



Office of Internal Audit

Members of the Audit and Finance
Committee and the Superintendent
of Public Education

September, 2016

FISCAL YEAR 2017

Office of Internal Audit Work
Plan for the Period 1 July
2016 through 30 June 2017



28 September 2016

Members, Audit and Finance Committee

Cindy Marten
Superintendent of Public Education
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2682

The Office of Internal Audit (OIA) presents our Annual Work Plan (Plan) for fiscal year 2017 (FY-17). The Plan includes the audits and evaluations that we plan to undertake during the fiscal year. We have selected these projects to assist the San Diego Unified School District (District or SDUSD) in meeting its vision and strategic plan outlined in its *Vision 2020 Statement*.

The Plan includes information on the projects that we will undertake during the year and the resources devoted to evaluating the efficiency, effectiveness and the integrity of the District's programs, functions, and operations. We developed this plan based on our risk assessments and comments provided by the District's managers.

Our Plan includes projects that focus on individual schools and departments in addition to reviewing areas on a District-wide basis. In some of our District wide projects we have combined reviews of schools and departments.

Should you have any questions regarding our Plan or suggestions for future projects, please contact me at jcashmon@sandi.net or 619.725.5696.

John M. Cashmon
Director, Internal Audit

cc: Members, Board of Education
Andra Donovan, Esq., General Counsel
Staci Monreal, Chief of Staff

Office of Internal Audit

Work Plan for Fiscal Year 2017

Continuing Reviews

The projects listed below were in the planning/fieldwork stages as of 30 June 2016. This listing includes the project's title and the general objectives for each project.

- Finance Division: Follow-up Review of the Audit of Medical and Dental Insurance Liabilities – This review was performed to determine the extent of the corrective actions taken on the seven recommendations contained in the report issued in September 2014. As of 30 June 2016, we are awaiting management's comments on this report.
- Finance Division: Management Letter: Employee Medical and Dental Benefits – This report discusses OIA's observations during our follow-up review of the Medical and Dental Insurance Liabilities review. These observations do not warrant inclusion in the follow-up review report, but we believe warrant management's attention. As of 30 June 2016, we are awaiting management's comments on this report.
- Finance Division: District-wide Audit of the Purchase Card Program – The objectives of this audit are to: verify that District complies with the purchase card (P-Card) policies and procedures; validate on a sample basis that the systems of internal controls are effective in the departments and schools using the P-Card, and to validate that P-Card expenses are appropriate. On 30 June 2016 this audit was in the planning/fieldwork stages.
- Finance Division: District-wide Audit of Time and Labor Reporting – This audit reviews the largest single expenditure for the District. The review will examine the system of internal controls for time and labor (T&L) reporting at individual school and departmental sites. We will review the effectiveness of the substitute absence management system (SAMS) in providing data for use in T&L reporting. As of 30 June 2016 this audit was in the planning stage.

Planned Projects for Fiscal Year 2017

The following projects are planned for starting dates during FY-17. The projects are subject to change and may be delayed, deferred till the following fiscal year, or cancelled to address other priority issues and staffing levels. Requests for a project to be cancelled or deferred may come from the Superintendent of Public Education (Superintendent), the Audit and Finance Committee, or the Board of Education. Additionally, the Director, Internal Audit may defer or cancel projects based on conditions that arise during the fiscal year.

OIA included in each project description the planned objectives for the project. The objectives are based on our knowledge of the subject area and a preliminary risk assessment of the organization, program, or function that we intend to audit or evaluate. As we develop better information during the project survey, the objectives will be amended to address the areas that we have identified.

*Information Technology
Services: Access to
District Systems and
User Classes*

Insider threats are a growing concern in the District's ability to secure its information technology systems and assets. Providing access to employees and others, in excess of what is needed to accomplish the requirements of their position can result in unnecessary/unauthorized access to systems and possible data losses or compromises.

A best business practice for granting access is "least privilege"; granting a user only the access necessary to perform their job. To assist in maintaining an environment of "least privilege" organizations will establish user classes. This provides the individuals who perform the same functions and duties the same level of access. This helps to ensure that individuals have the "right level of access".

The questions that this project plans to address are the following:

- Does the District have working controls to ensure that individuals are provided with the "least privilege" access to perform their assigned functions;
- Are controls in place to ensure that access for all individuals who leave are terminated, and appropriately adjusted for those transferring positions;
- Are access levels for both District employees and contractors periodically reviewed by the system's owner to insure appropriate user classes and access levels;
- Are the responsibilities for control over system access defined by the system's owner and Information Technology Support?

Vision 2020 Goal Supported

Goal 1.e – Access to technology and Goal 5.c – The District will be technologically advanced and highly efficient in all divisions to best serve the learning needs of the students.

*Finance Division:
Review of Potential
Improper Payments*

Improper payments are defined as:¹

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods and services not received (except for payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as the result of insufficient or lack of documentation, this payment must also be considered improper.

The Federal government has increased its scrutiny of potential improper payments and included it as a point of emphasis in its *Single Audit Compliance Supplement*. This project will examine the payments made by the District on a sample basis.

The primary objective of the project is to determine whether the District has systems of internal controls in place that minimize the extent of any improper payments. Our other objectives for this project include:

- Determine the extent of any improper payments made during the review period; and
- Determine whether the District has taken appropriate corrective actions to recover any overpayments and to resolve any underpayments.

Vision 2020 Goal Supported

Goal 5.d –Effective long range fiscal planning will result in the District and schools to make multi-year financial and academic plans with confidence.

¹ U.S. Office of Management and Budget; Circular A-123: Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix C, *Requirements for the Effective Estimation and Remediation of Improper Payments*; Washington, DC; October, 2014.

*Finance Division:
Controls over Wire
Transfers*

The District relies on wire transfers for disbursement of payroll, Federal and State taxes, employee benefits, bond payments, and vendor disbursements. Effective controls for these transfers are critical in safeguarding the District's assets. This project will review the controls that are in place with the District's new banking services provider.

The planned objectives for this review are the system of internal controls for the wire transfers sufficient to:

- Provide a reasonable assurance that all wire transfers and any related charges are appropriately documented;
- Verify the controls making effective use of the banking technology provided by the banking services vendor; and
- Determine whether the controls provide a reasonable assurance that the District's assets are safeguarded.

Vision 2020 Goal Supported

Goal 5.c –District will be technologically advanced and highly efficient in all divisions to best serve the learning needs of the students.

*District-wide: Audit of
Selected Contract
Change Orders*

The construction and rehabilitation of school facilities is responsible for a significant portion of the contract change order generated in the District. Also, contract change orders are generated for contracts controlled by other District functions. The change order process can expose the District to operational, programmatic and financial risks.

Several years have passed since OIA conducted a review of construction contract change orders. We have not completed a review of change orders for non-capital projects. This project will examine the controls in both areas.

The planned objectives for this project are: to verify that the systems of internal control for the contract change orders provide a reasonable assurance that:

- District assets are safeguarded;
- Change orders are controlled and approved in compliance with existing policies;
- District takes into account applicable credits in computing the cost of the changes; and
- Work accomplished through a change order is inspected and verified prior to payment.

Vision 2020 Goal Supported

Goal 5.d –Effective long range fiscal planning will result in the District and schools to make multi-year financial and academic plans.

Associated Student Body Funds: Review of Cash Receipts and Disbursements at Selected Schools

OIA developed this project to address (1) control weaknesses reported by the independent public accountants (IPAs) in their review of the SDUSD financial statements; and (2) concerns of the Superintendent of Public Education, Audit and Finance Committee and the Board of Education regarding the operations of the funds.

OIA undertakes this review to provide the Superintendent and the Chief Financial Officer with an indication of the current state of the internal controls at the selected schools and it is an indicator of whether the findings will be repeated.

Hotline Complaints

OIA is tasked with the investigation of complaints received through the District’s Hotline. The Hotline is designed to provide the SDUSD community and the general public with a location to provide reports of potential fraud, waste, and abuse by District staff, contractors and others. These complaints may include a wide range of allegations, and can address school programs, the individual or multiple schools, and District administrative departments, facilities and operations. These complaints provide OIA with insights to areas for future audits and evaluations.

The results of substantiated complaints may be provided to the District’s management for potential corrective actions.

Follow-up of Audit Reports and Recommendations

Conducting follow-ups of prior audit recommendations provides SDUSD management with assurances that the recommendation has been implemented and is effective in resolving the conditions found during the audit. As part of this plan, OIA intends to perform follow-up reviews on audit reports that we issued in prior periods.

Our follow-up reviews may include the following steps to determine the status of the recommendations: (i) inquires of management to determine what steps were taken to implement the recommendation and the status of each of those steps; (ii) selective on site reviews and testing of specific recommendations that were included in one or more audits of the area, and (iii) on site reviews and testing of the corrective actions taken on a single report to determine whether the data reported on the recommendation was reliable and whether the planned corrective actions were implemented as outlined in the response to the audit.

Unplanned Projects

Our work plan is intended to be dynamic and flexible. This allows OIA to respond to changing environments, priorities, and emergent risks. The Superintendent of Public Education, Audit and Finance

Committee, Board of Education and other senior managers may request audits, evaluations, and other projects that are not included or anticipated in this work plan. This category addresses those requests. OIA will evaluate the request and determine whether it should be done immediate or included in the current work plan as a future project. In some instances we may defer these requests to the following year.