**

Staff Hours: **40**

DESCRIPTION OF AUDIT SERVICES:

Examination of compliance with operations manual issued by the Office of School Food and Nutrition Services at individual schools selected for audit. 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: **Surprise Audits (multiple Schools and Offices)**

Staff Hours: **60**

DESCRIPTION OF AUDIT SERVICES:

One element of an effective anti-fraud program aimed at deterring fraud is the potential for surprise 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. Bookkeepers have been informed of the surprise 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 property inventory forms

The unexpected nature of the surprise 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: [**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 incident 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, legal 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 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: **60**

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 significant changes to existing programs.

Subject: **Audit Recommendations Follow-up**

Staff Hours: **40**

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: **Creating First Time Audit Work Programs for On-going Audits**

Staff Hours: **225**

DESCRIPTION OF AUDIT SERVICES:

With the Office of Internal Audit having been recently established, no audit work programs currently exist. Over the next few years first time audit work programs will be developed which in subsequent years will require less time for work program modifications. The development of the work programs will require review of relevant policies and regulations, current processes, forms, regulations and systems, as well as development of background and history documents and interviews with staff. This review will provide an overall evaluation of the controls over the business processes performed at schools and office locations related to the specific program. Due to PWCS site-based management approach, standardization of the audit work programs are limited. During 2011 the following work programs will be developed:

- School Audits
- Position Control
- Food Service
- Drivers Education
- School Facility Use Rental Agreements
- School Age Child Care (SACC)

Subject: **Developing Training Materials**

Staff Hours: **40**

DESCRIPTION OF AUDIT SERVICES:

One of the components of a strong anti-fraud program is the on-going communication, education, and training processes. At PWCS the primary avenue for communication of financial processes is through the quarterly Bookkeeper Inservice meetings offered by the Office of Financial Services. The general plan is for Internal Audit to present brief segments at each quarterly meeting which will include updates on lessons learned from fraud incidents, which in most cases will be incidents outside of PWCS; information on upcoming audits; and tips to prepare for audits. Regular presentations at these meetings will enhance the familiarity with the

Internal Audit function, improving communication processes and emphasizing deterrence of fraud from increased possibility for detection.

Specific training topics for development in 2011 are an ethics training course and a session at the EEE Conference in the summer.

Subject: **Updating Internal Audit Web Page**

Staff Hours: **20**

DESCRIPTION OF AUDIT SERVICES:

To provide transparency to the internal audit activities, a web site will be developed which will provide 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.

Subject: **Position Control**

Staff Hours: **120**

DESCRIPTION OF AUDIT SERVICES:

Review the internal controls processes for creation of new positions. Currently, position information is entered into multiple systems which are reconciled manually.

This project will consist of:

- Review of the processes to create new positions in the multiple systems;
- Review of the reconciliation processes for the multiple systems;
- Review of the current system reports; and
- Review segregation of duties controls and the override processes

Subject: **Food Services – Global Review of Revenue Collection Processes and Review of the System**

Staff Hours: **120**

DESCRIPTION OF AUDIT SERVICES:

Review and provide assessment of Divisionwide revenue collections processes including review of the food services system. Project will include:

- Review of the Office of School Food and Nutrition Services Operations Manual specifically focused on revenue collections and reconciliation;
- Meet with Food Services staff to understand their processes;
- Form focus group to obtain their input on primary risks in Food Service collection area;
- Observe processes;
- Review reporting and reconciliation processes focused on cash controls; and
- Observe and evaluate physical security over cash

Subject: **Drivers Education (New Process)**

Staff Hours: **40**

DESCRIPTION OF AUDIT SERVICES:

Review and test the Drivers Education revenue collection process at the high schools.

Subject: **Schools Facility Use Rental Agreements (89 Schools)**

Staff Hours: **75**

DESCRIPTION OF AUDIT SERVICES:

Review and test the facility use rental revenue collection processes at the schools and the reconciliation of revenues to be submitted to the Central Office.

Subject: **School Age Child Care (SACC) Program (New)**

Staff Hours: **120**

DESCRIPTION OF AUDIT SERVICES:

The SACC program moved from the County to PWCS effective September 1, 2010. A PWCS transition team was created to develop procedures which include the implementation of an online registration process. The revenues are collected by a third party administrator, Minnieland Private Day School, Inc., which is subject to external audit.

The project will include:

- Review and test the new internal processes; and
- Review the third party administrator's collection and reporting process including the external audit report addressing the internal control environment

Assisting management with the establishment of the SACC program allows internal audit to take a proactive approach to controls. For example, by performing a review of draft procedures and policy guidance, internal audit will make suggestions regarding controls that management may want to put in place. It is more efficient and economical to design a sound control environment from the beginning rather than to try to fit controls in after a function or process has been in place for a length of time.

Subject: **Procedures, Guidelines, and Scale for Booster Club Audits**

Staff Hours: **112**

DESCRIPTION OF AUDIT SERVICES:

Participate on an advisory services team with Financial Services and the school attorney to develop procedures and guidelines to enhance accountability of funds collected and disbursed for booster clubs. The project will include developing a scale which will range from dual signatures on annual reports to formal audits based on the magnitude of revenues collected by the booster clubs. The review will include accumulating information on cooperative fund raising activity agreements and annual income statements.

Subject: **Review of New Processes, Systems Modifications, and Internal Controls – New Student Information System (Overview of Security Set-up)**

Staff Hours: **40**

Review processes and interview staff to understand the controls developed for the new student information system and specifically review the control environment for the security set-up of the system. Assisting management with the establishment of the new system allows Internal Audit to take a proactive approach to controls. For example, by performing a review of draft procedures and policy guidance Internal Audit will make suggestions regarding controls that management may want to put in place. It is more efficient and economical to design a sound control environment from the beginning rather than to try to fit controls in after a function or process has been in place for a length of time.

Risk Assessment Process and Calendar Year 2011 Audit Plan Development

The Calendar Year 2011 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 established during the current year, 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 division-wide 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 first year of developing the audit universe we used a basic model rating the programs using (High, Medium, and Low) which essentially translates to a one-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.