



**DATE:** March 2, 2011

**TO:** Bill Kowba, Superintendent

**FROM:** Jenny Salkeld, Controller *JS*  
Stephen Carr, Interim Director of Audits and Investigations *SC*  
Katherine Allison, Associate General Counsel *KA*

**SUBJECT:** Internal Audits – Roles and Responsibilities

---

You requested information regarding public sector internal auditing generally, including training and credential recommendations, reporting relationships, accountability, and expectations. You also requested an assessment of large public urban school districts' internal auditing operations, both within California and across the nation. In preparation of this report, five large urban school districts were contacted and studied to determine the existence of internal audits and its placement within these districts' organization, staffing skills, workload, and chain of command. Information gained from these interviews, as well as a review of the respective districts' polices and charters, is incorporated herein. Further, staff collaborated to include best practices and guidelines issued by relevant internal auditing organizations and feedback provided to staff by Trustee Barnett and Audit and Finance Committee member Bill Wright.

### **San Diego Unified Internal Audit Background**

San Diego Unified School District ("SDUSD") is required to have an Internal Audit function to meet the requirements of being an independent school district. The Board of Education's Bylaw 1019 provides:

The Internal Audit is an independent evaluation function to assure the Board of Education that internal controls of the District, District operational policies and District procedures are sufficient, effective and meet all necessary requirements of due diligence in safeguarding public funds, public assets and private donations received by the District. Toward this end, the Internal Auditor plans the development and implementation of an Internal Audit Program designed to examine and evaluate District activities and to provide the Board of Education with written reports containing analyses, appraisals and recommendations concerning the activities reviewed.

Similarly, SDUSD Administrative Procedure 2370 ("AP 2370") governs Internal Audits. (Ex. 1.) However, this policy was last revised in 2003 and still reflects the District's previous organizational structure. For instance, it states that the internal audit director reports directly to the chief of staff and plans the development and implementation of an internal audit program. In addition to allocating responsibility for federal, state, and local audits, under AP 2370, the internal audits department is responsible for staff training, recommendations for control and policy, and special audits commissioned at the request of management employees within their respective areas of responsibility and approved by the Superintendent.

This procedure provides that the Internal Audit Department must, in performance of duties, have access to all District files and records and to management employees and other staff involved in programs and activities subject to audit. On the SDUSD website, the Audits and Investigations Department is described as performing an independent appraisal function within the District, charged with developing and implementing an internal audit program designed to examine and evaluate District activities. (Ex. 2.) The department also investigates and resolves calls made to the District fraud hotline.

Both our online description of the department and the administrative procedure require updating, primarily to reflect District organizational changes.

### Organizational Background

SDUSD has had an internal auditor since the early 1970's. The department has grown from one internal auditor to five auditors, one investigator, and one director of audits and investigations. The three audit managers have particular areas of expertise; however they are assigned to perform in all operations areas as needed: Information Systems Audit Manager, Operations Audit Manager, Special Education Audit Manager, and two Operations Auditors. (Ex. 3.) Despite the department's growth over the years, the demand for internal auditors remains. For instance, the annual audit plan mandated in the Board Bylaws and Administrative Procedure has frequently gone uncompleted as a result of more pressing "special audits" commissioned by management employees and approved by the Superintendent.

In addition to inter-departmental changes, the audit department's location within our District's organizational structure has varied slightly. Below, please find a table indicating the reporting change for the internal auditing function since 1999. (See also, Ex. 4.)

Year	Location
2010-2011	Audits/Investigations reports to General Counsel, who reports jointly to the Superintendent (Kowba) and Board
2009-2010	Audits/Investigations reports to General Counsel who reports jointly to Superintendent (Grier) and Board
2007-2008	Audits/Investigations reports jointly to General Counsel and Board (Superintendent Kowba, Interim)
2007-2008	Audits/Investigations reports to General Counsel who reports jointly to Superintendent (Cohn) and Board
2004-2005	Internal Audit reports to Chief of Staff (General Counsel also reports to Chief of Staff (Superintendent Bersin)
2001-2002	Internal Audit reports to Chief of Staff (General Counsel also reports to Chief of Staff (Superintendent Bersin)
1999-2000	Internal Audit reports to General Counsel who reports to Superintendent (Bersin)

## **Director, Internal Audits**

Following the formation of this work group, the former Director of Audits and Investigations retired. Consequently, the internal audit work group was directed to evaluate the director position requirements in light of industry standards and compared to persons in equivalent positions in other large urban school districts.

The position description for the SDUSD Director of Audits and Investigations currently requires that the individual have “any combination of training, experience, and/or education equivalent to a bachelor’s degree in accounting or a related field and five years of recent, full-time, paid, progressively responsible financial and systems auditing experience at a supervisory or a management level. Certification as an Internal Auditor is highly desirable.” (Ex. 5.) Otherwise, only a valid California driver’s license is required.

## **Audit and Finance Committee**

Internal Audits receives input from an advisory body, the Audit and Finance Committee. (Ex. 6.) This committee is comprised of five Board-appointed individuals, who meet on a quarterly basis. The purpose of the Audit and Finance Committee is to review and monitor the District’s external audit process and to provide outside professional expertise to the Board of Education and Superintendent.

The Audit and Finance Committee reviews and monitors the timing and scope of internal and external audit activities, the implementation of effective internal controls by District management, the District’s provisional and final budgets, and interim financial reports. One Audit and Finance Committee designee participates with staff in the external audit exit meeting. This committee may also review the District’s internal and external auditors and recommend whether external auditors should be retained or changed.

The Audit and Finance Committee is advisory in nature. Its recommendations regarding audit expectations and other items within its purview are provided in writing to the Board of Education and the Superintendent.

### Internal Auditing of Large Urban School Districts

To develop a broad picture of how other large urban school districts across the nation have organized and placed their internal auditing function, the legal departments and/or auditing departments of the following school districts were contacted: Los Angeles Unified School District, Long Beach Unified School District, San Francisco Unified School District, Charlotte-Mecklenburg School District, and Seattle Public Schools. Additionally, each of these district's policies and organizational charts were reviewed. The amount of information available varied significantly from district to district.

District	Students	Full-Time Employees	Internal Audit Function	Legal Counsel	Audit Supervisor
SDUSD	132,000	15,924	Yes	Yes	Legal Services
LAUSD	1,074,691	68,774	Inspector General	Yes	Board by Virtue of Ed Code
LBUSD	86,283	8,314	Yes	Private Only	Deputy Sup. of Curr., Instruct., & Prof. Dev.
SFUSD	55,140	5,004	General Counsel Only	Yes	N/A
Charlotte-Mecklenburg Schools	135,638	16,017	Yes	Yes?	CFO
Seattle Public Schools	47,000	8,000	Vacant	Yes	CFOO, Board

The reoccurring goal of the directors of these various districts' Internal Audits function is to work *with* the district and its employees to ensure that the District is following procedures and policies and avoiding waste. Overall, this process was represented in a collaborative rather than punitive light; where auditors are as cooperative as possible and approach the situation with the objective of providing assistance to the site. This mentality was consistent where internal audit departments were responsible for investigating substantiated complaints to the District's fraud hotline.

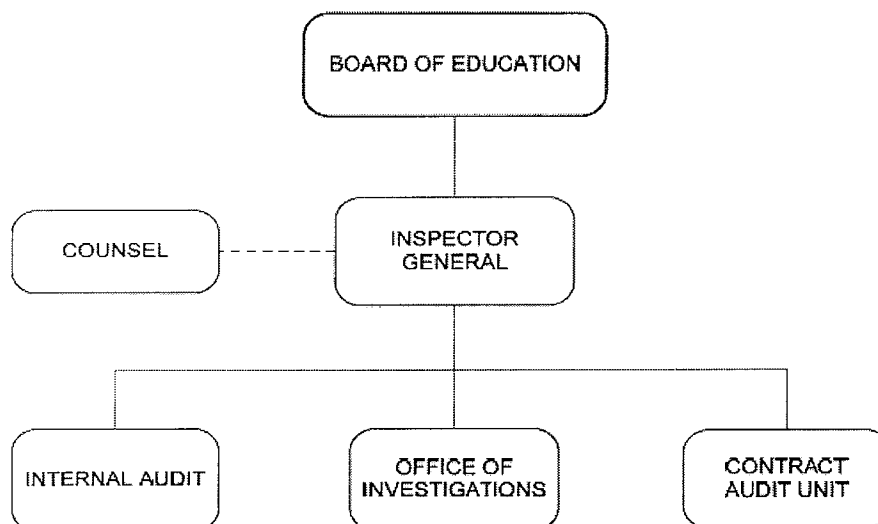
Another important point emphasized by the internal audit directors was the internal auditor's need to feel comfortable reporting directly to the Board under circumstances in which the professional determines that this level of transparency is required. Directors expressed discomfort with departments which report to finance or the Chief Financial Officer, because much of the matters which are investigated can be traced back to the financial division of the respective district. One director also mentioned that it is inadvisable to have investigations in a shared department with audits, as their functions are separate.

## Los Angeles Unified School District

Los Angeles Unified School District (“LAUSD”) is structured unlike other large urban school districts and could not be implemented in SDUSD without legislative changes. Under California Education Code section 35400, et seq, the LAUSD has an independent Inspector General who is authorized to conduct audits and investigations. The Office of the Inspector General is unique in that no other district in the state has an Inspector General and that the Education Code specifically provides the Inspector General with various rights and privileges. For instance, the Inspector General has the right to subpoena witnesses and documents, administer oaths or affirmations, take testimony, and compel the production of all information deemed material and relevant and that reasonably relate to the inquiry or investigation at hand.

Also unlike any other district, the OIG reports directly and solely to the Board. This reporting structure gives the OIG significant independence from District managers and staff which is critical since there is a natural tendency for managers and supervisors to be protective of the programs that they administer. In some cases, the discovery of waste, mismanagement or wrongdoing may reflect on the manager personally. Even when this is not the case, revelations of waste or wrongdoing may still adversely affect the program involved by undercutting the support of the Board, Superintendent, the public, or all of these stakeholders. Given these circumstances, managers and supervisors are often reluctant to come forward with evidence of failings in the programs they administer. Because of this, the responsibility for auditing and investigating is assigned to individuals with clear and unrestricted independence from District managers. The unique arrangement of LAUSD’s OIG was a response to years of extreme corruption.

The Office of the Inspector General is divided into three sub-departments, each headed by a deputy inspector general. These three sub-departments are internal audit, contract audit, and investigations. This report focuses on the Internal Audit Department.



Value can be added to an organization through reducing control risk, by increasing efficiency of operations, or by recommending more effective techniques to accomplish a task. As such, the primary purpose of the internal auditing function is, or should be, to mitigate business risk through the conducting of audits as a service to the organization.

Internal Audit conducts performance audits of non-facilities related programs and systems to evaluate their efficiency and effectiveness, to review their internal controls and risk management mechanisms, and to determine if they are operating in accordance with applicable laws and regulations, contract terms and conditions, and District policies and procedures.

The LAUSD is responsible for preparing an annual audit plan based on an entity-wide risk assessment which considers risks related to compliance, internal control issues and the district's goals. The internal audit department informs management of identified risks so that preventative action can be taken and reviews the District's financial control mechanisms to recommend cost-effective improvements. Department functions further include review of attendance, time reporting, financial records, electronic data processing, BB bond funds, and enrollment.

Further, the audits department develops appropriate procedures and training for audit staff. The department may test whether the District's records comply with grant compliance requirements, verify that the managers of student body and cafeteria funds have followed proper procedures, and advise the Board of Education regarding effective methods of contracting, including the selection process and awarding of contracts.

The audits department further advises the Board of Education regarding the appropriate level and kinds of resources needed to carry out the audit function, improve internal controls, and detect and prevent fraud. The overall goal of the audit process is to maintain an open channel of communication between the auditors and district officials to ensure that audit findings are accurate and fairly presented in the audit report.

The audit process for performance audits includes the following steps:

Audit Planning.	Each year an annual work plan is developed and distributed to appropriate parties. It contains a listing of the proposed audits to be initiated during the year.
Audit Notification	We notify district personnel in writing that an audit is scheduled to start. A point of contact and a date for an entrance conference are both established.
Entrance Conference	After written notification, a meeting is held to inform district personnel of the purpose, objectives, and scope of the audit and the methodology to be followed.

Audit Field Work.	A detailed evaluation is conducted of the program, activity, or function using an audit program developed specifically to address the audit objectives.
Tentative Findings & Recommendations	During the fieldwork phase, auditors submit tentative findings and recommendations to district staff for review and comment. The administrator is allowed 15 calendar days to provide a written response on the facts, conclusions, recommendations, and reasonableness of any potential monetary benefits.
Draft Report	After receiving district staff's response to the tentative findings and recommendations, we paraphrase those comments and include them in the draft report. The verbatim comments also are included as an annex to the report. We provide district staff with the draft report for final review and comment.
Exit Conference	After the draft report is issued, a formal conference is held with district staff personnel to discuss and resolve outstanding issues, such as to correct any misinterpretations or misunderstanding of the facts.
Final Audit Report	The final report is issued after the exit conference. If District staff and the Inspector General are unable to resolve disagreements regarding any audit findings or recommendations, the OIG will request that the Superintendent, or his designee, hold a mediation meeting to resolve the disagreements.
Audit Follow-Up	This process is used to ensure that recommendations made to management are implemented.

### **Long Beach Unified School District**

The Long Beach Unified School District ("LBUSD") Audits Branch falls under the Deputy Superintendent of Curriculum, Instruction, and Professional Development. Due to conflict of interest concerns, the Audits Branch intentionally does not directly report to finance; however Audits nevertheless works closely with the finance department. Additionally, LBUSD Audits reports out to their advisory committee.

Similar to SDUSD, LBUSD formerly structured audits department as just one staff member who reported to the business department, which includes the finance division. As the department has grown (now three) and its focus has expanded from ASB, the reporting has evolved.

The Director of the Audits Branch is Susan Livesay. She has over twenty-five years of experience in finance and thirteen years of experience in management. Additionally, she is a Certified Public Accountant. Ms. Livesay reports to the Deputy Superintendent for day-to-day

matters. For high-profile or highly-sensitive matters, Ms. Livesay can report directly to the Board.

As required by law and through accepted business and financial practices, the department audits and reports on various District procedures and activities. The subjects of the department's audits include: attendance (ADA), associated student body account (ASB), District equipment inventory and inventory of fixed assets (Nutrition Services, Maintenance, Purchasing Warehouse). The Audit Branch also maintains the security system for the District's Payroll/Personnel and Financial systems. External audits for Federal and State agencies and independent audit studies are coordinated and scheduled through this office.

Also similar to SDUSD, LBSD maintains a fraud hotline which is manned by a private company. The private company evaluates the concern, researches it to ensure that the report is valid, and then reports concerns warranting investigation to the Audit Director. How the complaint is handled internally depends on its nature. For instance, if it is criminal, they report the matter to the police. If the concern is highly-sensitive, executive staff are consulted. If the misconduct is fiscally-related, the Audits Branch investigates.

### **San Francisco Unified School District**

San Francisco Unified School District ("SFUSD") does not have an audits division or internal audit branch, but is in the process of looking to add one. Rather than having an investigations division, they hire a private investigator who reports to legal. SFUSD contracts with additional investigators when necessary. Legal reviews documents for investigative purposes as needed and currently conducts audits as needed.

While SFUSD representatives report that investigative and auditing functions are performed internally, they do not currently have similar analogous structures or departments. SFUSD maintains a fraud hotline and an email tip line. This hotline is reviewed and addressed by the SFUSD's legal department.

### **Charlotte-Mecklenburg Schools**

The Charlotte-Mecklenburg Schools Director of the Accounting and Auditing Department is Betty Mattos. She holds a CPA, which is required. She received her Master's Degree in Business Administration with a concentration in Human Relations and her Bachelors of Science in Accounting. Ms. Mattos currently has over twenty years of work experience in the field of finance and between twelve and fifteen years of experience as a manager.

Charlotte-Mecklenburg does not maintain an anonymous fraud hotline, but have considered implementing one. Associated costs and a lack of personnel to staff the line and properly follow up on complaints are the main reasons they have not yet implemented such a system.

The Accounting and Auditing Department has two senior auditors and four regular auditors. All six auditors report the Director of Accounting and Auditing. The Director of Accounting and Auditing reports to the Executive Director of Financial Services, who reports to the Chief Financial Officer. The Chief Financial Officer reports directly to the Superintendent.



As a consequence of the department's position within the district's structure, the department would never investigate internal problems above Accounting and Auditing in the chain of command. However, the department does have the occasion to investigate potential problems in other departments laterally. When issues arise at a higher level, the audit and/or investigation is contracted out to a private firm.

The auditors at Charlotte-Mecklenburg are responsible for an annual district-wide audit. Preparation of this audit consumes most of the six-member department's time. Each auditor is responsible for auditing a number of schools. The schools assigned to each individual rotate every two to three years to ensure impartiality. Also to ensure consistency within the department and neutrality of investigations, the auditing team meets each month to discuss their relationships with school financial staff and principals. To date, none of their reports have been challenged.

The auditing staff also conducts audits by request, known as "special audits." For instance, if a principal suspects waste or wrongdoing, he or she may contact the department and request an audit. This report would be provided directly to the principal. The Accounting and Auditing Department brings only the annual audit to their Board of Education. Other audits performed by request are delivered directly to the requestor. If, in the course of an investigation, the auditor suspects that a personnel issue may exist, that portion of the investigation is immediately turned over to the Human Relations Department. Accordingly, the Accounting and Auditing Department's review is limited to financial records and functions.

Internal audits in Charlotte-Mecklenburg are authorized by Board Policy. Auditors have access to any information necessary for them to complete their report. Each time an audit is conducted, the site manager is provided with ten days to provide an audit letter and response to the audit draft, which is thereafter incorporated into the audit report. Additionally, the staff undergoing the audit performs a written review of the auditor.

### **Seattle Public Schools**

Although Seattle Public Schools ("SPS") has an internal auditor position, it is currently vacant and district representatives indicated that they have not internally agreed whether or not to fill the internal auditor position. Most recently, SPS had one internal auditor who reported directly to the Chief Financial and Operations Officer. Additionally, the internal auditor reported to SPS's advisory Audit and Finance Committee. Unlike most districts, the Audit and Finance Committee Chairperson has oversight responsibility for the District's Internal Audit function.

The Seattle Board policy states that the district's internal auditing function was implemented to support and promote openness and transparency with respect to financial management of the district. Based on the internal audit charter, the Internal Auditor provides the Board, the Superintendent, and management with analysis, appraisals, recommendations, advice, and other information concerning the activities reviewed. An annual risk assessment, annual audit plan, quarterly report, and annual audits and findings are also conducted.

The minimum qualifications for the Internal Auditor position include: Bachelor's degree in Business, Public Administration, Accounting Finance or closely related field; with preferred education as a Master's degree in Business, Public Administration, Accounting or Finance; five years of experience in Budget, Finance or Accounting, which must include three years' experience as a public sector auditor, and certification as a Public Accountant (CPA) or a Certified Internal Auditor (CIA). The recent retirement of the formal internal auditor for Seattle Public Schools came shortly after receiving the district's worst state-initiated audit to date.

The Internal Auditor has the authority to conduct financial and operational audits or reviews of all departments, offices, activities, and programs under the control of the Board and expenditures incurred by the District. To carry out these responsibilities, the Seattle Public Schools Internal Auditor has the following authority:

- Complete and unrestricted access to all District records, documents, and files in any form;
- Authority to request reasonable assistance from appropriate personnel in acquiring requested records, documents, and files;
- Inspection privileges to all assets owned, leased, or borrowed by the District;
- Ability to request reasonable assistance from appropriate personnel in locating assets owned, leased, or borrowed by the District;
- Entry privileges to any and all facilities used by the District;
- Unrestricted interview privileges, both written and oral, with all District management, staff, and employees; and,
- The Internal Auditor shall have access to all records of the District and shall maintain confidentiality of those records.

The charter emphasizes that the internal auditor "may have neither direct responsibility for, nor authority over, any of the activities under review, and therefore the Internal Auditor shall maintain independence in both fact and appearance."

Seattle's charter describes specific stages to reporting on audits as follows:

- 1) Draft observations and recommendations, will be discussed with the department
- 2) This information, along with management's remediation plan for recommendations, will then be included in a draft report and presented in a final exit meeting with the department head.
- 3) The department head will provide a response for inclusion in the executive Summary of the Audit Report. The report will then be considered final and will be distributed to executive management and the Audit/Finance Committee.
- 4) The status of any outstanding recommendations will be reported to the Audit/Finance Committee directly.

## **Internal Audit Department Structure and Organization**

Internal Audits is part of an agency's quality assurance mechanism; the department is responsible for checking internal controls and reporting to management, who in turn designs and implements these controls. The function of internal audits is to provide the organization's management with information about the adequacy and effectiveness of the organization's system of internal operational and accounting controls and the quality of operating performance when compared with established standards. Additionally, this department ensures that risks to the organization are understood and managed appropriately.

Internal auditing is an independent, objective assurance and consulting activity intended to add value to and improve the organization's operation. Although the internal auditor serves as in-house consultant in many areas, he or she enjoys a high degree of independence and avoids any activity that an internal auditor would normally be expected to review or appraise.

In public agencies, the internal auditor's function is ultimately to work with the agency to provide critical information to management regarding the agency's performance. To accomplish this task, internal auditors should have unfettered access to the agency's documents, records, and property. In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

Such independence is vital to insuring that auditor opinions, findings, conclusions, judgments, and recommendations are impartial and viewed as such by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the auditors are unable to maintain independence and thus are incapable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

To develop an understanding of the best practices and standards related to public sector internal auditing and the recommended qualifications for the director of an internal auditing department, the internal audit work group reviewed the Audit Guide issued by the California Department of Education ("CDE"), selected financial statement and reporting standards issued by the Governmental Accounting Standards Board (GASB), and the Generally Accepted Government Auditing Standards ("GAGAS").

### **Guidance from the California Department of Education**

California Department of Education ("CDE") issues an Audit Guide, most recently released in June 2010, as a resource for audit requirements and guidance applicable to certain state and federal programs operated by private and public organizations under agreements with CDE. (Ex. 7.) These standards attach to many categorically-funded programs. The CDE Audit Guide states that it should be used by independent auditors in conducting audits of state and federal programs. The guide is used as a resource to assure audit steps provide adequate coverage of an examined function. It is designed to supplement audit procedures and standards necessary to perform an examination in accordance with (1) Auditing Standards

Generally Accepted in the United States of America, (2) Government Auditing Standards (GAS) issued by the Comptroller General of the United States, and (3) applicable Office of Management and Budget Circulars.

Section 140 of the Guide addresses Auditor Qualifications. Although these qualifications are directed toward independent annual auditors, they provide some guidance regarding the State's standards. The Auditor must have one of the following: (a) Certified Public Accountant (CPA) licensed by the California Board of Accountancy, (b) Public accountant (PA) licensed on or before December 31, 1970 by the California Board of Accountancy, (c) Internal audit unit of contractor that is not the subject to the discretion or authority of the manager responsible for the programs subject to the CDE Audit Guide, or (d) A&I, State Auditor, State Controller, and other comparable audit group that is independent of the auditee.

### **Government Accounting Standards Board**

The California Education Code section 41010 provides in part that financial affairs of school districts shall be in accordance with the California School Accounting Manual, as approved by the State Board of Education. Section 7370 of this manual states:

*“Internal Auditing (Optional). Activities concerned with verifying the account records, which include evaluating the adequacy of the internal control system, verifying and safeguarding assets, reviewing the reliability of the accounting and reporting systems, and ascertaining compliance with established policies and procedures.”*

The manual further provides that “[a]ccounting personnel should be familiar with the principles and statements issued by the Governmental Accounting Standards Board (GASB), which is recognized nationally as the primary standard-setting body for governmental accounting. The principles and statements of GASB are available in its publication titled *Codification of Governmental Accounting and Financial Reporting Standards*.” Only selected portions of this Board's publications are available to the public online. (Ex. 8.)

### **Generally Accepted Government Auditing Standards (“GAGAS”)**

The Government Accountability Office (GAO) produces the GAGAS, which are more commonly referred to as the “Yellow Book.” Specific to government agencies, these standards apply to both financial and performance audits. There are five general standards: independence, due care, continuing professional education, supervision, and quality control. For the purposes of this report, we focused our evaluation on the general standard of independence.

Audit departments that report to third parties external to the entity under audit are considered by the GAGAS to be external audit organizations. Audit organizations that are accountable to top management and those charged with governance of the audited entity, and do not generally issue their reports to third parties external to the entity under audit, are considered internal audit organizations.

Under GAGAS, internal auditors who work under the direction of the audited entity's management are considered independent where the head of the audit department meets the following criteria:

1. Is accountable to the head or deputy head of the government entity or to those charged with governance,
2. Reports the audits both to the head or deputy head of the government entity and to those charged with governance,
3. Is located organizationally outside the staff or line-management function of the unit under audit,
4. Has access to those charged with governance, and
5. Is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. (See section 3.31.)

We applied these criteria to the current organization structure of SDUSD's internal audit function to evaluate various reporting and structural placement options.

### **Training and Credentials of Internal Audit Directors**

To prepare recommendations regarding the training, qualifications, and experience expected of the Director of the Internal Audits Department, the work group reviewed auditing industry journal articles, the District's current job description, and the qualifications of the auditing departments contacted for other large urban school districts.

### **Internal Audit Director Recommended Qualifications**

Harrington (2004)<sup>1</sup> identifies attributes that organizations should look for when hiring a director of internal audit. While the ideal candidate may not have all of these recommendations, he or she should have as many as possible. Harrington recommends that the internal auditing director should have the following qualifications:

- Have an undergraduate degree in accounting or related field (MBA preferred),
- Have five to fifteen years of experience in internal auditing,
- Hold a certified public accountant (CPA) designation,
- Also hold some other professional designation such as a certified internal auditor (CIA),
- Have experience interacting with upper management and the governing board,
- Have ability to manage and motivate staff of financial professionals,
- Have Big Four audit experience as well as finance and accounting background,
- Have experience in handling internal controls,
- Have strong computer skills including financial systems and databases,

---

<sup>1</sup> Harrington, C. (2004, September). "Internal Audit's New Role." *Journal of Accountancy*, 198 (3):65-70.

- Have proficiency in accounting and auditing computer software,
- Have evidence of high-level personal and professional ethics,
- Have evidence of solid analytical and problem-solving skills, and
- Have evidence of strong written and oral communication skills.

Generally, there is far less literature available regarding internal auditors' activities for public organizations. However, the work group observed that SDUSD's position requirements are generally less rigorous than the qualifications of the other school districts surveyed for the preparation of this report.

### **Recommendations**

The internal audit work group recommends updating and changing the Director of Internal Audits and Investigations job description and requirements and District Administrative Procedure 2370: Internal Audits.

### **Position Description**

Recommendations regarding changes to the position description and requirements for the Director of Internal Audits and Investigations are reflected in a redlined version of the position description and were based on the interviews and qualifications of persons in equivalent positions in other districts and industry recommendations. (See Ex. 5.) The significant changes concern the management of Fraud Hotline calls, the educational background, certification, and managerial experience.

This work group recommends that Fraud Hotline calls be managed by a committee comprised of the heads of the Audits and Investigations Department and the Human Resource Services Division. A financial representative may also be an appropriate addition to the committee. Calls received from the third-party call administrator are currently received by the Director of Audits and Investigations, distributed to Human Resource Services Division for assignment and/or investigation where appropriate, or to Legal Services if high profile and potentially a matter that should be deferred to an outside firm for investigation. The Fraud Hotline has generated approximately 519 since September 1, 2006. The volume of reports to the Fraud Hotline prohibits District auditors and investigators from timely addressing all concerns. Currently, there are approximately 151 open cases pending investigation.

The current position description for the Director of Audits and Investigations requires "[a]ny combination of training, experience, and/or education equivalent to a bachelor's degree in accounting or a related field and five years of recent, full-time, paid, progressively responsible financial and systems auditing experience at a supervisory or management level." Though "[c]ertification as an Internal Auditor is highly desirable," it is not required.

The authors of this report unanimously concluded that a bachelor's degree in accounting or a related field should be a requirement and that the managerial requirement should specify not merely five years in a manager-level position, but at least five years' experience managing auditors. The work group's recommendation specifies that candidates shall have "five years of experience managing audit staff inclusive of hiring, disciplining, directing staff, evaluating staff,

training staff and developing and managing the department budget.” Further, candidates must be certified in a discipline related to internal auditing.

These increased requirements will ensure applicants are not only experienced and dedicated auditors, but will also excel as adept members of the management team and strong leaders of the Audits and Investigations Department.

### **Administrative Procedure**

After careful consideration of the relevant internal audit best practices, District history, and the practices of similarly-situated school districts, the audit and finance work group recommends updating to the Administrative Procedure governing Internal Audits.

Section 3.16 of the GAGAS emphasizes that an internal auditing department shall meet the required state of independence via the defined reporting and staging of the audit process. SDUSD’s current Administrative Procedure must be updated accordingly. (See Exh. 1.) Ultimately, the Director of Internal Audits shall be accountable to the head or deputy head of the government entity or those charged with governance. Within SDUSD, the Director of Audits must feel comfortable bringing reports to the Board and the Superintendent when appropriate.

The GAGAS further provides that all reports shall be issued to the head of the government entity and to those charged with governance. The District’s current audit department practice is to issue reports to the Board members and the Superintendent. Requests for distribution outside of the organization is reviewed and determined by the Communications Department and/or the Legal Services Department. The work group determined that this practice is compliant with GAGAS standards.

The GAGAS also provides that audits shall be located organizationally outside the staff line-management function of the unit under audit, with access to those charged with governance. Under the current organization, Legal Services administratively manages the Director of Internal Audits. Since Legal Services is also not a line function, this reporting structure does not conflict with GAGAS standards. As emphasized before and as provided in District procedure, the Director of Internal Audits and Investigations shall provide reports directly to the Board members and the Superintendent.

Lastly, the GAGAS independence standards provide that the auditing function should be sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. District concerns regarding the audit function may be addressed through the Audit and Finance Committee. The Committee validates concerns and, if necessary, forwards said concerns to the Board of Education and the Superintendent.

### **Audits and Investigations Department Structure**

Internal audit missions vary widely across different organizations. Some focus on compliance activities, while others focus on operational audits, IT security, or fraud prevention and

detection. In other words, not all departments are the same, and they are often asked to serve different missions within an organization. The appropriate size of the internal audit department should be based on the specific mission of the function and should vary with the scope of internal auditing's mission, the experience of its personnel, the available technology, the control, compliance, and operational audit emphasis, and the geographic areas covered. (For reference, see, Effective Sizing of Internal Audit Departments; IIA Research Foundation).

Although a formal risk assessment for the school year 2011/2012 has not yet been performed, Internal Audit anticipates an increased need for audit presence. The District forecasts reducing staff responsible for providing support functions and services. Staff reductions will result in staff bumping which will negatively impact staff experience. Audit expects a need will arise for increased examination of site completion of necessary tasks. The need for increased review of time and labor processing, ASB compliance, procurement card use, student attendance processing and special education service delivery are areas of initial concern.

Multiple work year reductions have removed sixty-six days from the six person staff work year. The addition of the Fraud Hotline and increased investigative tasks has further reduced time available to perform internal audits.

The Interim Director of the Office of Audits and Investigations is currently developing a risk-based proposal for Internal Audit for the 2011/2012 school year. Management has historically made special requests with frequency that prohibits Internal Audit to carry out proposed annual schedules. The increased demands of the Internal Audit department will effectively diminish the proposed audit schedule.

## **Conclusion**

This work group will present its research, findings, and recommendations to the Audit and Finance Committee on March 9, 2011. Work group members understand that thereafter, the Audit and Finance Committee may similarly make suggestions regarding the roles and responsibilities of the Internal Audits and Investigations Department.