

**External Peer Review
of the Internal Audit Department
for
Conroe
Independent School District**

Final Report – April 30, 2007

Performed By

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District Internal Auditor**



Clear Creek Independent School District

OPINION

The Internal Audit Department of Conroe Independent School District (CISD) is in compliance with the IIA's Standards for the Professional Practice of Internal Auditing. I found that policies, procedures and practices are in place that implement the IIA Standards. The overall opinion was based on separate evaluation for each of the five general and 25 specific standards that comprise the IIA Standards, and was limited to the scope of the review. One-hundred (100%) of the surveys received from Auditees/External Auditors/Superintendents/Associate Superintendents/Administrators rated the Internal Audit Department as Excellent for the areas surveyed.

Internal Audit complies with IIA Standards; however there were some opportunities for improvement identified. These opportunities include the following:

- Develop a financial budget (Standard #2000)
- Improving Workpaper Documentation (Standard #2300)
- Allow for continuous review intervention and follow-up on issues of concern (Standard #2400)

SCOPE

The scope of the peer review for CISD Internal Audit included the following:

Review and verify information as required and requested by IIA Standards (i.e., Annual Audit Plan, Audit Charter, Job Description, Work Papers, Organizational Charts, Training Schedule, etc.)

Review and analyze surveys returned by the Internal Audit's Auditees, External Auditors, Associate Superintendents and the Superintendent. Seven surveys or questionnaires were sent out and 4 were completed and returned.

Review and analyze nine (9) sets of internal audit working papers (21st Century Grant, Cryar Intermediate School AF, Houser Elementary School AF, Creighton Elementary AF, Giesinger Elementary School AF, Conroe High School AF, Caney Creek High School AF, Moorhead Junior High School AF, and Payroll Stipends).

INTRODUCTION

The Standards for the Professional Practice of Internal Auditing (Standards), issued by The Institute of Internal Auditors (IIA), require internal audit departments to develop and maintain a quality assurance program to ensure the quality and credibility of their work. This is the first Peer Review for CISD Internal Audit Department.

This report represents the results of an external Peer Review conducted for the Internal Audit Department of CISD. A notification e-mail was sent to the Internal Auditor of CISD on November 1, 2006. I held an all day conference with the CISD Internal Auditor and performed

fieldwork on two separate occasions during this review. Together we shared experiences, approaches, and other insights to be considered in further improving the work of the Internal Audit Department.

The peer review was conducted by the Internal Auditor of Clear Creek ISD, Christie Erickson. Master Audit Programs, developed from IIA Standards, were used as a guide to ensure all relevant areas were reviewed.

OBJECTIVES

The major objective of the peer review was to evaluate the CISD Internal Audit Department's compliance with the IIA's Standards for the Professional Practice of Internal Auditing (IIA Standards). The review for compliance with IIA Standards focused on the following:

- Purpose, Authority, and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance and Improvement Program
- Managing the Internal Audit Activity
- Management of the Internal Auditing Department
- Nature of Work
- Engagement Planning
- Performing the Engagement
- Communicating Results
- Monitoring Progress
- Resolution of Management's Acceptance of Risks

Additional objectives included:

- Determine compliance with CISD Internal Audit Charter
- Evaluate CISD Internal Audit Objectives
- Identify Opportunities for Improvement
- Identify Industry Best Practices Utilized
- Share Audit Experience/ Activities between the Peer Review reviewer and the reviewee

A. **Standard 2000 - Planning.** Indicates that the various tools prepared prior to an audit engagement, such as questionnaire, customer survey, risk assessment, self assessment, etc.

General Observation

CISD Internal Auditor performed a comprehensive risk assessment over all areas within CISD when she came to the district in August 2004. The annual audit plan has consistently incorporated the results of the risk assessment the past two years.

Issue 1

Currently the CISD Internal Audit budget is part of the Superintendent's budget. The Superintendent is extremely supportive of the Internal Audit function and allows the Internal Auditor to purchase items that are needed.

Suggestion 1

I suggest that CISD Internal Auditor develop a financial budget annually to be approved by the Audit Committee and the Superintendent. The budget is a statement of expected results expressed in numerical terms. As a control, it sets a standard for input of resources and what should be achieved as output and outcome.

CISD Internal Auditor's Response

In the past, the Internal Auditor has provided an informal list of projected budget needs for the following year. The Internal Auditor will work with the Superintendent and the Finance Department to provide better tracking of audit expenses through the budget.

- B. **Standard 2300 - Performing the Engagement.** Indicates the processes used by the Internal Auditor prior to the Audit such as the audit plan, staff analysis, and budgeting.

General Observation

The Internal Auditor possesses the knowledge and skills necessary to appropriately conduct internal audits within the organization. Surveys and questionnaires received indicated that the Internal Auditor performed audits proficiently and professionally.

Issue 2

The Internal Audit report and work papers are not usually cross referenced as evidence by signatures or a self review checklist. Good cross-referencing serves many purposes. First, it simplifies review of the working papers. Although the internal auditor may have all relevant facts about an issue clearly in mind, the relationships between facts may not be that clear to someone else. References should lead reviewers easily to the related facts in other parts of the working papers. Second, cross-reference eases the path of the next auditor who uses the working papers for a follow-up review.

Suggestion 2

I suggest that CISD Internal Audit implement a simple checklist (as opposed to standard cross-referencing) to ensure that all parts of the audit process have been performed and completed. I recommend this procedure because, the CISD Internal Auditor is in a one-person audit shop, is often working on several different audits and must move on to the next audit very soon after one is complete.

CISD Internal Auditor's Response

I will begin using a checklist in each of the audit files to ensure that all audit workpapers have been completed before preparing the audit report and beginning the next audit.

- C. **Standard 2500 - Monitoring Progress.** Indicates that it is essential that the Internal Audit Department review the status of each significant audit recommendation with ongoing applicability. The results of these periodic reviews should be documented and reported to those who received the Internal review report.

General Observation

Audits were planned, performed, communicated in accordance with the standards.

Issue 3

CISD does not have an effective follow-up process in order to maintain a system to monitor the disposition of results communicated to management.

Suggestion 3

CISD Internal Audit should establish a process to monitor the disposition of results (corrective action). A method of managing an audit follow-up system is to classify audit recommendations into three groups:

- Significant or immediate follow-up. The recommendations in this group should take no longer than 60 days to be implemented. It is possible that many of them will have been resolved during the audit or at least a start on the corrective active will be in process when the audit report is issued. The criteria's importance is defined by risk (frequency, magnitude, exposure).
- The less important would be 120-day implementation.
- No further follow-up is needed. These items are findings of the first and second types that have been completed as well as items that are so minor as to require no follow-up.

The follow-up technique should determine:

- That the recommended action has taken place or is in progress.
- That the recommended action is resolving the condition disclosed by the finding.
- That controls have been put in place to detect a recurrence of the condition.
- The benefits that have accrued to the organization as a result of the implementation.

Note: This follow-up method should be established for departmental and operational (etc.) type audits only. It is assumed that activity fund audits are on a rotating schedule and corrective action will be reviewed at the time of the next scheduled audit.

CISD Internal Auditor's Response

I will implement a follow-up system to track the status of corrective actions to be put in place by auditees. Future audit reports will not only ask auditees to state how they plan to address the audit findings, they will also ask for an implementation schedule. This schedule will identify the audit finding, audit recommendation, auditee's planned corrective action, individual responsible and date actions should be implemented. Internal Audit will add time for follow-up work to all future audit schedules and will conduct follow-up reviews after the implementation date has passed.

D. **Standard 2400 - Communicating Results.** Indicates the processes used by the Internal Auditor to communicate the results of the Audit Department, such as draft report, final report, etc.

General Observation

Monthly and Annual reports sent to management clearly describe the effective use of Internal Audit resources. In addition, regular meetings are held with the Audit Committee members to discuss the ongoing audit projects and other areas of concern.

Surveys obtained from Auditees/External Auditors/Superintendents/Associate Superintendents/Board Members revealed confidence in the Internal Auditor. An analysis of information obtained throughout the peer review reflected CISD's recognition that the Internal Audit Department is a very important component of the District.

BEST PRACTICES

The following best practices were identified as being performed by the CISD Internal Audit Department:

- As mentioned above, the annual audit plan is based on a comprehensive district risk assessment. This is the best way to ensure that scarce audit resources are used to address the areas where the district is most at risk.
- The time tracking kept by Internal Audit is very detailed and will provide a useful estimating tool to ensure all audits in the future are effectively planned.
- The Internal Auditor participates in the Houston Area School District Internal Auditors (HASDIA). This group provides a network of local schools district auditors who share ideas and assist each other with problem solving.
- In an effort to provide districts represented in HASDIA with a Quality Assessment Review (or Peer Review) required by the IIA, members must agree to perform a review of another member district. The CISD Internal Auditor conducted a Quality Assessment Review of Cypress Fairbanks ISD.
- The Internal Auditor conducted a self assessment of the CISD Internal Audit Department in preparation for this Peer Review and requested this review in order to improve the quality of audit services provided to Conroe ISD.

ACKNOWLEDGMENTS

I appreciate the cooperation and assistance provided during this review by the CISD Internal Auditor, Teresa Carpenter. This cooperation and assistance was very beneficial to the completion of the review. I would also like to thank the Auditees, External Auditors, Associate Superintendents, and Superintendent for their participation in this review.

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Clear Creek ISD Internal Auditor