



Seattle Public Schools The Office of Internal Audit

**Annual Risk Assessment and Audit Plan
September 1, 2016 through August 31, 2017**

Issue Date: September 13, 2016



Annual Risk Assessment and Audit Plan September 1, 2016 – August 31, 2017

Executive Summary

The Annual Risk Assessment and Audit Plan prioritizes the areas being considered for audit by evaluating the risks associated with each area. The risk factors used to assess each area include:

- The financial impact and materiality of the audit area
- The perceived quality of internal controls and the likelihood of errors
- The frequency of audits and reviews conducted by internal audit or other external agencies
- The results of prior internal and external audits
- The complexity of the audit area
- Turnover of key personnel and stability in management
- Requests and input received from District management and the School Board

In addition to the above risk factors, we also evaluate the timing implications of each area being considered for an audit. If an audit area is in the process of implementing significant changes to their operations, either in response to prior audit concerns or as part of an internal restructuring, we will adjust the timing of that area to ensure an effective audit. The audit plan is also designed to be flexible. On occasion, unforeseen circumstances may prevent the completion of an audit area. An audit area may experience significant turnover or operational changes that make an internal audit unrealistic at that time. It is also possible that the State Auditor's Office or other external entity may choose to audit an area before we complete our audit. Rather than duplicate the efforts of the external entity, that area will be replaced by another audit priority. The Audit & Finance Committee can also approve changes to the annual internal audit plan at any time, if new risks or priorities are identified mid-year.

The audit universe, from which potential audit areas are selected, has been continually developed over the years. As certain audit areas become obsolete (such as kindergarten tuition), they are removed from the audit universe. Any new areas identified during the year are added to the audit universe and evaluated with the same risk factors as all other audit areas. This year's audit universe includes new items for instructional materials adoption and professional development.

An evaluation of the risks facing the District revealed four significant factors impacting the District's operations. Each of these items are common among school districts throughout the country and are not specific to Seattle. The following risks were also considered in the preparation of the annual plan:

Significant Risk Factors Affecting the District:

- **Decentralized Environment**
The District is organized in such a way that schools must balance a degree of building-level autonomy with the requirement to comply with many centralized policies and procedures. This can create challenges for employees as they implement decisions aimed to accommodate the specific needs of their buildings. The District is also structured in such a way that many employees are located at schools, but they are supervised centrally. For example, a school custodian does not report to the school's principal, but rather reports to a centrally located supervisor within Custodial Services. Another example is the centralized accounts payable department that processes disbursements for school staff even though they do not have first-



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hand knowledge of the transaction. This environment increases the risk that employees will not follow procedures because they believe that they are not being adequately monitored. There is also the risk that central office staff will not effectively communicate key control activity requirements to the outlying sites and schools, or provide them with the resources they need to perform the control activity properly.

- **Leadership Turnover**

This year continued to see a high level of turnover within the Superintendent's cabinet team, and with some key management positions. The turnover included the Deputy Superintendent, the Assistant Superintendent of Business & Finance, the Assistant Superintendent of Human Resources, the Chief Communications Officer, the Chief Information Officer, an Executive Director of Schools, the Executive Director of Curriculum and Instruction, the Accounting Director, the Transportation Manager, the Payroll Manager, the Director of Labor Relations, and the Accounts Payable Supervisor. Although the current leaders appear to be competent, accountable, and transparent, this situation still increases the risk that internal controls will not be clearly established, or that they will not be assigned clear ownership. This environment is further complicated by the fact that few formalized written procedures are available to the new leadership team. This increases the risk that "institutional knowledge" held by previous leaders has left the District.

- **Budget Constraints**

Budget constraints did not force the District to implement significant reductions in force this year; however, the District was unable to fund all budget requests associated with key internal control functions. The push to allocate more dollars to the classroom, rather than central support functions can lead to situations of inadequate controls or monitoring of key functions. Employees continue to take on increased workloads, increasing the risk that key control activities will not be performed. This increases the need for an independent internal audit function to evaluate the District's internal controls.

- **Segregation of Duties**

As a result of the continuous budget constraints, school districts are often faced with inadequate segregation of duties. As a result, one employee may have access to more than one critical function, which can lead to significant control breakdowns and potentially theft, loss, or abuse. This can be particularly true in schools, where one employee is often responsible for receiving, disbursing, and reconciling funds. A lack of segregation of duties increases the need for a strong internal audit function that can identify critical incompatible duties, and can recommend alternative controls when ideal segregation of duties is not possible.



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Procedures Performed

In order to develop an audit plan for the 2016-2017 fiscal year, we performed the following procedures:

- Reviewed prior years' Annual Risk Assessment and Audit Plans to ensure a solid understanding of the risks and audit universe to be used as a starting point for the current year. Any new information obtained during the following steps was used to update the audit universe and reevaluate the risks associated with the areas being considered for an internal audit.
- Gathered information throughout the year from sources such as District training events, regular School Board meetings, School Board Committee meetings, oversight work sessions, work sessions, media reports, and discussions with District staff and parents. Any new information gathered that would impact our assessment of audit needs was monitored and evaluated along with existing information.
- Evaluated the results of the audits that we conducted during the year, along with the results of any external audits completed. This information not only helped to evaluate which areas were in need of an internal audit, but also in evaluating the timing of when an audit should be performed.
- Solicited feedback from the Board Directors on their assessment of risks and ideas for internal audits. This feedback provided valuable information regarding the District's priorities and challenges, and has been incorporated into this year's audit plan.
- Met individually with the Superintendent, Deputy Superintendent, and other members of District management and staff to gauge their sense of risks and obtain feedback on specific areas being considered for audit. This assisted with the risk analysis, and also the timing considerations associated with the various areas being considered for audit.
- Determined the Office of Internal Audit's available resources by calculating the number of work days in the year, and subtracting out anticipated administrative time, training, and leave time for vacations, sick days, and holidays. The net available resources are estimated to be 80% of the total work days available.
- Downloaded available financial data to assess the financial impact of the areas being considered for audit.
- Used the information obtained in the above procedures to evaluate each area against a variety of risk factors including materiality, likelihood of errors, frequency of audits, prior audit issues, complexity, turnover, and timing.
- Compared available resources to audit needs, and created multi-year audit schedules for non-capital audits and capital audits. The non-capital audit plan is included in [Appendix A](#), and shows all areas being considered for an internal audit. The capital audit plan and supporting background information are included in [Appendix B](#).



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**Appendix A - Non-Capital Internal Audit Plan
2016-2017**

Audit Area		Primary Audit Priorities	Secondary Audit Priorities	Long-Term Audit Priorities (3+ years)
1	School Audits	X		
2	Required Follow-ups to Prior Internal Audits :	X		
Required	Human Resources Follow-up Audit	X		
Required	S-275 Staff Mix Reporting Follow-up Audit	X		
Required	Quality of Employee Evaluations Follow-up Audit	X		
Required	Centralized ASB	X		
Required	Centralized Administration of Items Related to Schools Follow-up Audit	X		
Required	Nathan Hale High School Follow-up Audit	X		
Required	Franklin High School Follow-up Audit	X		
Required	Olympic View Elementary School Follow-up Audit	X		
Required	Lowell Elementary School Follow-up Audit	X		
Required	Vehicle Fleet Operations Follow-up Audit	X		
Required	Procurement Follow-up Audit	X		
3	Disbursements	X		
4	Apportionment – Staff Mix	X		
5	Apportionment – Student Enrollment	X		
6	Hiring Practices and Background Checks	X		
7	Payroll		X	
8	Athletics		X	
9	Instructional Materials Adoption Process		X	
10	Professional Development		X	
11	Custodial Overtime		X	
12	Field Trips		X	
13	Highly Capable Cohort Eligibility Identification Process		X	
14	Child Nutrition Services		X	
15	Security		X	
16	Data Sharing Agreement Spot Audits		X	
17	Use of Special Education Funding			X
18	Travel Authorizations and Payments			X
19	Internal Service Billings			X
20	Department of Technology Services			X
21	Start of School Procedures			X
22	School Facility Usage			X
23	Employee Benefits Administration			X
24	Labor Relations/Employee Investigations			X
25	Utilities			X
26	1080 Instructional Hour Requirement			X



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	Audit Area	Primary Audit Priorities	Secondary Audit Priorities	Long-Term Audit Priorities (3+ years)
26	1080 Instructional Hour Requirement			X
27	Community Engagement Compliance			X
28	Enrollment Planning/Boundaries			X
29	Building Leases			X
30	Budget Development			X
31	Alternative Learning Experience			X
32	Worker's Compensation			X
33	Fleet Management			X
34	Grants & Family Support Levy			X
35	Volunteers and Background Checks			X
36	General Counsel's Office/Litigation Costs			X
37	Enterprise Risk Management (ERM)			X
38	Inventory/Equipment Tracking and Surplus Warehouse			X
39	Personal Service Contracts (Also part of individual audits)			X
40	Debt Service Fund			X
41	Billing, Accounts Receivable, and Collections			X
42	Warehouse			X
43	Indian Education			X
44	English Language Learners (ELL)			X
45	Early Learning			X
46	Booster Clubs			X
47	Enrollment Office and Customer Service			X
48	Property Management			X
49	General Ledger/Financial Reporting			X

The annual internal audit plan is designed to be flexible. The primary audit priorities represent the high-risk areas facing the District, but they also represent more work than the available resources are capable of completing in a single year. The annual plan is not a commitment to complete all primary audit priorities, but rather is a commitment to focus on the primary audit priorities first. Since the Audit & Finance Committee approves the annual plan, it is necessary for the plan to include enough audits to keep the Office of Internal Audit busy throughout the year. In the event that one of the primary audit priorities cannot be completed for whatever reason, the plan includes an adequate number of available audits to prevent the Office of Internal Audit from having to come back to the Audit & Finance Committee mid-year to get approval to conduct an additional audit.

The main focus for the 2016-2017 school year will be on the items listed in the primary audit priorities column; however, we may also begin work on a secondary audit priority if necessary. On occasion, unforeseen circumstances prevent the completion of one or more primary audit priorities. An audit area may experience significant turnover or operational changes that make an internal audit unrealistic at that time. It is also possible that the State Auditor's Office or other external entity may choose to audit one of the primary audit priorities before we complete our audit. Rather than duplicate the efforts of the external entity, that area will be replaced by one of the secondary audit priorities.



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Primary Audit Priorities

The following narrative provides background information on each of the primary audit areas. During the planning phase of each audit engagement we will conduct an engagement-level risk assessment to determine what the audit's actual area of focus will be. In accordance with Board Policy 6550, our primary focus will always be related to financial internal controls and compliance.

School Audits

Over \$9 million in cash and checks is handled by the schools each year. The funds consist of monies belonging to both the General Fund and the Associated Student Body Fund (ASB). This represents a significant risk to both the District and its students. To date, 100% of the 13 school audits completed have contained a finding related to cash handling and receipting, including one instance involving a loss of funds. Prior school audits have also identified concerns associated with unapproved overnight field trips, inadequate volunteer and chaperone screening, and extra pay compensation. However, since these school audits have begun, the schools have increased compliance with ASB depositing procedures and have improved their ability to properly define ASB activities. As a result, the size of the District's ASB Fund has increased each of the last four years.

We will continue to conduct school audits this year; however, we intend to alter our approach in an effort to reduce the time it takes to complete each one. The audit program for school audits will be condensed to focus primarily on the areas known to have a high rate of errors, such as cash handling. We also intend to ask Principals to certify in advance that they are aware of the common audit findings noted in prior school audits, and that they have reviewed the proper procedures with their staff. These efforts are intended to reduce the amount of time required for each school audit, while also increasing compliance on behalf of the schools. Reducing the resources required for a school audit is also supported by the District's push to implement a point of sale system this year. A point of sale system will assist schools with the receipting process and will allow families to make credit and debit card payments. The specific schools to be audited this year will not be identified in advance because we begin each school audit with a surprise cash count.

Required Follow-up Audits

The Internal Audit Board Procedure, 6550BP, requires follow-up audits to be completed within 6 months of management resolving the corrective action plans associated with each internal audit. Based on the information we have received from District management; we anticipate as many as 11 audits being ready for follow-up audit this year, including:

- Human Resources
- S-275 Staff Mix Reporting
- Quality of Employee Evaluations
- Centralized ASB
- Central Administration of Items Related to Schools
- Nathan Hale High School
- Franklin High School
- Olympic View High School
- Lowell Elementary School
- Vehicle Fleet Operations



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- Procurement

Prior to commencing the audit planning process for next year, Board Procedure 6550BP will be reviewed with the Audit & Finance Committee to evaluate the requirement to conduct a follow-up audit for all internal audits. It is important to monitor audit recommendations to ensure that management is taking appropriate action to address audit issues, but it may not be necessary to conduct a detailed follow-up audit each time.

Disbursements

The District processes over \$100 million in expenditures through the accounts payable process on a yearly basis. This is a highly material area that has never been audited by the Internal Audit Department. An audit of disbursements will focus on how the District pays for goods and services, including verifying that the District has strong controls in place to ensure that it is only paying for items that have a legitimate business purpose. The audit is also likely to look at efficiency procedures, duplicate payments, and fraud prevention controls.

Apportionment: Staff Mix & Enrollment

The amount of revenue the District receives from the state is commonly referred to as apportionment. The District's state apportionment for the 2016-2017 school year is budgeted at approximately \$446 million. State apportionment represents 56.5% of the District's general fund revenue. This highly material amount is calculated based on data that the District self-reports to the State Office of Superintendent of Public Instruction (OSPI). This data is occasionally audited by the State Auditor's Office, and errors have been noted in the past.

The two main factors that determine the District's state apportionment are enrollment and staff mix. The enrollment apportionment is calculated using the number of students attending our schools multiplied by a legislative funding formula. In regards to staff mix, the state recognizes that in order for school districts to hire and retain experienced and qualified teachers, they must be able to compensate them at a higher rate. The state uses a staff mix formula to increase a school district's apportionment based on teacher experience and education level. In order to ensure that the District's state apportionment is accurate, and represents the full amount that it is entitled to, it's necessary to insure that the District has strong internal controls over the data transmitted to OSPI. These areas have never been reviewed by internal audit, and it's unclear if the District has clear ownership and monitoring over its data.

Hiring Practices and Background Checks

The District's largest operational expense is salaries, and the hiring of qualified employees is vital to the District's success. This audit will look at the District's hiring practices to ensure that it has adequate controls to ensure a fair process of hiring the best candidates and avoiding discrimination complaints. The audit will examine the structured hiring process for reviewing applications, conducting interviews, and recommending a candidate for hire. The audit will also look at the procedures for appointments that bypass the structured hiring process, the controls designed to ensure that a candidate meets the minimum job qualifications for a position, the process for salary placement, and the performance of employee background checks.



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Appendix B - Capital Risk Assessment & Audit Plan

BACKGROUND

The Office of Internal Audit conducts audits “to support and promote integrity, openness, and transparency with respect to internal financial controls of all funds and compliance of the district.” Capital performance audits can assess program effectiveness, economy, and efficiency; internal controls; compliance; and prospective analyses to assist the board with its oversight of management.

The audit process should include a comprehensive, collaborative district-wide risk assessment that results in an annual work plan to address the risks identified. The audit plan for the non-capital areas of the district can be found in Appendix A. This work plan was developed for the district’s capital related areas and includes, but is not limited to, performance audits of major BEX IV capital projects.

The overall goals of capital performance audits are to

- review construction activity, with a focus on high risk aspects;
- examine the effectiveness and efficiency of capital operations; and
- provide the district with value-added recommendations to improve performance, mitigate risks, and increase compliance.

An audit plan typically begins with the creation of an audit universe. An audit universe is simply all things that have the potential to be audited. Topics deemed high risk are taken from the audit universe and scheduled for review, resulting in a work plan.

The audit universe for the capital function consists of all auditable programs, activity, processes, procedures, and transactions that are part of capital operations. The resulting work plan includes construction and non-construction topics, although construction audits are the primary focus. Construction audit efforts are currently focused on major BEX IV projects. Construction audits can be performed at any phase of a project or after a project is complete. Non-construction audits do not focus on a specific project, but on subject matter that is capital in nature.



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CAPITAL AUDIT UNIVERSE

Capital Projects Planning

Construction Management

Capital Finance

Small Works Projects

Furnishings, Fixtures, Equipment and Relocation

Document Control

Asset Management

Capital Facilities Communication

Fund Accounting

Capital Programs

BTA – Buildings, Technology and Academics

BEX – Building Excellence

CEP - Capital Eligible Projects

The BEX IV levy is funding the following major building projects, earthquake upgrades for 37 buildings, and other projects, including technology improvements:

Arbor Heights Elementary School

Bagley Elementary School

Fairmount Park Elementary School

Genesee Hill Elementary School

Historic Horace Mann School

Hazel Wolf K-8 at Pinehurst

Jane Addams Middle School

Lincoln High School

Loyal Heights Elementary School

Meany Middle School

Thornton Creek School

Olympic Hills Elementary School

Queen Anne Elementary School

Seattle World School at T.T. Minor

Cascadia Elementary School & Robert Eagle Staff Middle School

Wing Luke Elementary School



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CAPITAL AUDIT PLAN DEVELOPMENT

This audit plan was designed to be flexible and to adapt to unexpected, changing, or newly identified risks. Capital related risks identified in the course of prior audits were evaluated during the development of this work plan. Audits of construction projects require the consideration of unique factors when developing the audit plan. Some of these include:

1. The phase of the projects
2. The size, duration, and complexity of the projects
3. The bidding environment
4. Use of alternative public works project delivery methods
5. Type of project oversight
6. Change orders
7. Known cost or schedule overruns
8. District's experience with designer and contractor
9. Concerns expressed by stakeholders
10. Other risks exposed as the project progresses



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CAPITAL AUDIT PLAN

Fiscal Year 2017

- SPS Construction Management
- Arbor Heights Elementary School Construction
- Horace Mann Construction Audit Follow Up
- Genesee Hill Design Audit Follow Up

Fiscal Year 2018

- Select Construction Audit(s) Based on Annual Risk Assessment
- Appropriateness of Interfund Transfers
- Follow-up procedures on prior audits

Fiscal Year 2019 and Beyond

- Select Construction Audit(s) Based on Annual Risk Assessment
- Contractor Compliance with Apprenticeship and Prevailing Wage Laws
- Contractor Accountability
- Follow-up procedures on prior audits



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The following information provides a general description of the capital audits currently scheduled. The scope and timing of the audits may change as the district's risk profile changes, and objectives will be refined at the time of audit.

Construction Management

The district has contracted with two private firms to represent it in the day-to-day management of BEX IV projects. Among other things, these firms monitor contractors and review contract modifications, change orders, and invoices. The audit will review the district's oversight of construction managers and examine the use of change orders and alternative project delivery methods.

Arbor Heights Elementary School Construction

This \$41 million project is for abatement and demolition of an existing school and construction of a new elementary school with alternates for additional capacity. The project was originally planned for completion in 2018 but was accelerated for completion in 2016. The audit will evaluate the district's processes for mitigating project and program risks. Audit scope and objectives will be refined during planning.

Horace Mann Construction Audit Follow Up

Internal Audit Procedure 6550BP requires follow up on prior audit findings. These procedures will determine whether the district has resolved the findings from the Horace Mann construction audit.

Genesee Hill Design Audit Follow Up

Internal Audit Procedure 6550BP requires follow up on prior audit findings. These procedures will determine whether findings from the Genesee Hill design audit have been resolved.

Appropriateness of Interfund Transfers

Capital Projects Fund resources are restricted for acquiring and constructing major capital facilities or assets, purchasing equipment, implementing technology systems, improving buildings or grounds, and funding other capital eligible activities. The purpose of this audit is to determine whether Capital Projects Fund resources are being used only to support capital programs. The audit will examine the appropriateness of interfund transfers and the eligibility of costs charged to Capital Projects Fund.

Contractor Compliance with Apprenticeship and Prevailing Wage Laws

The State of Washington requires 15 percent apprenticeship participation for projects estimated to cost \$1 million or more. To meet bidder responsibility criteria for public works projects with apprenticeship utilization requirements, bidders must have complied with these goals. Once contracts are awarded, the district should monitor contractors to confirm apprentice and journey



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level worker labor hours and ratios. The district must also ensure that contractors pay prevailing wages. The purpose of this audit is to evaluate the district's internal controls for ensuring contractors comply with apprenticeship utilization and prevailing wage laws.

Contractor Accountability

The provisions of a contract allocate the risk between the owner and the contractor and serves as a guide for both parties in making decisions and managing disagreements. This audit will determine whether the district protects the public's interest by enforcing contract terms, holding contractors accountable for their obligations, evaluating contractor performance on a consistent basis, and using the results of performance evaluations in future decisions.



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Appendix C - Staff Biographies

Andrew Medina, CPA, CFE, LPEC – Director of the Office of Internal Audit & Ethics Officer

Andrew is a Certified Public Accountant (CPA), a Certified Fraud Examiner (CFE), and a Leading Professional in Ethics & Compliance (LPEC), with over 20 years of audit experience. He joined Seattle Public Schools in August of 2011, after serving as a Senior Auditor for the Port of Seattle. Prior to joining the Port, Andrew was an internal auditor for the Clark County School District in Las Vegas, Nevada. He spent five years managing and conducting financial, operational, and compliance audits of the nation's fifth largest school district. As a Certified Fraud Examiner, Andrew was the department's fraud specialist, responsible for conducting the majority of the District's fraud investigations, as well as providing training to management and staff on fraud awareness and prevention. His fraud case study based on actual elementary school events was published in *Internal Auditor* magazine in February 2009. Prior to joining the Clark County School District, Andrew was a senior auditor with the State of Nevada Gaming Control Board. For 10 years Andrew helped regulate the casino industry by managing and conducting compliance, money laundering, and financial audits of Nevada's largest casinos.

Kimberly Fry, CPA, CGMA, CCA – Capital Audit Program Manager

Kim is a Certified Public Accountant (CPA), a Chartered Global Management Accountant (CGMA), and a Certified Construction Auditor (CCA) with more than 19 years of experience in Washington state, local, and tribal governments. She joined Seattle Public Schools in 2012 after working as an internal auditor for the Puyallup Tribe of Indians. At the tribe she was the primary government auditor, conducting operational and compliance audits of the tribe and its gaming enterprises. Previously Kim worked with the Washington State Auditor's Office where she performed financial statement, legal compliance, and federal Single audits of local government entities before transitioning to SAO's Performance Audit Team following voter approval of Initiative 900. Kim also served as a surety analyst with the Department of Labor and Industries where she assisted the department in certifying and overseeing self-insured employers. Kim is a Special Review Committee member for the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting program.

Amita Mathur – Senior Internal Auditor

Amita has over 9 years of auditing experience in government as well as the private sector. She joined Seattle Public Schools in 2012 after working as a Senior Internal Auditor at Farmer's New World Life (part of Zurich Investment Services). At Farmers she served as the lead auditor for the strategic, operational, compliance, regulation, and finance audits conducted on the life insurance segment in US. Previously Amita was an auditor with the Washington State Auditor's Office where she performed Financial, Compliance, and Federal grant audits for the higher education institutions, school districts, and local governments. Amita also has experience consulting start-up companies on their business plan presentations to potential venture capitalists.

Vacant – Senior Internal Auditor