Internal Audit Review

Moss Adams Final Report

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The goal of this review was to improve operations to achieve a high-value internal audit function focused on performance, risk, and controls that improves accountability across District functions. The review was conducted between July and August 2020. Analysis was informed by interviews, document review, peer review, and comparison to industry best practices. The project consisted of four major phases: project initiation and management, fieldwork, analysis, and reporting.

FINAL REPORT

Seattle Public Schools

INTERNAL AUDIT REVIEW

September 8, 2020

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MOSSADAMS

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I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

Seattle Public Schools (the District) is the largest school district in Washington, with nearly 53,000 students in 102 schools served by 11,110 employees during the 2018-19 school year. The District is led by a seven-member elected School Board (the Board) and a Superintendent. Under the direction of the Audit and Finance Committee, the Office of Internal Audit (the Office, Internal Audit) conducts audits that support and promote integrity, accountability, and transparency with respect to financial controls of all funds and the District's compliance. The Director of Internal Audit also serves as the District's Ethics Officer.

The Board has recently renewed its focus on the District's risk management and audit practices, with the desire to create a high-impact internal audit function. Therefore, the goal of this review was to improve operations to achieve a high-value internal audit function focused on performance, risk, and controls that improves accountability across District functions. The review was conducted between July and August 2020. Analysis was informed by interviews, document review, peer review, and comparison to industry best practices. The project consisted of four major phases: project initiation and management, fieldwork, analysis, and reporting.

B. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

		OBSERVATIONS AND RECOMMENDATIONS
		Governance, Model, and Structure
1.	**Observation**	The current Internal Audit Policy restricts the Office from performing broad, high-impact performance audits that vary in scope and would require significantly more resources to complete.
	Recommendations	A. Update the Internal Audit Policy to expand the scope of the audit universe to include all District functions, including programs, to reduce risks, strengthen controls and compliance, and improve performance. B. Adopt a hybrid Internal Audit model in which the existing Internal Audit team continues to perform transactional audits on capital programs, internal controls, and compliance while one or two performance audits are selected and contracted to third parties annually.
2.	**Observation**	The Audit and Finance Committee does not include appointed members of the public.
	Recommendation	Incorporate up to two non-voting citizens with appropriate expertise on the Audit and Finance Committee to strengthen independent perspectives on the Committee and support enhanced management engagement.

		OBSERVATIONS AND RECOMMENDATIONS
3.	**Observation**	Outside audits and reviews are not consistently approved by or reported to the Audit and Finance Committee; therefore, District leadership and the Board have limited visibility into study results and implementation.
	Recommendations	A. Update the District's policies to require outside audits and reviews to be routed through the Audit and Finance Committee in order to ensure appropriate recommendation implementation tracking. B. Establish and institutionalize the role of Internal Audit as a liaison for outside audits and reviews.
4.	**Observation**	District management is reluctant to engage with Internal Audit due to the limited scope of audits, lack of understanding, lack of perceived value, and/or fear of retribution.
	Recommendation	Increase engagement with District management by performing high-impact audits, building relationships, and providing education on risk management to help frame meaningful discussions.
5.	**Observation**	Due to fluctuating leadership and priorities, enterprise risk management has not been a priority for the District, which contributes to a reactive operating culture.
	Recommendations	A. Reinvigorate and institutionalize previous enterprise risk management efforts to prioritize and proactively address risks. B. In collaboration with Risk Management, develop, document, and update the risk register for the District to further focus audit resources on key risks.
		Internal Audit Operations and Processes
6.	**Observation**	Internal Audit is currently required to perform audits in conformance with GAGAS, which presents challenges for a small audit department.
	Recommendation	Consider transitioning to conducting audits under IIA standards, which provide greater flexibility and efficiencies for a small audit department, and update the Board policy accordingly.
7.	**Observation**	The Office of Internal Audit conducts an annual risk assessment with limited management participation in the process.
	Recommendations	A. Transition to a three-year cycle for risk assessments with increased management participation and adjusted timelines. B. Reframe the risk assessment to be rooted in strategic and operational goals.

OBSERVATIONS AND RECOMMENDATIONS		
8.	**Observation**	The Internal Audit Plan lacks alignment with risk assessment results and sufficient flexibility to address issues that arise throughout the year.
	Recommendation	Develop annual audit plans based on the District's unique risks and consider leaving a placeholder for the selection of an audit mid-year to provide greater flexibility in addressing urgent needs.
9.	**Observation**	Current internal audit reports are concise, but are narrow in scope and do not provide detailed insights, supporting evidence, and actionable recommendations.
	Recommendation	Incorporate detailed methodology descriptions and provide evidence-based findings that identify opportunities for improvement and practical, detailed recommendations that better reflect the impact of audit results.
10.	**Observation**	There are opportunities to increase the clarity and practicality of audit recommendations to increase the impact of Internal Audit.
	Recommendation	Ensure recommendations address the root cause of issues and are sufficiently specific, actionable, and practical to support improvements at the District.
Audit Response		
11.	**Observation**	The Audit Response Manager role provides Internal Audit with limited purview over non-financial or compliance functions.
	Recommendations	Determine the desired role of the Audit Response Manager as either management support or audit validation and revise the position's reporting structure accordingly.
12.	**Observation**	The Corrective Action Plan process does not hold management accountable or provide visibility into and assurance that audit findings are resolved.
	Recommendation	To increase the efficacy of the Corrective Action Plan process, the District should increase management accountability by requiring reporting of corrective action status and validation of actions and the adequacy of actions to address findings.
Ethics Program		
13.	**Observation**	While the District operates an independent whistleblower hotline, it has not established a triage policy.
	Recommendations	A. Develop and implement a policy that defines how complaints received by the Ethics Office are managed and triaged. B. Incorporate high-level reporting of complaints into quarterly Audit and Finance Committee meetings.

OBSERVATIONS AND RECOMMENDATIONS		
14.	**Observation**	The District lacks Ethics and Fraud, Waste, and Abuse training that supports employee understanding and identification of policy breaches.
	Recommendation	Develop and implement mandatory Ethics and Fraud, Waste, and Abuse training for all District employees.

II. BACKGROUND, SCOPE, AND METHODOLOGY

A. BACKGROUND

Seattle Public Schools (the District) is the largest school district in Washington, with nearly 53,000 students in 104 schools served by 11,110 employees during the 2018-19 school year and an annual budget of more than $1 billion. The District is led by a seven-member elected School Board (the Board) and a Superintendent. District systems are large and complex, serving a wide variety of schools and students. District operations are largely decentralized, with many decisions deferred to building staff according to Board policies and collective bargaining agreements.

Under the direction of the Audit and Finance Committee, the Office of Internal Audit (the Office, Internal Audit) was created in 2011 to conduct audits that support and promote integrity, accountability, and transparency with respect to financial controls of all funds and District compliance. The office also oversees the District's Ethics/Whistleblower Program. In fiscal year (FY) 2018-19, the Office had four FTE with a budget of $616,229; in FY 2019-20, resources were reduced to three FTE and an annual budget of $504,622.

The Board has recently renewed focus on the District's risk management and internal audit practices, with the desire to create a high-impact internal audit function. An internal audit function has the potential to provide significant value to the District by serving as an unbiased source of information that assists leaders in identifying and addressing critical operational and compliance concerns that could prevent the District from achieving its goals. Overall, the work performed by Internal Audit should help the Board, Superintendent, and other District personnel accomplish goals while strengthening the processes and procedures of the District.

B. SCOPE AND METHODOLOGY

The purpose of this operational review was to identify opportunities for improvement in service delivery, organization, operations, and process efficiency of the Office. The study addressed the following:

- Purpose, role, and function of Internal Audit
- Internal Audit's organizational structure, reporting, staffing levels, and capacity
- Audit and Finance Committee governance and oversight of Internal Audit
- Internal Audit deliverables
- District management's understanding of and engagement with Internal Audit
- Internal Audit workflow and processes, including risk assessments, audit processes, and recommendation implementation
- Internal audit policies and procedures

Overall, the goal of this review was to improve operations to achieve a high-value internal audit function focused on performance, risk, and controls that improves accountability across District functions.

The review was conducted between July and August 2020. Analysis was informed by interviews, document review, peer review, and comparison to industry best practices. The project consisted of four major phases:

1. **Project initiation and management:** This phase concentrated on comprehensive planning and project management, including selecting employees to interview, identifying documents to review, communicating results, and establishing regular reports on project status.

2. **Fieldwork:** This phase included interviews, document review, and best practice research. We worked with District staff to obtain the most currently available information and insights.

   a. *Interviews:* We conducted interviews with Internal Audit staff, Board members, select union representatives, and Central Office staff.

   b. *Document review:* We reviewed documents including policies, procedures, corrective action plans, risk assessments, audit plans, audit reports, Audit and Finance Committee meeting minutes, and others.

   c. *Best practice research:* Based on opportunities for improvement identified, we conducted research on best practices in other districts and industry standards (Institute of Internal Auditors, Generally Accepted Government Auditing Standards, and American Institute of Certified Public Accoutants) to support a high-value internal audit function.

3. **Analysis:** This phase served as the assessment portion of the project where, based on information gathered, we evaluated the importance, impact, and scope of our observations in order to develop actionable recommendations.

4. **Reporting:** This phase concluded the project by reviewing draft observations and recommendations with the Internal Audit Director and Audit and Finance Committee Chair to validate facts and confirm the practicality of recommendations. A finalized report was provided and presented to the Audit and Finance Committee.

III. IMPLEMENTATION PLAN

The District has prepared a plan to guide implementation of the recommendations provided in the Internal Audit review. The implementation plan includes:

- Suggested priority (high, medium, or low)
- Level of effort required to implement (high, medium, or low)
- Responsible departments
- Suggested timing

This implementation plan is dependent on the District prioritizing and allocating adequate resources, including employee time, to addressing recommendations.

| | | | | | TIMELINE | | | | | | | |
| | | | | | SY 2020-21 | | | | SY 2021-22 | | | |
#	RECOMMENDATION	PRIORITY	EFFORT LEVEL	RESPONSIBILITY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.A	Update the Internal Audit Policy to expand the scope of the audit universe to include all District functions, including programs, to reduce risks, strengthen controls and compliance, and improve performance.	High	Medium	Audit and Finance Committee, School Board	█	█						
1.B	Adopt a hybrid Internal Audit model in which the existing Internal Audit team continues to perform transactional audits on capital programs, internal controls, and compliance while one or two performance audits are selected and contracted to third parties annually.	High	Medium	Audit and Finance Committee, Internal Audit			█	█	█	█	█	█
2	Incorporate up to two non-voting citizens with appropriate expertise on the Audit and Finance Committee to strengthen independent	Medium	Medium	Audit and Finance Committee					█	█	█	█

#	RECOMMENDATION	PRIORITY	EFFORT LEVEL	RESPONSIBILITY	SY 2020-21				SY 2021-22			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	perspectives on the Committee and support enhanced management engagement.								▓	▓	▓	▓
3.A	Update the District's policies to require outside audits and reviews to be routed through the Audit and Finance Committee in order to ensure appropriate recommendation implementation tracking.	High	Medium	Audit and Finance Committee, School Board	▓	▓						
3.B	Establish and institutionalize the role of Internal Audit as a liaison for outside audits and reviews.	Medium	Low	Audit and Finance Committee, Internal Audit			▓	▓	▓	▓	▓	▓
4.	Increase engagement with District management by performing high-impact audits, building relationships, and providing education on risk management to help frame meaningful discussions.	High	High	District management, Internal Audit					▓	▓	▓	▓
5.A	Reinvigorate and institutionalize previous enterprise risk management efforts to prioritize and proactively address risks.	High	Medium	Audit and Finance Committee, District management, Risk Management, Internal Audit			▓	▓	▓	▓	▓	▓
5.B	In collaboration with Risk Management, develop, document, and update the risk register for the District to further focus audit resources on key risks.	Medium	Medium	District management, Risk Management, Internal Audit			▓	▓				

#	RECOMMENDATION	PRIORITY	EFFORT LEVEL	RESPONSIBILITY	TIMELINE							
					SY 2020-21				SY 2021-22			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6.	Consider transitioning to conducting audits under IIA standards, which provide greater flexibility and efficiencies for a small audit department, and update the Board policy accordingly.	Low	Medium	Audit and Finance Committee, Internal Audit	■	■						
7.A	Transition to a three-year cycle for risk assessments with increased management participation and adjusted timelines.	Medium	Low	Internal Audit, District management			■	■				
7.B	Reframe the risk assessment to be rooted in strategic and operational goals.	Medium	Low	Internal Audit, District management			■	■				
8.	Develop annual audit plans based on the District's unique risks and consider leaving a placeholder for the selection of an audit mid-year to provide greater flexibility in addressing urgent needs.	High	Low	Internal Audit, District management				■	■			
9.	Incorporate detailed methodology descriptions and provide evidence-based findings that identify opportunities for improvement and practical, detailed recommendations that better reflect the impact of audit results.	Medium	Low	Internal Audit	■	■	■	■	■	■	■	■
10.	Ensure recommendations address the root cause of issues and are sufficiently specific, actionable, and practical to support improvements at the District.	Medium	Low	Internal Audit	■	■	■	■	■	■	■	■
11.	Determine the desired role of the Audit Response Manager as either management support or audit	High	Medium	Audit and Finance Committee, Internal	■	■						

#	RECOMMENDATION	PRIORITY	EFFORT LEVEL	RESPONSIBILITY	SY 2020-21				SY 2021-22			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	validation and revise the position's reporting structure accordingly.			Audit, Audit Response Manager	■	■						
12.	To increase the efficacy of the Corrective Action Plan process, the District should increase management accountability by requiring reporting of corrective action status and validation of actions and the adequacy of actions to address findings.	High	High	Audit and Finance Committee, District management, Audit Response Manager	■	■	■	■	■	■	■	■
13.A	Develop and implement a policy that defines how complaints received by the Ethics Office are managed and triaged.	Medium	Low	Ethics Office					■			
13.B	Incorporate high-level reporting of complaints into quarterly Audit and Finance Committee meetings.	Medium	Low	Ethics Office	■	■	■	■	■	■	■	■
14.	Develop and implement mandatory Ethics and Fraud, Waste, and Abuse training for all District employees.	Medium	Medium	Ethics Office							■	■

IV. COMMENDATIONS

Based on the insights gathered through interviews and document review, it is evident that the Internal Audit Office has many commendable organizational attributes. Examples include:

- Developing a racial equity toolkit specific to internal audits
- Proactively identifying COVID-19 related risks to the District
- Developing policies, procedures, and templates to standardize and streamline work
- Demonstrating a desire to adjust operations and help the District in meaningful ways

We would like to thank the District's staff and leadership for their participation in this study.

V. OBSERVATIONS AND RECOMMENDATIONS

A. GOVERNANCE, MODEL, AND STRUCTURE

Internal Audit Model

1.	Observation	The current Internal Audit Policy restricts the Office from performing broad, high-impact performance audits that vary in scope and would require significantly more resources to complete.
	Recommendations	A. Update the Internal Audit Policy to expand the scope of the audit universe to include all District functions, including programs, to reduce risks, strengthen controls and compliance, and improve performance.
		B. Adopt a hybrid Internal Audit model in which the existing Internal Audit team continues to perform transactional audits on capital programs, internal controls, and compliance while performance audits are selected and contracted to third parties annually.

While Board Policy 6550 states that the Office conducts performance audits, the policy also restricts the scope of the audit universe to financial controls and compliance, presenting somewhat conflicting guidance of its intended function. According to the first risk assessment following establishment of the Office in 2011-12, areas within the District's audit universe were eliminated if they were a) deemed low risk with respect to financial controls and compliance, or b) primarily associated with a financial statement audit. These choices were informed by Board Policy and the Washington State Auditor's Office (SAO) annual financial audit. Examples of functions that were eliminated from Internal Audit's audit universe included:

- Executive Director of Schools
- Research and Evaluation
- English Language Learners
- Student Discipline
- Individualized Education Plan (IEP)
- School Psychologists
- Speech Language Pathology Audiology
- Career and Technical Education
- College and Career Readiness
- Curriculum and Instruction
- Early Learning
- Advanced Learning
- Indian Education
- Most School and Community Partnerships

Although this list has been updated to add new items to the potential audit universe, it no longer appears in the Risk Assessment and Internal Audit Plan document. It is best practice for Internal Audit to have broad authority across an organization, and not be limited by topic, which limits the internal audit function's ability to address the highest risks, improve controls and compliance, and improve performance. Operating primarily within this limited audit universe, with some exceptions, Internal Audit has focused on auditing operations, such as finance, capital programs, human resources, safety, and technology services. However, as a result of this restriction to operational functions, several key areas of risk at the District have not been audited. Management reports that concerns related to program-specific risks are high-priority items that the Office does not address; instead, management may contract an independent study to provide impactful guidance and recommendations (see Recommendation #3). Typically, these reviews would be considered performance audits if they are conducted under audit standards, which creates confusion related to the intended role of Internal Audit due to the conflicting policy guidance.

The Internal Audit team is currently comprised of three FTEs:

- One Director of Internal Audit/Ethics Officer
- One Capital Program Internal Auditor
- One General Fund Internal Auditor

Given the limited capacity of the Internal Audit team, the existing team is not well-suited to perform broad, high-impact performance audits. However, the team excels in efficiently completing several capital program, controls, and compliance audits each year. Performance audits and programmatic reviews require a significant amount of time and, sometimes, subject matter expertise in a particular field. Because the team has auditing experience and lacks sufficient capacity to perform both performance audits and the existing scope of compliance-oriented audits, the District should consider adopting a hybrid internal audit model.

In order to achieve a high-impact internal audit function, the existing resources of the Internal Audit team should be augmented in order to meet the diverse needs of the District. The purpose and policy of the Internal Audit function should be revised to more accurately reflect the goal of helping the District achieve its objectives and account for its results. Sample policies are included in Appendix A.

As noted in the previous section, the current Internal Audit team capacity is likely too limited to perform an annual risk assessment and complete a robust audit program that delivers a variety of audits addressing each area of the District in meaningful ways. In FY 2019-20, the District eliminated a general fund auditor position, further reducing the Internal Audit Office's capacity. Augmenting the existing team's capacity with dedicated funding to contract a robust program-based performance audit would provide a cost-effective way to elevate the role of Internal Audit and support adequate coverage of District functions in an audit program.

According to self-reported data from 29 urban school districts collected by the Internal Audit Director in 2019, the average internal audit department is 6.14 FTE, in comparison to Seattle's 2.67 FTE. The average Internal Audit budget is also approximately double that of the District. While each school district varies significantly in size and scope, Seattle Public Schools overall appears to currently provide fewer Internal Audit resources than other districts do for a similar general fund budget.

	# of Students	# of Schools	# of Employees	General Fund Budget	Internal Audit Budget	Internal Audit FTE
Average	98,043	134	13,639	$1,105,596,907	$732,080	6.1
Seattle	53,628	105	11,982	$1,044,809,979	$312,694	2.67

Under a hybrid internal audit model, the District's existing internal audit team would continue to perform audits related to capital programs, financial controls, and compliance. In addition, the Director of Internal Audit would work with management and the Audit and Finance Committee to prioritize potential performance audits that are contracted out, with an annual budget set aside to complete these projects. Depending on the scope of the audit engagements, the District should be able to contract for one or two performance audits or program reviews within that budget. Because the District is large and complex, with an operating budget of over $1 billion, the Board may wish to expand the performance audit budget over time to ensure greater coverage of functions. The selected performance audits should be conducted by a third party and coordinated by Internal Audit to ensure the vendor meets applicable standards and scope requirements. By contracting broader performance audits out, the District's Internal Audit function is strengthened by a) ensuring an appropriate subject matter expert is able to conduct the work, b) expanding the scope and reach of Internal Audit to touch on various aspects of operations, and c) maintaining independence during the project and reporting.

Audit and Finance Committee Structure

2.	Observation	The Audit and Finance Committee does not include appointed members of the public.
	Recommendation	Incorporate up to two non-voting citizens with appropriate expertise on the Audit and Finance Committee to strengthen independent perspectives on the Committee and support enhanced management engagement.

Currently, the Internal Audit team reports administratively to the Superintendent and functionally to Audit and Finance Committee. Administrative reporting facilitates day-to-day operations while functional reporting determines the Department's direction and work, including activities such as approving the Internal Audit Plan, monitoring progress on the plan, approving decisions regarding the appointment of the audit executive, and coordinating with management and the Internal Audit team to determine if there are scope or resource limitations. This model aligns with best practices by providing functional reporting to an independent body, the Audit and Finance Committee, which promotes independence, supports broad audit coverage, and provides oversight to verify that appropriate action is taken on recommendations.

Board Policy 1240 establishes the Audit and Finance Committee as one of the four subcommittees of the District's School Board. The Audit and Finance Committee is comprised of three Board members and has the option to add one or more "public advisors" as non-voting members to the Committee. However, the District has not historically used this option. The purpose of the Audit and Finance Committee includes:

- Oversight of the District's financial systems and human resources
- Monitoring financial statements of the District
- Oversight of the budget development process, including guiding principles, timelines, and program reviews
- Oversight of the internal audit function, including approval of the annual work plan
- Monitoring corrective action plans implemented in response to audits and reviews
- Monitoring risk management

The relationship between the Board and District management has been characterized by tensions for some time. Due to this sometimes strained relationship, management can perceive the Internal Audit team as lacking independence, which impedes participation in the risk assessment and audit process. Management reported concerns that Internal Audit could be leveraged as a punitive rather than improvement tool because of the Office's reporting structure. In order to be effective, Internal Audit relies on management to actively participate in the internal audit process, collaboratively assess risks, and provide access to resources including staff and documents.

The structure of the Finance and Audit Committee plays a key role in supporting the Office's independence and objectivity. The inclusion of experts—either voting or non-voting—who do not have authority over the District's operations or decision-making process can help protect Internal Audit staff from actual or perceived political pressure that compromises objectivity and independence. Therefore, the District should consider adding up to two community members as non-voting members of the Committee in accordance with the existing policy. Inclusion of other community members on the Committee contributes to enhanced independence and may support better management engagement in the audit process. According to self-reported data collected from 29 school districts by the Council of the Great City Schools, 46% of audit committees include community volunteers as voting members.

If the District chooses to include public advisors, it should leverage a structured process to evaluate if a prospective member has the required expertise, capacity, or background to fully grasp the issues relative to the District. Regardless of member composition, Finance and Audit Committee members should collectively possess knowledge in accounting, auditing, business, financial reporting, law, and school district finances. These skills are needed to understand and evaluate the District's financial statements, the external audit, and the District's internal audit activities. Finance and Audit Committee members (collectively) should:

- Possess the requisite knowledge necessary to understand technical and complex financial reporting issues
- Have the ability to communicate with auditors, public finance officers, and the Board
- Be knowledgeable about internal controls, financial statement audits, and management and operational audits

Outside Audit and Review Governance

3.	Observation	Outside audits and reviews are not consistently approved by or reported to the Audit and Finance Committee; therefore, District leadership and the Board have limited visibility into study results and implementation.
	Recommendation	A. Update the District's policies to require outside audits and reviews to be routed through the Audit and Finance Committee in order to ensure appropriate recommendation implementation tracking. B. Establish and institutionalize the role of Internal Audit as a liaison for outside audits and reviews.

The District is subject to audits and outside reviews from other state and federal agencies including the Office of Superintendents and Public Instruction (OSPI), Washington State Auditor's Office (SAO), the Department of Education (DOE), and other parties. The nature of audits and reviews varies significantly, with reports routed to the Audit and Finance Committee, Operations Committee, the full School Board, and/or department leadership. Examples of strategic or performance-based reports that have been completed recently by the District, but not routed through the Audit and Finance Committee include:

- **Nutrition Service Department Study (2016):** Issued three observations and 27 management issues; provided 20 recommendations
- **Communications Assessment (2018):** Provided seven key recommendations
- **Teaching and Learning Efficiency Study (2018):** Provided 28 observations and recommendations
- **Student Transportation Program (2019):** Provided 18 recommendations
- **Labor and Employee Relations Assessment (2019):** Provided 22 observations and recommendations

When reports are not presented to the Audit and Finance Committee, there is a lack of consistent oversight and follow-up on recommendation implementation, since other School Board committees do not leverage Corrective Action Plans (CAPs) in regular reporting. In order to ensure that all recommendations are incorporated into District practices, outside audits and reviews should be approved and routed through the Audit and Finance Committee. The Audit Response Manager should work with District management to provide regular, transparent updates on recommendation implementation not only to the Audit and Finance Committee, but also to other interested School Board members and community members by posting CAP logs on the public-facing website. Depending on the scope of work, the report may also be reported to other School Board Committees or the entire School Board as appropriate. As a meaningful first step toward implementing this recommendation, the District should immediately include all audits and program reviews completed in the last 24 months into the CAP process to monitor progress toward recommendation implementation.

Oftentimes, departments use their own budget to fund an outside program review or audit. This practice should be encouraged to continue, with Internal Audit serving in a liaison role to help

facilitate the process, following approval by the Audit and Finance Committee. Since Internal Audit has limited resources, staff should be involved, at a minimum, in the following:

- Entrance conference
- Document request list
- Interview scheduling
- Preliminary results
- Draft report review
- Exit conference

This model is commonly used in other government agencies and school districts to provide additional support to management during an outside audit or review. Sample policies for this change are included in Appendix B.

District Management Engagement

4.	Observation	District management is reluctant to engage with Internal Audit due to the limited scope of audits, lack of understanding, lack of perceived value, and/or fear of retribution.
	Recommendation	Increase engagement with District management by performing high-impact audits, building relationships, and providing education on risk management to help frame meaningful discussions.

The Internal Audit team noted challenges in productively engaging District management in the risk assessment and audit planning processes. For example, last summer the Internal Audit Director invited 35 District employees to provide audit ideas but only received two responses. In interviews, some District management reported reluctance to engage with Internal Audit for a variety of reasons. Some leaders lack a complete understanding of the internal audit function and perceive the function as providing low-value work, which further reduces meaningful engagement. As noted earlier in the report, Internal Audit has focused on financial controls and compliance rather than strategic audits that support program performance and operations. Additionally, because of Internal Audit's reporting structure and tensions between the School Board and Management, some members of District leadership also reported being fearful of Internal Audit. Overall, employees across the District noted a lack of respect for auditors and accountability in responding to audit requests and following up on audit recommendations.

District management engagement in the risk assessment and audit process is critical to promoting a high-value audit function. A strong control environment and "tone at the top" is a key factor in ensuring that internal audit operates in an environment where results (sometimes negative) and assessments (sometimes contrary to management's view) can be provided openly and received as welcomed insights by management and the Board. In order to support greater management engagement, District management, Internal Audit, and the Audit and Finance Committee should consider the following strategies:

- **Delivery of impactful audits:** As the hybrid internal audit model is implemented, Internal Audit will be better positioned serve as the conduit through which key issues that management faces are addressed. This will reinforce the idea that the Office can be a resource to help assess concerns before they arise and develop meaningful recommendations to support goal achievement. Potential revision of the Audit Response Manager role also supports greater impact from the results of audit reports by enforcing greater accountability for implementing recommendations.

- **Relationship building:** Internal audit is ultimately a people-oriented function that requires strong communication and trust with stakeholders. To be effective, Internal Audit must build trust and demonstrate mutual respect in all its interactions. Relationships may improve with the addition of community members on the Audit Committee to reinforce independence; however, Internal Audit should also reframe its purpose to extend beyond assurance and provide consulting that supports managers. This type of approach is valued by management since it demonstrates a willingness to be supportive and proactive, rather than only pointing out weaknesses. Similarly, demonstrating flexibility, within reasonable levels, during the audit and reporting process can help bolster these relationships.

- **Risk training:** District leadership may require training on how to think about and identify risk. The concept of risk has changed over time from compliance to strategy-oriented, which should be reflected in the District's approach to internal audit and enterprise risk management. Generally speaking, there are three types of risk:
  - *Preventable risks:* Internal risks from within the organization that can be controlled and should be eliminated or avoided. The District receives no possible strategic benefit from these risks. Examples include financial internal controls and compliance requirements.
  - *Strategy risks:* Risks that the District accepts in order to pursue a strategy that generates high value or return. These types of risks are managed in a way that reduces the probability that potential risks actually materialize and improve the ability to manage the risk if it should occur.
  - *External risks:* External risks are beyond the District's influence and control, such as budget cuts from the state, COVID-19, and natural disasters. These risks cannot be avoided, but could be mitigated.

Risk discussions should ultimately be anchored in strategy formulation and implementation processes. Many organizations struggle to engage leadership in thinking about and discussing risk until it's too late. One indication of this concern is tolerance of what may appear to be minor failures and defects, essentially treating early warning signs as false alarms rather than alerts to a bigger issue. As leaders brainstorm to identify and categorize risks, areas with high levels of error should also be taken into consideration. For additional information on risk management, please see Recommendation #6.

Ultimately, adjusting the relationship between Internal Audit and District management will require time and trust, but is required for the Office to have a meaningful impact.

Enterprise Risk Management

5.	Observation	Due to fluctuating leadership and priorities, enterprise risk management has not been a priority for the District, which contributes to a reactive operating culture.
	Recommendation	A. Reinvigorate and institutionalize previous enterprise risk management efforts to prioritize and proactively address risks. B. In collaboration with Risk Management, develop, document, and update the risk register for the District to further focus audit resources on key risks.

The District struggles to effectively conduct enterprise risk management due to fluctuating leadership, a challenging operating environment, and limited resources. According to Board Policy 6500, the District's enterprise risk management should be "…a consistent, structured process across the district for identifying, assessing, prioritizing, and responding to opportunities and threats that affect the achievement of district objectives." However, there are differences between the requirements outlined in policy and actual operation of risk management. For example, the District's risk register was last updated in 2015. The development and assessment of risk areas across the District at that time required significant attention from the small cabinet and was sponsored by a former Board member and Superintendent. However, after those individuals left District service, the enterprise risk management effort was largely abandoned. Given the complex and decentralized operating environment of the District, it can understandably be challenging to assess risks when they appear to constantly fluctuate based on adverse events, community priorities, and media coverage. However, when used effectively, enterprise risk management can be a tool to prioritize risks and address them proactively and systematically.

The IIA defines risk management as processes to identify, assess, manage, and control potential events or situations to provide reasonable assurance. Collaboration between Risk Management and Internal Audit could be improved to support an enterprise approach to risk management. To be effective, leadership should champion enterprise risk management by leveraging the risk register to prioritize needs across the District and institutionalize risk management practices.

Ideally, Internal Audit should collaborate with the District's Risk Manager to develop, document, and update the risk universe mapping for the District to create their audit work plans and ensure that audit resources are being focused appropriately. In order to create stronger risk practices and build a strategic relationship between Risk Management and Internal Audit, it's crucial to increase collaboration between the two functions. Ongoing monitoring of risks and related controls is especially important to ensure there is a constant feedback loop between Risk Management and Internal Audit. The respective roles and responsibilities of the Risk Management Division and Internal Audit are reflected in the table below.

RISK MANAGEMENT	INTERNAL AUDIT
Develop and implement a risk management framework.	Develop an independent evaluation of the design and effectiveness of the risk management framework.

RISK MANAGEMENT	INTERNAL AUDIT
Advise leadership on risk mitigation and draw attention to unmitigated risks.	Provide assurance on management's ability to identify and remediate open (and unmitigated) risks.
Present risk priorities and assess coverage of risk priorities.	Provide assurance on the scope and prioritization of risks.
Advise the Audit Committee and Board on risk reporting and internal audit reporting.	Prepare independent assessments of risk information reported to the Audit Committee and the Board.

An example of a ERM program framework is included in Appendix C. This example is based on the Chartered Global Management Accountant (CGMA) assessment criteria, combined with guidance from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the AICPA, and IAA.

Overall, the internal audit function is responsible for evaluating risk management processes, alerting management of any newly identified risks or inadequately mitigated risks, and providing recommendations and action plans for risk responses. Audit planning should use the enterprise risk management process to help develop the audit plan and determine priorities for allocating audit resources. As part of this, Internal Audit may contribute to the improvement of risk management processes.

B. INTERNAL AUDIT OPERATIONS AND PROCESSES

Professional Audit Standards

6.	Observation	Internal Audit is currently required to perform audits in conformance with GAGAS, which presents challenges for a small audit department.
	Recommendation	Consider transitioning to conducting audits under IIA standards, which provide greater flexibility and efficiencies for a small audit department, and update the Board policy accordingly.

Standards for auditing establish the general specifications that define essential elements required for a high-quality audit, including planning, conducting, and reporting. Board Policy 6550 requires Internal Audit to use Generally Accepted Government Auditing Standards (GAGAS or Yellow Book) in conducting its performance audits. While GAGAS is commonly used in governmental organizations, most internal audit functions require compliance with the International Standards for the Professional Practice of Internal Auditing ("the Standards" or Red Book), partially due to the internal nature of the work and smaller audit teams. The Standards, together with the Institute of Internal Auditors (IIA) Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework (IPPF). The IPPF is the conceptual framework that organizes guidance from the IIA, consisting of two main categories of standards: Attribute and Performance standards. Attribute standards address the attributes of organizations and individuals performing internal auditing. Performance standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. A comparison of these standards is provided below.

	GAGAS	IPPF
Purpose	A framework to conduct audits with competence, integrity, objectivity, and independence.	Enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
Engagement Types	- Financial Audits - Attestation Engagements - Performance Audits	- Business Process Assessment and Consultation - Internal Control Assessment and Consultation - Value-add Internal Auditing/Consulting
Independence	Independence in mind and appearance.	Audit activity must be independent and auditors must be objective.
Planning	Auditors must adequately plan and document the work necessary to address the audit objectives.	Establish risk-based plans to determine the priorities of the internal audit activity. Plan engagements based on documented risk assessments.
Evidence Requirements	Evidence must be sufficient, appropriate, relevant, valid, and reliable to provide a reasonable basis for findings and conclusions.	Document and maintain all information to support the reasonableness of the engagement's conclusions and results.
Quality Assurance	Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the function and its personnel comply with professional standards and applicable legal and regulatory requirements	Requires an established Quality Assurance and Improvement Program (QAIP) comprised of both ongoing and periodic internal assessments. Assessments must demonstrate conformance with the definition of Internal Auditing, the Code of Ethics, and the Standards.
Peer Review	External peer review required every three years.	External peer review required every five years.
CPE Requirements	80 hours of CPE, 24 of which relate to government or government auditing.	None specified. Auditors with professional certifications are responsible to obtaining sufficient CPE to satisfy related requirements.

Overall, the IIA has less detailed requirements, including less frequent peer reviews and fewer CPE hours. The District's small Internal Audit team can be challenged to meet GAGAS requirements, and has not been subject to an external peer review. In a resource-constrained public environment, the District should consider adopting standards that support the ability to deliver work more efficiently. Application of IIA standards would help the Internal Audit team consistently and accurately provide essential, flexible services in a timely, cost-effective manner.

Risk Assessment

7.	Observation	The Office of Internal Audit conducts an annual risk assessment with limited management participation in the process.
	Recommendations	A. Transition to a three-year cycle for risk assessments with increased management participation and adjusted timelines. B. Reframe the risk assessment to be rooted in strategic and operational goals.

In accordance with Board Policy 6550, the Office completes risk assessments on an annual basis, which requires a large amount of work. District management reports that it is unclear who is engaged in the annual risk assessment process and that engagement overall tends to be low. Rather than completing interviews and asking questions of management, the Internal Audit Director sends an email to select members of District management to request potential audit suggestions. As noted previously, in summer 2019 the Internal Audit Director invited 35 employees to submit audit ideas and only received two responses. When Internal Audit has arranged interviews with key members of District management to gain a better understanding of risk, the discussions have not always been fruitful. Overall, formal discussions of risk across the District have been infrequent.

Given the limited resources at the District, Internal Audit should adjust its operations to adopt a three-year cycle for risk assessments, with shorter annual updates that include conversations with key leaders across the organization. Examples of key leaders include the small cabinet, Superintendent, and Audit and Finance Committee members. In order to more effectively engage District management in the risk assessment process, Internal Audit may need to provide training materials that frame the concept of risk and spark ideas related to what risk factors inhibit operational success, as noted in Recommendation #5. It may also be effective for the enterprise risk assessment to be conducted by a third party, which may be better suited to engage staff in honest conversations about risk given the current Board-management relationship. To be impactful, Internal Audit should work with management to draw the links between strategy and potential risks. Logistically, the timing of the risk assessment should not occur in the summer, and could be best performed in the first quarter of the calendar year to provide reflection on the first several months of school and anticipate needs for the remainder of the year.

During the three-year risk assessment process, the Office should schedule interviews with members of the small cabinet, the Risk Manager, Board members, and other identified stakeholders (i.e., principals, union representatives, and community groups) to gain a comprehensive understanding of risk areas across the District. This process can also be augmented by an all-staff survey designed to solicit potential risks from schools and all other employees. For example, during interviews for this engagement, District management identified some high-risk areas, including:

- Construction audits
- Teacher discipline
- Fleet management
- Procurement and District supply chain
- Site-based management

- Crisis management
- Employee equity
- District-wide policies and procedures

In order to develop a risk-based audit plan, risks to the strategic and operational goals of the organization must be identified and assessed. A risk assessment should identify and assess risk conditions that threaten the organization's objectives. As part of this process, mitigating controls, contingency plans, and monitoring activities should also be identified and linked back to the risks they mitigate. Controls are simply any process that addresses risks. Effective key controls can be relied upon to reduce the levels of significant risks. Risk responses are the means by which an organization chooses to respond to a risk, in alignment with its risk appetite (the level of risk the organization is willing to accept). Risk responses are intended to manage (but generally cannot eliminate) risks, and include acceptance, avoidance, reduction, and sharing (transfer). The risk that remains after risk responses have been executed is called residual risk.

As part of the risk assessment, risks should be prioritized to enable the allocation of limited resources (time, money, and people). In addition to severity of risks (likelihood and impact), other factors for prioritizing risks include agreed-upon criteria to evaluate risks, organizational risk appetite, the importance of the affected objective(s), and the level at which the organization would be affected. Examples of potential criteria include:

- **Complexity**: The nature and scope of a risk and its interdependence
- **Velocity**: The speed at which a risk affects the organization
- **Persistence**: How long a risk might affect the organization (including recovery time)
- **Adaptability**: The existing capacity to adjust and respond to the risk
- **Recovery**: The organizational capacity (not time) to return to normal

A risk register can be used to support the identification and analysis of risks by describing each risk, its impact and likelihood, and the overall risk level. These risks may be organizational-wide or relate to essential functions in departments. The register can also include any planned responses if a negative event occurs, existing mitigation efforts, and a risk ranking. Internal Audit can leverage a risk register to update areas of high risk and significant impact, as well as identify the key controls that help lower the inherent risk to tolerable levels. Internal Audit should also apply risk management to its own activities (e.g., audit failure, false assurance, etc.) and monitor corrective actions as needed.

Internal Audit Plan

8.	Observation	The Internal Audit Plan lacks both alignment with risk assessment results and sufficient flexibility to address issues that arise throughout the year.
	Recommendation	Develop annual audit plans based on the District's unique risks and consider leaving a placeholder for the selection of an audit mid-year to provide greater flexibility in addressing urgent needs.

The District's Internal Audit Plans have historically not closely aligned with the risk assessment results. Part of the reason for this disconnect may be the policy requiring Internal Audit to focus on financial controls and compliance; therefore, if a high risk area falls outside of the identified audit universe, it has not been considered eligible for audit. Internal Audit staff report that audits are often selected based on industry trends, rather than the unique needs of the District, which are difficult to ascertain without engagement from management during the annual risk assessment (see Recommendation #7). This creates a cycle where the audit selection process is not perceived as meaningful or clear by District management. Development of the Internal Audit Plan can serve as a tool to demonstrate the value of the internal audit function moving forward by reacting to management's needs and identified risks.

The IIA's IPPF states that an organization should "establish a risk-based plan to determine the priorities of the internal audit activity…" Regardless of how often an internal audit office conducts a detailed risk assessment, the audit plan should be modified or updated annually to reflect any new or changing risks affecting the District. Risks that internal audit departments typically focus on include assessing the governance, operations, and information systems related to the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; the safeguarding of District assets; and the District's compliance with laws, regulations, policies, procedures, and contracts.

A risk-based audit plan should describe what audit and consulting activities are planned, and logically relate the risks identified during the risk assessment to the District's strategic and operational goals. The plan should include a brief scope of work as well as the time/staffing resources required to complete the project. Additionally, the plan should identify the audits intended to review the key controls linked to the highest areas of risk, as well as the consulting activities to give advice on controls to mitigate risks. While lower risk audits may still be included in the audit plan (to give appropriate coverage), the audit plan typically should focus on areas of unacceptable current risks, the controls systems on which the District is most reliant, areas where the difference between inherent risk and residual risk is significant, and areas where inherent risk is very high.

In conformance with best practices, the District's Internal Audit Plan is approved by the Audit and Finance Committee. Revisions to the work plan must also be reviewed and approved by the Audit and Finance Committee. Management that provided internal audit suggestions mid-year were often unclear about why certain projects were selected while others were not. Internal Audit reports that it assesses the risk and ability of management to respond to known issues when determining whether or not to propose a revision to the audit plan. However, as noted previously, the District is frequently presented with urgent requests mid-year due to fluctuating community priorities and local events. Therefore, the District should consider building additional flexibility into the audit work plan by providing an audit contingency or leaving an audit open for approval mid-year. For example, if this flexibility had been built into the audit plan over the last year, Internal Audit may have opted to audit a topic related to COVID-19 resources and student support. Therefore, the audit plan should have enough flexibility to adapt as needed to adjust during the audit plan period if minor shifts are needed, potentially by leaving a placeholder for an audit that is selected mid-year. Any substantial adjustment made to the audit plan should continue to be approved by the Finance and Audit Committee, including the final selection of a contingency audit.

Report Content

9.	**Observation**	**Current internal audit reports are concise, but are narrow in scope and do not provide detailed insights, supporting evidence, and actionable recommendations.**
	Recommendation	**Incorporate detailed methodology descriptions and provide evidence-based findings that identify opportunities for improvement and practical, detailed recommendations that better reflect the impact of audit results.**

Internal audit reports are very concise, but lack some details that describe the audit methodology or support observations and recommendations. For example, audit reports should thoroughly explain the audit methodology, including sample selection, testing procedures, and whether or not the results can be applied to the whole population. Results should clearly state the number and type of exceptions and explain why each finding is relevant to the audited function and District as a whole. Each finding reported should be evidence-based and adequately communicate the IAA's elements of a finding in order to present a clear picture of the issue, why it is important, and the impact it has on the District. The elements of a finding, as defined by the IIA, include:

- **Criteria:** The standards, measures, or expectations used in making an evaluation or verification (the correct state).
- **Condition:** The factual evidence that the internal auditor found in the course of the examination (the current state). This includes the number of exceptions in the sample and, potentially, implications for the entire population.
- **Cause:** The reason for the difference between expected and actual conditions.
- **Effect:** The risk or exposure the organization or others encounter because the condition is not consistent with the criteria (the impact of the difference).

By fully presenting all the elements of a finding in the narrative of the report, the report can provide additional context and more meaning to its results. This approach also supports the availability of the report to stand on its own in the public sphere without potentially being misinterpreted.

Recommendation Development

10.	**Observation**	**There are opportunities to increase the clarity and practicality of audit recommendations to increase the impact of Internal Audit.**
	Recommendation	**Ensure recommendations address the root cause of issues and are sufficiently specific, actionable, and practical to support improvements at the District.**

Management reports that recommendations are often not practical to complete using existing resources or sufficiently specific to easily understand what needs to be accomplished to address the root cause of the finding. In interviews, staff also reported differences between Internal Audit, Department leadership, and front-line staff actually responsible for the work in understanding the recommendation and implementation activities. Recommendations that are perceived as high level,

impractical, or too vague are unlikely to make a meaningful impact on District operations and can perpetuate a lack of management engagement. To be effective, recommendations must be constructive, reasonable, actionable, and clearly outline the steps to resolve the observation.

Internal Audit should serve as a catalyst for improving organizational effectiveness and efficiency by providing insight and recommendations based on analysis and assessment of data and business processes. In the course of executing an audit, an internal auditor should not only identify an issue, but determine why the issue has occurred. As part of the development of recommendations, Internal Audit should work with management to develop an action plan that addresses that root cause. Internal auditors must demonstrate that they understand the ultimate goal of internal audit is to help improve the District. Communicating sensitive or negative audit results requires a delicate approach, with a constructive focus on how to make the organization stronger. Historically, Internal Audit has refrained from providing specific recommendation in order to empower management to implement the most appropriate and feasible corrective action to resolve the findings. However, providing examples of potential solutions would help support this work and collaborative efforts with management.

Recommendations should be crafted to enhance and protect organizational value. Specifically, recommendations should include a call to action to correct existing conditions or improve operations. They may include suggestions for correcting or enhancing performance as a guide for management in order to achieve desired results. Recommendations should be built on clear and constructive communication of issues identified, and should be on point, realistic, and cost-effective. Internal Audit can support management by presenting recommendations in a cost/benefit format if issues and recommendations can be quantified. For example, rather than only indicating in a report that a 20% error rate was identified in a certain process, the report could also approximate the impact of a 20% error rate in a dollar amount. Taking the extra time to write a meaningful report ensures that not only is the information presented as accurately as possible, but also that management can make reasonable decisions based on information provided.

C. AUDIT RESPONSE

Audit Response

11.	Observation	The Audit Response Manager role provides Internal Audit with limited purview over non-financial or compliance functions.
	Recommendation	Determine the desired role of the Audit Response Manager as either management support or audit validation and revise the position's reporting structure accordingly.

The Audit Response Manager currently resides in the Finance Department and functions as a tool for management rather than a member of the Internal Audit team. If the District pursues the recommended internal audit model, capacity for performance-based and process efficiency projects will be expanded, while the existing team's capacity is sufficient to address capital program, controls, and compliance audit needs. However, the role of the Audit Response Manager should be reconsidered, in particular with the adoption of the proposed expanded audit model, to ensure all performance and programmatic audit recommendations are tracked and validated. The District has two options for this position:

- **Option 1:** Retain the role of the Audit Response Manager as a support function to management in designing policies and processes to implement recommendations. While this provides additional support to implement changes, it can create weak reliability for Corrective Action Plan reporting. Currently, the impetus for reporting falls on the Audit Response Manager rather than the auditee, which would be allowed to persist under this model.
  - *Reporting structure:* If the District chooses to maintain the role of the Audit Response Manager as a support function for management, the position should report to the Superintendent's Office. The expanded scope of the internal audit function to incorporate other types of programs across the District requires access and knowledge of other areas outside of Business and Finance.
- **Option 2:** Revise the role of the Audit Response Manager to provide validation that recommendations were implemented. This would place the onus on District management to design and implement changes as set forth in recommendations. The Audit Response Manager would review the changes to ensure they resolve the original finding and objectively report on demonstrable implementation. This would eliminate the need for follow-up audits, further increasing the capacity and impact of the Internal Audit function and outside reviews.
  - *Reporting structure:* If the District chooses to adjust the role of the Audit Response Manager to serve in a validation function, the position should report to the Internal Audit Director. Independence could and should be maintained under this structure and provide additional verification that the recommendations were implemented.

Corrective Action Plan Process

12.	Observation	The Corrective Action Plan process does not hold management accountable or provide visibility into and assurance that audit findings are resolved.
	Recommendation	To increase the efficacy of the Corrective Action Plan process, the District should increase management accountability by requiring reporting of corrective action status and validation of actions and the adequacy of actions to address findings.

Board Procedure 6550 requires the District to develop Corrective Action Plans (CAP) in response to audit findings within one month of the Audit and Finance Committee presentation. The CAP should be distributed to the Audit and Finance Committee, approved by the Superintendent, and completed within six months of the audit presentation. The policy allows for one three-month extension depending on the nature of the findings. Additionally, the Audit and Finance Committee is required to be briefed quarterly on the status of each CAP until it is fully resolved. However, in practice there are several deviations from this policy, including:

- The Superintendent no longer approves CAPs
- The CAP log is not included in Audit and Finance Committee meeting minutes

The CAP process is managed by an Audit Response Manager within the Business and Finance Department. However, this employee is often tasked with additional work deemed as higher value, and therefore requests but does not require validation that recommendation implementation has been completed. Additionally, management over the audited areas lacks proper accountability to implement recommendations and maintain the CAP in an up-to-date format. Often, the Audit Response Manager

is responsible for updating the CAP log and making presentations that report on recommendation implementation progress to the Audit and Finance Committee. By putting the bulk of the responsibility for CAPs on the Audit Response Manager, rather than District management, the logs may not be reliable or provide sufficient assurance that recommendations were implemented. For example, the last CAP log reported that 94% of recommendations were implemented, although the details are not included on the public website.

District management reports that the CAP logs are not user friendly, the process is not well-understood, and sometimes staff lack capacity to implement recommendations within the six-month timeframe. Due to the nature of recommendations provided by Internal Audit, staff report that there is often a lack of clarity between Internal Audit, management, and front-line workers on what changes need to be made to fully implement the audit recommendations. With the shift in Internal Audit's scope and model, the CAP policy and process should be adjusted accordingly:

- **Staffing and responsibility:** As noted previously, the role and reporting structure of the Audit Response Manager should be reconsidered. The Audit Response Manager should report to the Superintendent's Office or Internal Audit Director. This position should serve as the liaison between the Audit and Finance Committee and management over audited areas, with the onus of recommendation implementation and reporting on management. Management should be required to complete the CAP log and present the results to the Audit and Finance Committee, with the Audit Response Manager providing technical support and validation that corrective actions have been completed.

- **Validation of recommendation implementation:** The Audit Response Manager should require validation to demonstrate the implementation of recommendations and management should be held responsible accordingly. When completed correctly, CAPs can reduce or eliminate the need to conduct follow-up audits, which will increase the efficiency and impact of the internal audit function.

- **CAP timelines:** Performance audits typically require a longer time to complete and identify a wide range of recommendations that can take several years to fully implement. Rather than requiring completion of the CAP within a specified timeframe (i.e., six months) regardless of the complexity of recommendations, the District should consider requiring the development of implementation plans that include the planned timelines for completion of each recommendation. This provides departments with greater flexibility and capacity to implement recommendations thoughtfully.

- **Reporting:** In addition to presentation at the Audit and Finance Committee meetings, CAPs, including progress updates, should be posted on the District's website to provide transparency to the community about recommendation implementation.

The District should update its policy to reflect these requirements and instill greater management accountability to implementing recommendations. Sample policies are included in Appendix D.

D. ETHICS PROGRAM

Ethics and Whistleblower Hotline

13.	Observation	While the District operates an independent whistleblower hotline, it has not established a triage policy.
	Recommendation	A. Develop and implement a policy that defines how complaints received by the Ethics Office are managed and triaged. B. Incorporate high-level reporting of complaints into quarterly Audit and Finance Committee meetings.

In accordance with best practices, the District operates an independent hotline that is accessible 24/7 both online and over the phone for employees to report complaints of misconduct. Hotlines are useful tools in reducing the possibility of inappropriate or illegal actions by providing a confidential venue for employees to present issues to management.

The Internal Audit Director is also the District's Ethics Officer. This employee is responsible for investigation of complaints related to the District's Ethics Policy and any complaints involving whistleblower retaliation that come through the hotline or any other means of reporting. Board Procedure 5250BP states "the District shall investigate, or cause to be investigated, reports of conduct that, if true, would constitute an Improper Governmental Action. District supervisors or other management employees shall, upon receiving such a report, take prompt action to assist the District in properly investigating the report. The investigation may be conducted by a District investigator or by the Ethics Officer." The Ethics Officer/Internal Audit Director reports that they contract with independent investigators to conduct investigations specific to the District's Ethics Policy and whistleblower retaliation.

According to FAQs posted on the District's website, complaints will never be assigned to someone directly associated with the allegation and all whistleblower complaints received by the Ethics Officer are reviewed with the Chair of the Audit and Finance Committee to ensure appropriate assignment. It is a best practice for Internal Audit to take the lead in assessing and routing complaints to the appropriate department based on the nature of each complaint. This ensures that a thorough, independent, and objective process is followed for investigating complaints. However, the District lacks a formal policy on how complaints are triaged and assigned. A triage policy should identify what department (i.e., Internal Audit, Business and Finance, Human Resources) or party (i.e., external investigator, SAO) would be the most appropriate to conduct the investigation based on the nature of the complaint and how quickly that complaint must be addressed based on risk. Factors that should be considered in this policy include:

- Technical expertise required to complete investigation
- Need for independence
- Relationship to implicated employee
- Urgency of the matter and staff capacity

The District policy should also establish escalation for complaints based on the nature of the report content, including up to the Audit and Finance Committee. Some complaints may warrant immediate action and communication to senior management and the Audit and Finance Committee. For example, if a report indicates misappropriation of District assets, false reporting, or misuse of assets, Internal Audit should initiate an investigation immediately and notify the appropriate senior officials. Other reports may require additional follow-up or simply suggest an area for the Office to consider evaluating in the future, which require less expedient responses. Response protocol often determines the overall success of an ethics hotline and overall business ethics program. Sample policies are included in Appendix E.

Finally, Internal Audit should also provide quarterly reporting on the ethics hotline utilization and associated activities to the Audit and Finance Committee. This reporting should remain at a high level by providing the number of complaints received that period, complaint sources, status (i.e., under investigation, open, or closed), and category (e.g., employee misconduct, harassment/discrimination, suspicious activity, and policy violation).

Ethics and Fraud, Waste, Abuse Training

14.	Observation	The District lacks Ethics and Fraud, Waste, and Abuse training that supports employee understanding and identification of policy breaches.
	Recommendation	Develop and implement mandatory Ethics and Fraud, Waste, and Abuse training for all District employees.

Board Procedure 5250 defines "gross waste of public funds or resources" as 1) to spend or use District funds or resources, in a manner grossly deviating from the standard of care or competence that a reasonable person would observe in the same situation; or 2) the non-collection of a debt or other obligation owed the District when the non-collection is done in a manner grossly deviating from the standard of care or competence that a reasonable person would observe in the same situation. Additionally, Board Policy 5251 defines ethical standards for District officers and employees, including conflicts of interest, use of position, gifts and gratuities, confidential information, and interest in contracts. Although the District has policies related to both ethics and fraud, waste, and abuse, there are no training materials on ethics available to District employees, which compromises the efficacy and ultimate adoption of these policies.

Employees need to know the appropriate avenues to report suspicious activity without fear of retaliation or a breach in confidentiality. To ensure ethics and fraud, waste, abuse concepts are properly understood and adopted, the District should develop and implement formal training on this subject. Training methods may include live instruction, online or computer-based training, workshops, and/or prerecorded presentations to support greater employee accessibility to the content. Ethics training should cover the following topics:

- Discussion of the District's policies that support compliance and the ethics program

- Sections on specific risks including conflicts of interest, use of position, and confidential information

- Information on how and why to adopt ethical behavior to accomplish the following:

- ○ Enabling employees to understand the District's ethics policies
- ○ Guiding ethical decision-making, including how to explore the ethics implications of decisions
- ○ Providing information on how to report suspected ethical violations
- Reinforce that employee actions impact District's culture, which impact internal and external stakeholders
- Employee ethics-related roles and responsibilities

Additionally, regular fraud, waste, and abuse training is vital for governmental organizations and should be tailored to the specific industry and environment in which the organization operates. This training should be geared toward internal fraud, waste, and abuse risk by providing employees examples of potential red flags that may contribute to a potential indication of fraudulent activity. Fraud, waste, and abuse training should cover the following components:

- Definition of fraud, waste, and abuse including industry-specific examples of each
- The fraud triangle, fraud environment, and reasons why fraud happens
- Opportunity points for fraud to occur
- Internal controls intended to prevent and detect fraud
- The importance of corrective controls and the messages they send to employees
- Fraud schemes: what does fraud look like and how to identify and understand various schemes
- Characteristics of perpetrators and red flags
- Actions employees should take if aware of unacceptable activities, including information on all available avenues for reporting unacceptable behavior (i.e., how to access the hotline and information to include)

Cadence for this training will depends on context, but frequency is essential. Training should always occur at the time of hire so new employees are aware of expectations. Typically, best practices suggest offering a refresher training at least annually so that course material is most up to date with current policies and organizational culture.

This training supports the District's integrity by reinforcing its commitment to ethics, compliance, and anti-fraudulent behavior. It can increase employee morale and satisfaction because it empowers employees to make better ethical decisions and fosters an honest work environment. Per its intention, training can also reduce the number of ethical and fraudulent violations.

APPENDIX A: SAMPLE INTERNAL AUDIT POLICIES

SAMPLE 1: TACOMA SCHOOL DISTRICT

6050R - Internal Auditing

Regulation 6050R Internal Auditing

Description

Internal auditing is an independent appraisal activity employed within the district as a service to administration. It is a management control which functions by examining and evaluating the adequacy and effectiveness of other internal controls. Internal auditing is dedicated to assisting district administration in the effective discharge of its responsibilities. To this end, it furnishes them with analyses, appraisals, counsel, recommendations and information concerning the activities reviewed. The audit objective includes promoting effective control at a reasonable cost.

Internal auditing functions under policies and regulations adopted and approved by the board of directors. The internal auditor reports to the superintendent and takes direction from the Citizens' Finance and Audit Committee, and coordinates activities with the state and other outside auditors. Internal auditing is a staff function with no authority over persons and activities. The independence from operating responsibility promotes objectivity. To conduct audits, the internal auditor is authorized free access to district records, personnel and physical properties relevant to the subject being reviewed, without relieving other administrations of their management control responsibilities.

Mission

The mission of internal auditing is as follows:

1. Review departments and programs within the district at appropriate intervals to determine whether they are efficiently and effectively carrying out their functions of planning, organizing, directing, and controlling in accordance with management instructions, policies and procedures, and in a manner that is consistent with both district objectives and high standards of administrative practice.
2. Determine the adequacy and effectiveness of the district's systems of internal accounting and operating controls.
3. Review the reliability and integrity of financial information and the means used to identify, measure and classify all reports of such information.
4. Review the established systems to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determine whether the organization is in compliance. Suggest policy where required.
5. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
6. Appraise the economy and efficiency with which resources are employed, identify opportunities to improve operating performances, and recommend solutions to problems where appropriate.

7. Review operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

8. Coordinate audit efforts with those of the state auditor and other independent public accountants.

9. Participate in the planning, design, development, implementation, and operation of major computer-based systems to determine whether

    a. adequate controls are incorporated in the systems;

    b. thorough system testing is performed at appropriate stages;

    c. system documentation is complete and accurate; and

    d. the needs of user organizations are met, conduct periodic audits of computer service centers and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.

10. Review compliance with the district's guidelines for ethical business conduct and see that the highest standards of performance are met.

11. Submit annual audit plans to the superintendent, cabinet, and Citizens' Finance and Audit Committee for their review and approval.

12. Provide a report, quarterly, to the Citizens' Finance and Audit Committee on whether:

    a. Appropriate action has been taken on significant audit findings;

    b. Audit activities have been directed toward the highest exposures to risk and toward increasing efficiency, economy, and effectiveness of operations;

    c. Internal and external audits are coordinated so as to avoid duplications;

    d. Internal audit plans are adequate;

    e. There is any unwarranted restriction on the staffing and authority of internal auditing or on access by internal auditors to all company activities, records, property, and personnel.

13. Report to the board and to those members of management who should be informed, or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.

14. Evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.

15. Provide adequate follow up to make sure that adequate corrective action is taken and that it is effective.

Administrators are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from receipt of a report disclosing those weaknesses. The administrator is also responsible for seeing that a written report of action planned or completed is sent to the division head. If a plan of action is reported, a second report shall be made promptly upon completion of the plan.

Standards

Internal auditing follows the standards for the professional practices of internal auditing as established by the Institute of Internal Auditors.

The standards include:

1. Independence;

2. Professional proficiency;
3. Scope of work;
4. Performance of audit work; and
5. Management of the internal auditing department.

Quality Assurance

On a periodic basis, the function of internal auditing should be reviewed by an independent team determined by the Citizens' Finance and Audit Committee. The intent of the review is to ensure that the internal audit function is performing as planned and is conducting audits objectively and independently.

The quality assurance review will consider:

1. Objectives of internal audit: Review objectives of internal audit as noted in the internal auditor job description. Evaluate objectives in relation to overall district goals.
2. Quality assurance: Review quality of work as it relates to the Standards for the Professional Practice of Internal Auditing and the Internal Audit Procedures Manual. Critique audit planning, conduct of audit, support of findings (work papers), communication of results reports, and follow up on recommendations.
3. Long term internal audit plans: Review the long range plan of internal audit as it relates to district goals, determine the adequacy of the level of exposure, extent of coverage, achievement of independence, effective use of internal audit time, working with state examiners towards common goals, requirements for staffing, etc.

Request for Internal Audit Services

In keeping with the requirements of the policy and generally accepted professional standards, the internal auditor has established the capability for conducting audits of departments and programs in the following areas:

1. Financial—to determine:
   a. whether financial operations are conducted properly; and
   b. whether the financial reports are presented fairly.
2. Compliance—to determine whether operations have been carried out in compliance with applicable laws, regulations and established policies.
3. Economy and efficiency—to determine whether allocated resources are managed and used in an economical and efficient manner.

Audits can be performed by district staff covering any one of the above areas, or a comprehensive audit encompassing all of them can be undertaken.

In general, a financial audit will be limited to the financial and compliance areas. It will however, often address problems of economy, efficiency and effectiveness insofar as these apply to the system of internal controls used in financial operations.

In addition to regularly scheduled internal audits, time is reserved for special requests for audits from the board or administration.

The internal auditor also identifies potential audit subjects. Some criteria used in making selections might be helpful to requestors in developing ideas or requests for audits. They are:

1. <u>Relative risk and exposure</u>: Departments and programs under this jurisdiction that expend relatively large sums of money and are responsible for the management of significant amounts of human and capital resources, or are responsible for the receipt of large amounts of revenue, are considered high-priority candidates for audit. There normally is great potential for identifying improvements in management, organizational structure and operating procedures to enhance the economy, efficiency and effectiveness of such organizations. Conversely, there is greater risk of harmful effects if any existing weaknesses remain unidentified.

2. <u>Assessments of recent audits or management studies</u>: Programs with a history of management problems as identified through prior audits and studies should be prime candidates for follow-up audits to determine whether identified weaknesses have been corrected.

3. <u>Availability of program information</u>: A department that provides little program information and has been recently audited should be considered a prime candidate. This is particularly true of new or experimental programs. Audits will provide management and board with an attestation to the propriety, validity and reliability of data upon which future program decisions can be based.

4. <u>Suspected problems or adverse publicity</u>: Programs with a history of controversy concerning their compliance, economy and efficiency should be audited to provide objective attestation to management's response to such controversy. In addition, large budget increases, a large reduction or increase in the size or demands of the client populations or a rapid employee turnover rate are valid indicators that an audit may be needed.

Additionally, staff will be reviewing areas legally requiring audits to be performed on a periodic basis.

Approved: 10/26/89; 7/27/00; 1/22/02

SAMPLE 2: SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

Purpose and Mission

The purpose of the San Antonio Independent School District's Internal Audit Department is to provide independent and objective assurance and consulting services designed to add value and improve the district's operations. The mission of internal auditing is to enhance and protect the organizational value by providing risk-based and objective assurance, advice and insight. The Internal Audit Department helps the San Antonio Independent School District (SAISD) accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Standards for the Professional Practice of Internal Auditing

The internal audit department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing,* and the Definition of Internal Auditing. The chief internal auditor will report periodically to senior management and the Board of Trustees (Board) regarding the internal audit department's conformance to the Code of Ethics and *Standards.*

In addition, the internal audit department will adhere to SAISD's board policies, administrative procedures and guidelines, as well as the internal audit department's operating procedures manual.

Authority

The chief internal auditor will report functionally to the Board and administratively to the Superintendent. To establish, maintain, and assure that SAISD's internal audit department has sufficient authority to fulfill its duties, the Board will:

- Approve the internal audit department's charter.

- Approve the risk-based internal audit plan.

- Approve the internal audit department's budget, including without limitation, necessary staffing, resource plan, and compensation of the chief internal auditor.

- Receive communications from the chief internal auditor on the internal audit department's performance relative to its plan and other matters.

- Approve decisions regarding the appointment and removal of the chief internal auditor.

- Make appropriate inquiries of management and the chief internal auditor to determine whether there is inappropriate scope or resource limitations.

The chief internal auditor will have unrestricted access to, and communicate and interact directly with, the Board, including in executive sessions, when necessary, without management being present.

The Board authorizes the internal audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

- Allocate resources, set frequencies, select audit subject, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.

- Obtain assistance from the necessary personnel of SAISD, as well as other specialized services from within or outside SAISD, in order to complete the engagement.

Independence and Objectivity

The chief internal auditor will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief internal auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement, including:

- Assessing specific operations for which they had responsibility within the previous year.

- Performing any operational duties for SAISD.

- Initiating or approving transactions external to the internal audit department.

- Directing the activities of any SAISD employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the chief internal auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating
- information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief internal auditor will confirm to the Board, at least annually, the organizational independence of the internal audit department.

The chief internal auditor will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, an/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and appropriate third parties on the adequacy and effectiveness of governance, risk management, and control processes for SAISD. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of SAISD's strategic objectives are appropriately identified and managed.
- The actions of SAISD's, employees, and contractors are in compliance with SAISD's policies, procedures, and applicable laws, regulations and governance standards.
- The results of operations or programs are consistent with established goals and objectives and are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact SAISD.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief internal auditor will report periodically to senior management and the Board regarding:

- The internal audit department's purpose, authority, and responsibility.
- The internal audit department's plan and performance relative to its plan.

- The internal audit department's conformance or intent to conform with The IIA's Code of Ethics and *Standards,* and action plans to address any significant conformance issues.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.

- Results of audit engagements or other activities.

- Resource requirements.

- Any response to risk by management that may be unacceptable to SAISD.

The chief internal auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related consulting activities for SAISD, the nature and scope of which will be agreed on by the Board, provided the internal audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management and the Board.

Responsibility

The chief internal auditor has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.

- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.

- Review and adjust the internal audit plan, as necessary, in response to changes in SAISD's business, risks, operations, programs, systems, and controls.

- Communicate to senior management and the Board any significant interim changes to the internal audit plan.

- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.

- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.

- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.

- Ensure trends and emerging issues that could impact SAISD are considered and communicated to senior management and the Board as appropriate.

- Ensure emerging trends and successful practices in internal auditing are considered.

- Establish and ensure adherence to policies and procedures designed to guide the internal audit department.

- Ensure adherence to SAISD's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.

- Ensure conformance of the internal audit department with the *Standards,* with the following qualifications:
  - If the internal audit department is prohibited by law or regulation from conformance with certain parts of the *Standards,* the chief internal auditor will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards.*
  - If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, the chief internal auditor will ensure that the internal audit department conforms with the *Standards,* even if the internal audit department also conforms with the more restrictive requirements of other authoritative bodies.

Quality Assurance and Improvement Program

The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance or its intent to conform with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit department and identify opportunities for improvement.

The chief internal auditor will communicate to senior management and the Board on the internal audit department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside San Antonio Independent School District.

APPENDIX B: EXTERNAL AUDIT AND REVIEW SAMPLE POLICIES

SAMPLE 1: UNIVERSITY OF WASHINGTON

Non-University of Washington Auditors

The following policy and procedures relate to interactions between university personnel and external auditors. An external auditor is defined as any non-University of Washington auditor or reviewer, such as the State Auditor's Office, federal auditors and reviewers, and independent certified public accounting firms. Please notify the Internal Audit Department if you are contacted by a non-University of Washington auditor or reviewer.

Policy

It is the policy of the University of Washington to fully cooperate with external auditors. In the furtherance of this objective, it is expected that auditors and university personnel will observe certain procedures intended to facilitate orderly audits and to minimize disruption of normal departmental operations. These procedures are outlined in the following sections.

Procedures

1. General

As part of the audit coordination process, the Internal Audit Department serves as liaison between central administrative offices, university departments and external auditors. All initial contacts with external auditors should be arranged through the University of Washington Executive Director, Internal Audit Department. If any university personnel are contacted directly by an external auditor, they should notify the Executive Director of the Internal Audit Department. Appropriate advance arrangements must be made to ensure that (1) the proper persons are on hand to assist the external auditors, (2) relevant records are gathered together in a timely manner, and (3) the contact is scheduled to minimize disruption of departmental activities.

The Internal Audit Department will keep a record of all correspondence, meeting minutes, and other written communications between the external auditor and the Internal Audit Department.

2. Notification of Audit

A. By the Auditor

The external auditor should send a written notification of the upcoming audit to the Executive Director of the Internal Audit Department. The written notification should include the following:

- subject area,
- scope and purpose of the audit,
- approximate start date and duration of the audit.

This will assist the University in arranging for people and records to be available when the external auditor requires them.

B. By the Executive Director of the Internal Audit Department

The Executive Director of the Internal Audit Department will notify the appropriate university officials regarding the scope, purpose, schedule, and other information relevant to the upcoming audit.

C. Entrance Conference

The Executive Director of the Internal Audit Department will coordinate an entrance conference with the appropriate university officials and the external auditors. The objectives of this conference are to establish the purpose, scope, and timing of the audit or review; determine the information required by the external auditor; and arrange the physical facilities and equipment needed to facilitate the audit. Minutes of the meeting will be taken and made available to the external auditors and appropriate university personnel.

3. Contact During Audit

After the entrance conference, all requests for specific information or interviews with faculty and staff should be coordinated through the department administrator or designated university personnel. The Executive Director of the Internal Audit Department or appropriate university personnel may accompany faculty or staff members during interviews when deemed appropriate. The external auditor should keep the Executive Director of Internal Audit Department or designated university official informed of any mistakes, discrepancies, or audit questions or concerns that arise during the audit process. The purpose of such contact is to expedite the audit and to provide additional information or clarify any ambiguities.

For specific external groups, certain procedures during the audit may vary from the general procedures, as discussed below.

A. Federal Auditors

After the entrance conference, all questions and requests for specific information or interviews with employees will be coordinated through the department administrator or appropriate department personnel. The department administrator will obtain the necessary documentation and will arrange for interviews. The department administrator may directly contact the Office of Sponsored Programs, and Grant and Contract Accounting Offices for assistance.

B. Program Reviews

Program reviews are often conducted to review program operations and to determine whether the project is meeting programmatic goals. In these cases, the program reviews should be coordinated through the department administrator who will obtain the necessary documentation and arrange for interviews. However, some program reviews, such as those conducted by the U.S. Department of Education, include a review of fiscal operations. In these cases, the department administrator should coordinate the review of fiscal operations with the Executive Director of the Internal Audit Department.

For program reviews of student financial aid, the Department of Education may work directly through the Director of Financial Aid.

C. State Auditor's Office and CPA Firms

After the entrance conference, all requests for specific information or interviews with staff can be arranged through the appropriate department administrator or designated university personnel.

4. Exit Conference

When the audit has been completed the Executive Director of the Internal Audit Department will schedule an exit conference. The purpose of the exit conference is to inform university representatives of the audit findings. At this time, any misunderstandings are clarified and unresolved financial issues discussed. Minutes of the meeting will be taken and made available to the external auditors and appropriate university personnel.

5. University Records

On a timely basis, the university will provide external auditors with access to all records that are relevant to the audit, except those deemed by the university to be legally privileged or protected. Auditors should be allowed to make copies of documents as necessary, but should not be permitted to take original documents out of the office. Availability of records is subject to the University Records Retention policy, which allows destruction of records within prescribed limits.

Records may be located in either the central offices (Financial Services, Grant and Contract Accounting, Office of Sponsored Programs, Payroll) or at the departments. The external auditor must make arrangements through the appropriate department head or administrator for the retrieval and refiling of records.

6. Use of University Computer and Administrative Systems

If external auditors need to use university computer resources or access the university administrative systems, the auditor-in-charge should send a written request to the Executive Director of the Internal Audit Department describing the need in the most specific terms possible. Such a request should be made in advance so that proper arrangements can be made.

SAMPLE 2: UNIVERSITY OF TEXAS AT AUSTIN

19.3. Audit Liaison

The audit liaison function was created to assist and support management in responding effectively to internal and external auditors and other state and federal regulatory agencies.

The audit liaison's role and responsibilities include the following:

- Provide support and assistance during a financial audit or review.
  - Along with management, attend various audit meetings including entrance conferences, status meetings, and exit conferences.
  - Facilitate and communicate requests for information between the financial auditors and the University of Texas at Austin; serve as points-of-contact regarding the overall audit process.
  - Review externally prepared drafts of audit reports for accuracy and completeness; work with auditors to recommend corrections as needed.
  - Assist management with the review of and response to audit findings and recommendations, ensuring that responses are accurate, comprehensive, and accurately reflect the position of the university.
  - Assist management in developing strategies for effective and efficient implementation of audit recommendations; they communicate with management regarding the progress of the implementation.
- Provide audit status updates to executive management as needed.

- Assist management with the implementation of internal control and process improvements as requested.

- Facilitate annual financial report compliance requirements as defined by the University of Texas System's policies and procedures.

APPENDIX C: PILLARS OF ERM PROGRAMS

	PILLARS OF ENTERPRISE RISK MANAGEMENT PROGRAMS	
1.	**Risk Culture**	Cultivation of an appropriate, "risk-aware" culture is paramount to effective ERM practices. The strong endorsement by the board of directors and senior management of the value of investing time and infrastructure into better understanding the organization's most significant risk exposures is an important and necessary condition that must be in place.
2.	**Integration with Planning**	An effective ERM program is an active participant and key source of input for organizational and operational planning. ERM provides critical insights into the portfolio of existing and emerging risk exposures that can contribute to the strategic success of the organization when enterprise-wide risk considerations are incorporated into the firm's strategic and operational planning processes.
3.	**Articulation of Risk Appetite**	The full benefits of identifying and assessing risks can only be realized if the organization has articulated its risk appetite and operationalized the criteria used to determine what risks should be taken or when risks should be managed.
4.	**Risk Identification**	Implementation of definable, robust, and repeatable processes which encourages senior management to regularly think about risks and opportunities that may emerge and affect the organization's achievement of objectives. Processes related to identifying risks, particularly those risks that may be currently unknown, but emerging.
5.	**Risk Assessment**	While all risks identified may have relevance to the organization, some risks are notably more important to the achievement of objectives than others. Therefore, organizations need some method to priorities risks that encourages a consistent consideration of both the likelihood of the risk occurring and the impact of the event to the organization, if the risk occurs. A robust risk assessment process has effective, enterprise-wide metrics that can be used to consistently assess the risks the organization faces across different areas.
6.	**Risk Response**	An articulated and operationalized risk appetite allows for the selection and prioritized implementation of responses for managing the risks that have been identified and assessed. Organizations may choose to accept certain risks, avoid others, adopt processes to reduce the exposures to risks, or share risks with external parties. Of utmost importance, however, is to ensure that an appropriate risk response (like those mentioned above) is implemented, and then to ensure that the response is working as intended.
7.	**Risk Reporting**	An objective of any ERM process is to provide information to senior management and the board about the organizational-wide portfolio of risks and related response to those risks. As risks are identified and assessed across the organization, processes are needed to facilitate the communication of risk-related information so that an aggregate view of important risks and their related risk responses are provided to senior management, the board, and to critical stakeholders.

PILLARS OF ENTERPRISE RISK MANAGEMENT PROGRAMS		
8.	**Assessment of ERM Effectiveness**	As the complexity of the global business environment continues to increase, new ERM methodologies and procedures are needed to effectively manage the portfolio of risks, including emerging areas of risks. An effective ERM program is in a state of ongoing evolution, with regular reviews of the effectiveness of its ERM processes and monitoring of emerging ERM best practices.

APPENDIX D: CORRECTIVE ACTION PLAN SAMPLE POLICIES

SAMPLE 1: SOUND TRANSIT

1.0   Purpose

To establish policies and procedures related to the monitoring and follow-up of management responses and action plans published from internal audit and consulting engagements.

2.0   Policy

The internal audit division communicates factual findings of the design and operational effectiveness of internal controls and provides management with recommendations for process enhancements. Working with management, action plans are developed, action owners assigned, and implementation dates are set. While ownership of implementation belongs to management, internal audit must perform follow-up on a timely basis to confirm that planned actions will address the audit issues and are implemented.

A tracking system must be in place to monitor the implementation status of action plans resulting from internal audit division findings and recommendations. The tracking system should provide all the necessary information and reports to meet the needs of the engagement team to monitor the status of all matters reported and to prepare reports for management and the Audit Committee to meet their expectations.

The internal audit division must follow-up on the status of all overdue actions that management has promised to take in response to audit findings and recommendations. Once management reports that appropriate actions have been taken, division leadership must work with management to consider what action, if any, should be taken to examine whether the corrective actions and remediation plans have been effectively designed and are operating effectively.

3.0   References

3.1   IIA Standard 2500 – Monitoring Progress: "The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management."

3.2   IIA Practice Advisory 2500-1 – Monitoring Progress.

3.3   IIA Practice Advisory 2500-A1 – Follow-up Process: "The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."

3.4   IA Procedure # 7 – Supervision

4.0   Scope

This policy applies to all engagement results reported from the internal audit division that require management response and action.

5.0   Objectives

To ensure the internal audit division requirements for monitoring the progress related to the management responses align with industry standards, and to ensure that audit staff and contractors adhere to management action plans that were reported in engagement reports.

6.0   Definitions

N/A

7.0   Procedures

The Internal Audit Director (or staff designate) must perform the following procedures for each internal audit or consulting engagement to validate that management is responding to engagement results timely and is adhering to agreed-upon action steps:

7.1   For each engagement, communicate the required action plan dates to management.

7.2   Enter engagement results and action plan commitment dates that require follow-up into the Management Response Tracking sheet.

7.3   At appropriate intervals, send reminders to management and track response received in the Management Response Tracking sheet.

7.4   When management indicates that action plans have been implemented, work with key stakeholders to determine the appropriate actions to take to validate that actions taken are working as intended and mitigate the risk they were intended.

7.5   Provide executive leadership and the audit committee with updates on progress, including incomplete action plans and those that have been completed (see IA Reporting policy for more detail).

SAMPLE 2: UNIVERSITY OF ARIZONA

6.11 Audit Management

Audit Recommendations and Corrective Action: Recommendations for improvement provided by the auditors or actions identified in the final report to resolve audit findings.

a. Actions are to be completed by the audited department or administrative unit. Upon completion, notify the Audit Coordinator or designee.

b. Depending on the nature and severity of the recommendation or corrective action, the department or administrative unit may be asked to provide status reports of all unresolved audit findings to the Audit Coordinator or designee. The Audit Coordinator or designee may advise the Audit Liaison Official of any required corrective actions for which resolution or adequate progress towards resolution has not been achieved or are beyond reasonable institutional resources to resolve.

c. The Audit Liaison Official or designee may notify the responsible vice president or department head of unresolved audit findings and, if appropriate, recommendations for making progress toward resolution.

d. Every effort should be made to take corrective action and implement recommendations within six months of the issue date of the report.

APPENDIX E: WHISTLEBLOWER COMPLAINT TRIAGE AND ESCALATION SAMPLE POLICIES

SAMPLE 1: WILLIAM AND MARY

I. Scope

This policy applies to William & Mary, including the Virginia Institute of Marine Science (the "university"). It applies to all reports about compliance matters (as defined below) made by students and employees of all types (including faculty), and volunteers.

This policy does not replace or supersede existing mechanisms such as (for example):

- **Faculty Handbook** procedures for addressing allegations of faculty misconduct,
- Procedures outlined in the **Student Code of Conduct** and **Honor Code** for addressing complaints against students,
- Commonwealth grievance procedure or university policies and procedures addressing allegations of **discrimination or discriminatory harassment**, or
- The **Virginia Fraud, Abuse and Waste Hotline**.

II. Purpose

The university is committed to complying with all applicable laws and regulations as well as university and applicable state policies and procedures. As part of its compliance and ethics program, the university has established the following policy to encourage reporting of unethical behavior or other misconduct. This policy also complies with the **Fraud and Whistle Blower Protection Act**, Title 2.2, Chapter 30.1 of the Code of Virginia.

III. Definitions

Compliance matters:

- failure to comply with applicable federal or state laws, regulations;
- failure to comply with university policies or procedures; and
- conflicts of interest, fraud and other ethical breaches by university employees.

Good faith report:

Any report of a compliance matter that is made without malice and that the person making the report has reasonable cause to believe is true. [1]

Report:

Any complaint, allegation, report, or concern of a compliance matter made under this procedure.

IV. Procedure

A. Making Complaints; Filing Reports.

Employees are encouraged to raise concerns with their immediate supervisor. If the concern is regarding their immediate supervisor, they are encouraged to report to the Compliance Office,

Internal Audit or Human Resources as appropriate. Supervisors or other university offices receiving compliance reports should contact the Compliance Office, Internal Audit or Human Resources to determine next steps and should not investigate the matter themselves.

Employees and others are always free to report to the Compliance Office or to one of the following offices, if appropriate:

- **Internal Audit** – for complaints regarding fraud, waste, and abuse, or other concerns regarding financial reporting, auditing compliance, internal financial controls.
- **Vice Provost for Research** – for complaints regarding research misconduct, grants compliance.
- **Human Resources** – for complaints regarding compliance with personnel policies such as processing of leave, performance evaluations and pay.

Reports may be made by phone, email, regular mail or in person to the Compliance Office:

Office of Compliance & Equity
William & Mary
James Blair Hall, First Floor, Suite 110 *(secure dropbox available for anonymous reporting)*
Williamsburg, VA 23185
reportconcern@wm.edu

Certain reports may also be made to external agencies or regulators.
See **www.wm.edu/compliance/employeecomplaints/** for a list of reporting mechanisms.

B. Initial Assessment of Reports.

The report will be assessed by the Compliance Office in consultation with appropriate university officials to determine whether it is actionable and whether it should be referred. Examples of non-actionable reports include:

- Reports regarding conduct over which William & Mary does not have jurisdiction, such as off-campus conduct by an employee outside the scope of his university position.
- Reports that do not provide enough information.
- Reports of conduct that occurred more than a year prior. Note that the university may make exceptions to this general rule, depending primarily on the severity of the reported misconduct and the ability of the university to investigate it.
- Reports that do not, as alleged, present significant compliance concerns.
- Reports made in bad faith.

Reports that will be referred are those for which there is a dedicated policy or procedure, such as complaints against faculty, which are subject to the Faculty Handbook, or complaints that are more appropriately handled through the university's processes for discipline or performance management. The Compliance Office will either refer the matter or provide the complainant with information on the appropriate process. (Some processes, such as the state's grievance procedure, require the complainant to file the complaint him- or herself.) For matters referred internally, the Compliance Office typically will monitor the disposition.

Any report of fraud, waste or abuse will be reviewed by Internal Audit and reported to the state if required under state law. **[2]**

The initial assessment is not subject to appeal under this procedure.

C. Investigation.

Actionable reports typically will be investigated by the Compliance Office or Internal Audit. Interim measures may be taken to prevention retaliation or to facilitate effective investigation. Investigation findings typically shall be made available to the Provost and Chief Human Resources Officer.

The Compliance Office will work with senior management to ensure that prompt and appropriate corrective action is taken when and as needed, in compliance with any applicable personnel policies. [3] Employees will be given an opportunity to review and respond to relevant evidence prior to any disciplinary action being taken.

Compliance and Internal Audit, with accountability for confidentiality and safeguarding records and information, are authorized full, free and unrestricted access to any and all of the university's records, physical properties and personnel pertinent to carrying out any investigation. Employees are required to cooperate with any investigation under this procedure.

D. Confidentiality and Protections for Whistleblowers.

Confidentiality will be maintained to the fullest extent possible, consistent with the need to conduct an adequate review. Complaints may be submitted anonymously, but full investigation and remediation of anonymous complaints may not be possible.

The university absolutely prohibits retaliation against any student or employee submitting a complaint in good faith, or from participating in a compliance investigation in good faith. This means, for example, that the university will not discipline, discharge, demote, suspend, threaten, discriminate against or harass any such individual based on their good faith reporting under this procedure. [4] Any retaliation that occurs should be reported promptly to the investigator or Compliance Office.

E. Reporting and Retention of Records of Reports and Investigations.

The Compliance Office will maintain a log of all reports, tracking their receipt, investigation and resolution.

V. Authority and Amendment

This policy was originally published by the Chief Compliance Officer July 1, 2011. Minor amendments were made in 2012 and 2013. It was amended to provide examples of non-actionable reports, expand the retaliation protection provisions, change the policy name and provide additional detail regarding investigations effective January 25, 2017.

SAMPLE 2: CARIBOO-CHILCOTIN SCHOOL DISTRICT

Policy 4112

F. Investigation

1. Upon receiving a complaint, the Superintendent or Secretary Treasurer will record the receipt of the complaint and determine whether the matter is, in fact, a Reportable Activity under this Policy.

2. If the Superintendent or Secretary Treasurer determines that the complaint is a legitimate Reportable Activity, he or she will open a file and commence an investigation.

3. The investigation generally will include, but will not be limited to, discussions with the reporting employee, the party against whom the allegations have been made and witnesses, as appropriate. Employees shall not obstruct or impede any investigation. Reasonable actions will be taken to prevent retaliation against anyone making a good faith report or participating in an investigation.

4. a) The Superintendent or Secretary Treasurer may enlist Senior Management and / or outside legal, accounting or other advisors, as appropriate, to assist in conducting any investigation. All investigators shall be independent and unbiased both in fact and appearance. Investigators have a duty of fairness, objectivity, thoroughness and observance of legal and professional standards.

   b) The Superintendent or Secretary Treasurer will enlist the appropriate outside legal, accounting or other advisor to conduct any investigation, when investigating senior management (including principals and vice-principals). All investigators shall be independent and unbiased both in fact and appearance. Investigators have a duty of fairness, objectivity, thoroughness and observance of legal and professional standards.

5. It is the obligation of all employees to cooperate in any investigation. Those responsible for the investigation will maintain confidentiality of the allegations and the identity of the person involved, subject to the need to conduct a full and impartial investigation and remedy any violations of law or the Board's policies.

6. If an investigation establishes that an employee has engaged in improper activity or reportable activity, the Board will take immediate and appropriate corrective action