

**QUALITY ASSESSMENT REVIEW**  
**OF**  
**CYPRESS-FAIRBANKS ISD**  
**INTERNAL AUDIT DEPARTMENT**

**November 15, 2006**

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## EXECUTIVE SUMMARY

As directed by the Institute of Internal Auditors (IIA), I conducted a quality assessment (QA) of the Internal Audit Department of the Cypress-Fairbanks Independent School District (CFISD). The principal objectives of the QA were to assess the Internal Audit Department's conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the Internal Audit Department's effectiveness in carrying out its mission (as set forth in its charter), and identify opportunities to enhance its management and work processes, as well as its value to CFISD.

As part of the preparation for the QA, the CFISD Internal Auditor prepared a self-assessment of the Internal Audit Department and sent numerous requested documents for my review. I sent surveys and questionnaires to a sample of district executives and former auditees. A summary of these survey results and comments has been provided to the CFISD Internal Auditor (without identifying the individual survey respondents). Prior to the finalization of fieldwork, I visited the CFISD Internal Audit Department to discuss the self-assessment with the Internal Auditor and review selected audit files. I also examined the Internal Audit charter, CFISD organization chart, Internal Audit Department job descriptions and evaluation forms, Policies & Procedures, Risk Assessment, annual Internal Audit work plan, status reports, progress reports, standardized work papers, and Internal Audit employees' time sheets. From selected audit files, I reviewed all documents including planning memos, preliminary surveys, internal control documentation, audit programs, audit work papers and audit reports.

The CFISD Internal Audit Department excels in their use of technology in planning and conducting audits, their use of standardized work papers, as well as thorough and well-documented audit planning and testing. The Department structure is well organized with Policies and Procedures, plans and manuals to direct department operations. The Internal Audit staff is qualified, proficient and knowledgeable in the areas they audit. Most importantly, the Internal Audit staff maintains a good relationship with district management and auditees and is respected for their professionalism and integrity. Therefore, my comments and recommendations are intended to build on this strong foundation already in place in the Internal Audit Department.

These recommendations are divided into two groups:

- Those that concern the Internal Audit Department as a whole and suggest actions by district management. These are included because I believe they will be useful to management and because they impact the effectiveness of the Internal Audit Department and the value it can add to the district.
- Those that relate to the Internal Audit Department's structure, policies and procedures that should be implemented within the Internal Audit Department, with the support of district management.

Highlights of the more significant recommendations are noted below, with details in the main body of the report.



## **PART I – MATTERS FOR CONSIDERATION OF CFISD MANAGEMENT**

1. **Enhance the independence of the Internal Audit Department**, establishing/formalizing its communications to the Board of Trustees, or an Audit Committee of the Board, and more frequent meetings with the Superintendent.
2. **Support/facilitate increased coverage of the District by the Internal Audit Department**, including support for implementing this report's subsequent recommendations that can greatly enhance Internal Audit's effectiveness while minimizing the immediate need for additional resources.

## **PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT DEPARTMENT**

1. **Update Internal Audit Charter** and submit it for approval by the Superintendent and the Board of Trustees.
2. **Update job descriptions and evaluation forms for Internal Audit Department** to include compliance with the *ILA Code of Ethics* and training requirements for each staff member.
3. **Adjust the Internal Audit annual work plan** to identify the types of audit coverage scheduled and to include only the audits that can reasonably be completed in the Internal Audit Department's available contract hours.
4. **Enhance Internal Audit reporting** by completing reports in a more timely manner and including the Internal Auditor's opinion of the area's compliance with laws, standards, policies and procedures.
5. **Expand auditing procedures** to document consideration of fraud risks, evaluation of auditee's management and the status of specific internal controls. In addition, notifying the auditee of the audit start date and expected timeline will be helpful to them and to Internal Audit.
6. **Establish audit follow-up procedures** to monitor and ensure that audit findings have been properly addressed by management.
7. **Develop and implement a quality assurance and improvement program** for the Internal Audit Department.

## **OPINION AS TO CONFORMITY TO THE STANDARDS**

It is my opinion that the Internal Audit Department generally conforms to the following *Standards*:

- 1000 Purpose, Authority and Responsibility,
- 1100 Independence and Objectivity,
- 1200 Proficiency and Due Professional Care,

- 2000 Managing the Internal Audit Activity,
- 2100 Nature of Work,
- 2200 Engagement Planning,
- 2300 Performing the Engagement,
- 2400 Communicating the Results,
- 2600 Resolution of Management’s Acceptance of Risks, although this has not occurred, and
- The IIA’s Code of Ethics,

with opportunities for further improvement in such areas as updating the Internal Audit charter, job descriptions and evaluation forms; audit work plan; auditing procedures and reporting.

It is my opinion that the Internal Audit Department partially conforms to the following *Standards*:

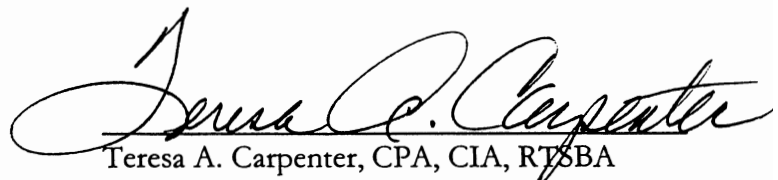
- 1300 Quality Assurance & Improvement Program, and
- 2500 Monitoring Progress,

with more significant opportunities to include an audit opinion in reports, develop a quality assurance program and implement follow-up procedures for auditee’s corrective actions.

I believe this is a reasonable level of conformity, which can be raised to general conformity to all of the *Standards* by implementation of my recommendations.

For purposes of this report, “generally conforms” means that an Internal Audit Department has a charter, policies and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in the report’s recommendations. “Partially conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the Internal Audit Department from performing its responsibilities in an acceptable manner. “Does not conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. The CFISD Internal Audit Department did not have any *Standards* for which this ranking applies.

I appreciate this opportunity to be of service to the Cypress-Fairbanks Independent School District, and will be pleased to respond to further questions concerning this report or to furnish any desired information.



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 Conroe Independent School District  
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## **BACKGROUND**

The IIA's *Standards* require that internal audit departments obtain external quality assessments to evaluate compliance with standards and to appraise the quality of their operations. These assessments are required every five years, with the first one completed prior to January 1, 2007. A periodic external quality assessment of the Internal Audit Department is an essential part of a comprehensive quality assurance program.

The quality assessment for the Cypress-Fairbanks Independent School District's Internal Audit Department was performed during the period October 17-November 20, 2006 in accordance with the IIA quality assurance process as adapted by the Houston Area School District Internal Auditors (HASDIA). The CFISD Internal Auditor agreed to this process.

## **OBSERVATIONS AND RECOMMENDATIONS**

These observations and recommendations originated from the Internal Auditor's self-assessment, comments received from the surveys and questionnaires, interviews with the Internal Auditor and reviews of the Internal Audit files. No significant weaknesses were identified during the review that would prevent the department from fulfilling its responsibilities; however, all observations and recommendations are of direct importance to enhancing effectiveness and added value of the Internal Audit Department.

### **PART I – MATTERS FOR CONSIDERATION OF CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT MANAGEMENT**

#### **1. Enhance independence of the Internal Audit Department**

I mentioned, in my opinion as to conformity to the *Standards*, that the Internal Audit Department's independence and appearance can be improved by strengthening its reporting relationships. In accordance with the guidance for *Standard 1110, Organizational Independence*, the Internal Auditor should report to the Audit Committee, Board of Trustees, or other appropriate governing authority (and have direct, regular communication with that body) and to the chief executive officer of the organization. In June of 2006, the 79<sup>th</sup> Legislature of the State of Texas passed House Bill 1 that requires school districts who employ an internal auditor, to have the auditor report directly to the School Board.

According to an August 19, 1993 memo from the CFISD School Board President and the Superintendent at that time, the CFISD Internal Audit Department's policies and procedures were amended to reflect a change in the department's reporting relationship from the Deputy Superintendent to the Associate Superintendent for Business Services. While the Internal Auditor sends copies of audit plans, status updates, and final reports to the Superintendent and the Board of Trustees (there is no Audit Committee), as well as to the Associate Superintendent for Business Services, there is no direct reporting to either the Superintendent or the Board. This disbursement of information, while helpful, does not constitute adequate "reporting to the Board" mentioned above as guidance on independence.

The Internal Auditor does meet regularly with the Associate Superintendent for Business Services for all organizational and audit issues, and all internal audit work plans and reports receive his approval before they are issued. The Internal Auditor indicates that no scope limitations have been placed on her by the current reporting relationship, and surveys of district management do not mention any impairment to Internal Audit's independence. While the Internal Auditor's relationship with the Associate Superintendent for Business Services is useful due to his experience and expertise in district financial matters, it does not enhance the department's independence

### **Recommendation**

The CFISD Internal Audit Department should report functionally to the Board (or an Audit Committee of the Board should one be established) and administratively to the Superintendent. The Internal Auditor should meet periodically with the Board to discuss audit plans, status of audit work, audit reporting and for the auditor to assist the Trustees in monitoring the district's risks and other significant issues. I believe that more frequent meetings with the Superintendent would strengthen the appearance of independence, as well as the department's visibility and credibility within CFISD. District organization charts should be updated to reflect this changed reporting relationship. The School Board President should cooperate with the Superintendent in evaluating the performance of the Internal Auditor.

After this report was begun, but before it was issued, CFISD decided to change the reporting relationship for the Internal Audit Department. As soon as all details of this change are completed, the Internal Auditor will report to the Board of Trustees and to the Superintendent. I applaud CFISD administration for making this change and hope that the recommendations in this report will be considered in developing this reporting structure and procedures.

### **Internal Auditor's Response**

**CFISD is currently changing the reporting structure of Internal Audit to report functionally to the Board of Trustees and to report administratively to the Superintendent. The district organization chart will also be updated to show this change. The details of how Internal Audit will report to the Superintendent and the meetings that would be held are still being considered. In addition, the Superintendent will evaluate the performance of the Internal Auditor with input received from the Board President. We anticipate that the reporting change will be effective as of January 1, 2007.**

**The Internal Auditor agrees that meeting periodically with the Board of Trustees to discuss various audit plans, work, reports, district's risks, and other significant issues would be very helpful. Since the role of Internal Audit is to address issues before they may become a problem or to determine if a concern exists, many audit issues should be discussed in a closed meeting with the Board. However the current state law concerning open meetings with the Board under Government Code Section 551.001 et. seq. limit the Internal Auditor's ability to meet with the Board of Trustees in closed session. One exception to this law does allow the Internal Auditor to meet**

with the Board concerning legal matters along with the General Counsel. The various issues that need to be communicated to the Board will be analyzed to determine the best means to discuss these items allowed under the current law.

## 2. Support/facilitate increased coverage of the District by the Internal Audit Department

*Standard 2100, Nature of Work*, indicates that the Internal Audit Department should evaluate and contribute to the improvement of risk management, control and governance processes. Risk Management should be addressed by identifying the district's exposures to risk, monitoring and evaluating the district's risk management system and providing feedback to improve the system. Internal Audit should evaluate the effectiveness and efficiency of internal controls and promote continuous improvement. Internal Audit should contribute to the district's governance process by evaluating and recommending improvements to the process through which values and goals are established, communicated, monitored and accountability is ensured.

The risk assessment prepared by CFISD Internal Audit Department identifies 90 possible areas of risk in the district. Of these, the Internal Audit work plans for both 2005/2006 and 2006/2007 include coverage of only one – Pay Rates. A fraud investigation conducted since 2004 also touched on the risk of Activity Funds. External auditors and special auditors do some work in 12 of these areas; however, most of the highest risk areas are not covered at all.

Audit work plans for the past two years show several tasks are repeatedly handled each year: summary of legislative changes, testing of salary and pay rates, sending conflict of interest statements, and reviewing travel expenses of the Superintendent and other administrators. These are very time-consuming, but do not even rank on the risk analysis.

### Recommendation

I recommend that district management support Internal Audit as they either distribute some of these repetitive tasks to other departments or discontinue their place as a part of each year's audit plan.

- Reviewing and summarizing legislative changes made to Board Policies for other administrators can be handled by the Legal Department and simplified by sending out the Legislative Summary that is prepared by TASB and sent along with the changed policies.
- Sending Conflict of Interest forms, and investigating their responses, should be simplified so that Internal Audit can examine reports only on those with disclosures.
- Annually monitoring pay rate calculations for accuracy is a management function that should be handled by the Payroll or Human Resources department. This is an area that could be included on the risk assessment and selected periodically for audit testing, but not on an annual basis.

- Examining travel and entertainment expenditures of the Superintendent and key administrators is another project that can be ranked in the risk assessment and audited periodically. While this audit work is currently required annually, it can be simplified by examining only a sample of expenditures.
- A great deal of work is done for PTOs and Booster Clubs to ensure that they have obtained tax-exempt status, completed accurate financial statements and obtained an audit or review committee report. Audit time spent in these areas should also be reduced and possibly delegated to campus personnel or eliminated from the Internal Audit work plan.

Once these changes are made, the Internal Auditor will be able to develop an annual work plan examining the district's highest risk areas, as evidenced by the detailed risk assessment. In this manner, the district will receive more value and better audit coverage without incurring additional immediate expenses in an already tight budget. I recommend, and this is supported by survey responses from district management, that as soon as it becomes financially possible, allowing the Internal Auditor to fill the open staff auditor position (1/2 time) with a full-time employee. This addition would allow the Internal Audit Department to more quickly and thoroughly audit the areas indicated in the risk assessment and provide more value to the district.

### **Internal Auditor's Response**

For some of the items discussed above, these items were considered required and were not included in the risk assessment performed this fall. However, these projects will be added to the risk assessment in the future. These projects and other projects will be analyzed to determine their need based on the risk assessment and other factors, to determine if they may be delegated to another department, and to determine if work can be reduced and still provide meaningful information to the district. For example, Internal Audit plans to have employees complete conflict of interest forms electronically in the future to reduce the time spent in this area. Internal Audit will work with the Superintendent and management to implement the needed changes to allow more work to be performed in the high risk areas. The audit plan for the year ending June 30, 2008 and for future years will be based on the risk assessment and the analysis of required projects.

## **PART II- ISSUES SPECIFIC TO THE INTERNAL AUDIT DEPARTMENT**

### **1. Update Internal Audit Charter**

The Internal Audit charter is dated December 14, 1992 and its description of Internal Audit's objectives, scope and responsibilities is consistent with IIA recommendations of that time. The *IIA Standards* were revised effective January 1, 2004 to expand and more specifically define Internal Audit's role within the organization.

## **Recommendation**

The Internal Auditor should update the Internal Audit Department's charter to reflect changes in the *IIA Standards* as well as changes in reporting and operating procedures implemented in CFISD. This updated charter should be submitted to the Board of Trustees and the Superintendent for approval. The IIA website offers several model charters that can be helpful in accomplishing this task.

## **Internal Auditor's Response**

**The Internal Audit Charter will be updated to include the most recent changes to the *Standards*, changes in the reporting structure of the department, and changes in operating procedures. The changes to the Charter should be completed by March 2007 with approval by the Superintendent and the Board of Trustees requested by the April 2007 Board Meeting.**

### **2. Update job descriptions and evaluation forms for Internal Audit Department**

The job description for the Internal Auditor position mentions compliance with the IIA *Code of Ethics*, however job descriptions for staff internal audit positions do not mention this. No Internal Audit evaluation forms mention either elements of professionalism from the IIA *Code of Ethics* or training requirements for the given position.

## **Recommendation**

The best method of ensuring that the CFISD Internal Audit staff conforms to the IIA *Code of Ethics* is to include requirements of this *Code* in both the job descriptions and evaluation forms. I recommend that the Internal Auditor update job descriptions and evaluation forms to include familiarity with the *Code of Ethics* and conformity with the elements of professionalism it requires. Training requirements, at least a minimum for each year, should also be added to the job descriptions.

## **Internal Auditor's Response**

**The job descriptions and evaluations for the Internal Audit staff will be revised to include the requirement to abide by the IIA *Code of Ethics*. In addition, training requirements will be added to the job descriptions of the Internal Auditor and the Internal Audit staff. These revisions will be made by May 1, 2007.**

### **3. Adjust the Internal Audit annual work plan**

The annual audit plan for the CFISD Internal Audit Department includes brief descriptions of each area to be audited during the fiscal year. This plan is submitted to the Associate Superintendent for Business Services along with the Board of Trustees and the Superintendent for approval. This audit plan does not include the types of audits planned (reliability and integrity of financial and operating information, safeguarding assets,

compliance, etc.) or the estimated amount of time these audits will require. The Internal Audit plan requires overtime hours just to accomplish the basic plan, without taking into consideration any delays, emergencies or unplanned projects that arise during the year.

### **Recommendation**

In order to tie the annual audit plan to the risk assessment and to Internal Audit Department goals, it should identify not just the title of the audit but also the types of audits to be conducted. This will assist both the Internal Auditor and district management in evaluating the audit coverage planned and the areas where additional assistance may be needed. The Internal Audit plan should be prepared to only include audit work that can reasonably be completed in the available contract hours for the Internal Auditor and her staff. This will allow the Internal Auditor to work with district management to determine if Internal Audit resources are sufficient to provide the level of audit coverage desired, or if audit priorities should be changed.

### **Internal Auditor's Response**

**The annual audit plan will include the type of audit planned for each audit project. The audit plan will only include work that can be completed in the available contract hours of the Internal Audit Department. The audit plan will continue to set aside some time for special projects that may arise during the year. These changes will be implemented with the audit plan for the year ending June 30, 2008.**

## **4. Enhance Internal Audit reporting**

Internal Audit files examined for this review indicate that audit reports were dated more than one year after the beginning of the audit work. For several of the audits, no report was issued. These reports also did not include the auditor's opinion of the auditee's compliance with district policies and procedures, laws and regulations, and department guidelines.

### **Recommendation**

While a review of the audit files indicates thorough audit testing was completed, without a timely audit report audit findings and recommendations cannot provide management with the assistance they need to monitor and improve operations. I recommend performing audits with a more narrow scope so they can be completed more quickly. Reports from these audits can be issued in a more timely manner while they can be helpful to management. Audit reports should also include the Internal Auditor's opinion of the auditee's compliance with regulations by which they are governed. This opinion assists management in evaluating and improving the effectiveness of their risk management.

### **Internal Auditor's Response**

**The scope of the projects will be analyzed to determine if a more narrow scope would assist in allowing reports to be completed more timely. Day-to-day priorities will also be analyzed to help provide timely reporting. The audit reports will include the**

**Internal Auditor's opinion on the auditee's compliance with district policies and procedures, laws and regulations, and department guidelines. The process to provide timely reporting will begin at this time while the inclusion of the auditor's opinion will begin with projects started after December 31, 2006.**

**5. Expand auditing procedures**

When planning an audit, the Engagement Letter does not indicate the date audit work will begin or the approximate time the fieldwork will take. Documentation of the auditee does not include examining their purpose, goals and objectives, budget, reports used, specific controls noted or a detailed examination of fraud risks.

**Recommendation**

The Internal Auditor should add additional steps to the Evaluation of Internal Controls to include the consideration of fraud risks as detailed in *Statement of Auditing Standards* (SAS) 99. Tying each risk to specific internal controls designed to prevent fraud, and documenting this in the audit file, should help to design audit program steps that may reveal fraud. Adding additional steps to the Preliminary Review or Planning documents to learn more about the auditee's purpose, goals and objectives helps to understand the auditee organization's management and may reveal known fraud factors to be examined. Including the date audit work will begin and the approximate time the fieldwork is expected to take in the Engagement Letter will allow the auditee to plan time in their schedule to work with the auditors. The Internal Auditor indicates that this is often discussed in the Entrance Conference, but is not usually documented.

**Internal Auditor's Response**

**The preliminary review program will be revised to include steps to document the fraud risks of the area being audited, the controls designed to prevent the fraud, and the evaluation of the controls. In addition, the preliminary review program will be revised to include additional steps requesting the auditee's purpose, goals, and objectives. The engagement letter will include the expected start and end dates for the work to be performed. The preliminary review program changes will be implemented no later than July 1, 2007. The engagement letter change will be implemented for projects starting after December 31, 2006.**

**6. Establish audit follow-up procedures**

Internal Audit has not established a follow-up procedure to monitor an auditee's proposed corrective action plans, ensure that they are implemented in a timely manner and that they correct the source of the audit findings.

## **Recommendation**

The Internal Auditor indicates that while no follow-up procedures are conducted, audits in subsequent years note if corrective actions were implemented as planned. Since other recommendations in this report cover changing the audit schedule to not audit many of the same areas in consecutive years, I recommend that the Internal Auditor implement a follow-up procedure that requires auditees to either agree to audit recommendations or devise their own method to address the audit findings. In addition, auditees should include, in their audit response, a timeline that provides the Internal Auditor and senior management with an implementation schedule and then periodic status reports until corrective actions are completed.

## **Internal Auditor's Response**

**A follow-up procedure will be implemented by July 1, 2007 that will assist the Internal Auditor and senior management in determining whether corrective action was implemented as planned by the auditee.**

## **7. Develop and implement a quality assurance and improvement program**

The CFISD Internal Audit Department does not have in place a quality assurance and improvement program.

## **Recommendation**

*ILA Standard 1300* requires Internal Audit Departments to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program should include periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the Internal Audit Department add value and improve the organization's operations and to provide assurance that the Internal Audit Department is in conformity with the *Standards* and the *Code of Ethics*. The CFISD Internal Auditor has begun to establish this program by conducting a self-assessment and requesting this external Quality Assurance Review as well as considering other methods to provide ongoing internal monitoring.

## **Internal Auditor's Response**

**A quality assurance and improvement program will be established by July 1, 2007.**

## **BEST PRACTICES**

While conducting this Quality Assurance Review, I became aware of several practices that demonstrate outstanding commitment and professionalism. These best practices include:

- The Internal Auditor has an excellent reputation and relationship with district Administrators and department heads. Surveys indicate they appreciate her audit reports that contain helpful suggestions for addressing audit findings as well as the Internal Audit Department's excellent communication with auditees throughout the audit.
- The Internal Audit Department is professional and proficient. Both the Internal Auditor and the Internal Auditor II have accounting degrees and years of accounting and internal audit experience before their employment with the CFISD. The Internal Auditor is certified as a CPA and a CIA and maintains continuing professional education each year to meet or exceed her license requirements. In addition, the Internal Audit Department holds memberships in the Texas Association of School Business Officials (TASBO) and the Houston Area School District Internal Auditors (HASDIA), and attends training offered by these two organizations. Both Internal Audit Department employees have served as officers of the HASDIA organization.
- The CFISD Internal Auditor demonstrates commitment to the IIA's Code of Ethics and Standards by ensuring that Internal Audit staff is familiar with these requirements and reviewing them quarterly at HASDIA meetings.

## **DISTRICT ADMINISTRATORS' COMMENTS AND SURVEY RESPONSES**

District Administrators and former auditees who responded to the Quality Assurance Review surveys were complimentary of CFISD's Internal Audit Department. When asked about the Internal Audit staff's ability, professionalism and communication skills, some comments from these surveys were:

"Excellent, members are very capable and knowledgeable"

"Very professional in handling issues"

"Very good communication skills"

"...very thorough and professional in her function as Internal Auditor. She is very fair minded and makes every attempt to provide information and keep all parties informed as to findings, outcomes, etc."

Surveys and questionnaires obtained from external auditors, district management, Internal Audit staff and auditees during the quality assessment indicate that the Internal Audit

Department is independent, fair and objective, useful, professional, capable and effective. Several respondents indicated that there were additional areas they would like to see covered by Internal Audit, but due to budget constraints that had not been possible. Most survey recipients would like for Internal Audit to add more staff so that they could provide more audit coverage. All survey recipients gave the CFISD Internal Audit Department a grade of **A** and one rated it **A+**.