

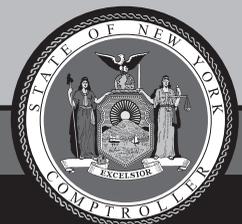
Getting the Most Out of Your **Internal Audit Function**

For school district governing boards, audit committee members, and district superintendents, the internal audit function can help you identify ways to safeguard assets, avoid waste and inefficiency, and promote sound business practices consistent with adopted policies and procedures. But internal auditors can also perform other valuable tasks. The overarching idea is that the internal audit function should be available to assist you with a variety of financial and operational needs.

This brochure outlines additional opportunities beyond the traditional financial transaction cycles (and requirements of the Five Point Plan) that could be gained from utilizing the internal audit function to its fullest extent.

New York State Office of the State Comptroller

Thomas P. DiNapoli State Comptroller



In 2005, legislation referred to as the Five Point Plan was enacted which required most school districts and BOCES to establish an internal audit function. That function must include developing, annually updating, and reporting on a risk assessment of district operations. At a minimum, the risk assessment must include a review of financial policies and procedures, and the testing and evaluation of district internal controls. Undoubtedly, this aspect of the internal audit function is crucial for ensuring district officials have paid appropriate attention to day-to-day financial operations. Proper controls need to be in place and operating effectively to help ensure assets are safeguarded, appropriate authorizations and approvals exist over transactions, incompatible duties among staff are adequately segregated and financial records are reliable.

All too often, this annual risk assessment update can become a mechanical process, reviewing procedures and controls in place over the same transaction cycles, year after year. Although there is value in performing ongoing risk assessment and internal control work, you can and should get more out of the internal audit function.

Are the Board and Superintendent Guiding the Work of the Internal Auditor?

The internal auditor can monitor, test and report to management on a wide array of functions beyond evaluating internal controls. Internal auditors can also conduct special reviews or take on special assignments from you. The key here is that management can and should be directing the internal auditor to look at controls beyond those covering the traditional transaction cycles.

When engaging the internal auditor, ask yourself, what's important to you in running the district? Is there a significant issue or area of concern where you want to have an increased comfort level that your district or BOCES is in compliance? Is there a particular aspect of your operations, beyond the typical financial transaction cycles, that warrants attention and review because of its susceptibility to misuse or abuse? Are you concerned that you are engaging in practices that are inefficient and/or outmoded? Do you think there is a less costly way of achieving the same goal, and are you aware of possible alternatives? Are you paying for goods and services that no longer benefit the district? These and many other questions can be raised and addressed by an internal auditor. In fact, a good internal audit function may be able to help pay for itself by exploring these type of questions in areas that management identifies and sees a need to address.

Keep in mind, though, that internal auditors are not responsible for the execution of district activities; they advise you – management and the board (in conjunction with the audit committee) – on how to better execute your responsibilities. Therefore, while you can direct the internal auditor to look at other areas of concern to you beyond the risk assessment of fiscal operations, it is management's responsibility to take any corrective actions identified from these efforts. And, as with the internal auditor's risk assessment role, all consulting work should be agreed upon in advance and included in your contract with the internal audit firm or in the work plan for the internal audit employee.

Operational Areas Subject to Review by the Internal Auditor

The internal audit function can be utilized in many ways, including reviewing the efficiency, effectiveness and compliance of your operations.

- An efficiency review involves addressing whether the resources used to achieve your intended results are being utilized in a proficient manner to get the most benefit at the least cost while still meeting your goals. When assessing whether a certain area is efficient, ask yourself: Are we doing things correctly? Are we getting the most output, product or services for the amount of input, materials, supplies, resources or staff time spent on a particular function?
- An effectiveness review involves measuring the extent to which a particular program, person or area is successful in achieving your intended results, consistent with its stated goals and objectives. When assessing whether a certain area is effective, ask yourself: Is what we're doing having the right impact?
- A compliance review involves making sure you do things in accordance with applicable laws, regulations, contract provisions, grant agreements and internal board policies and procedures. When assessing whether a certain significant area of operations is compliant, ask yourself: Are we doing things the right way? What laws, rules, regulations, policies and procedures is the particular function subject to?

Here are some examples of operational areas the internal auditor can tackle for you. Each example could have a different focus or aspect of review. Are you looking to see if the operations are efficient, effective, or compliant? Or maybe some combination of the three? This list is by no means exhaustive – it is meant to help you start thinking about other areas of concern, besides the traditional internal control cycles, where the internal audit function could be used.

- **School security** – The safety of the staff and students is of vital importance to the entire school community. Internal auditors can review whether or not you have adequate procedures in place for dealing with lockdowns and other emergency situations. Conducting proper background checks and fingerprinting staff that work in close proximity to students should be mandatory operating procedures. Internal auditors can determine if these checks are being done in a timely, efficient manner and ensure that your district is in compliance with State regulations.
- **Performance evaluations** – Certain positions or activities in your operations have specific written job descriptions that set forth the expectations and desired results of the position/activity. Internal auditors can appraise the quality of performance of a position or activity (appointed claims auditor, purchasing agent, or transportation director, for example) to assess whether duties are being performed in accordance with the specific job description.
- **Energy conservation programs** – Reducing the amount of energy consumed in school buildings has important environmental and economic benefits. Internal auditors can do checks of any board-adopted policies concerning energy conservation to ensure that procedures are in place and being followed by district employees.

- **Bus routes** – Transportation routes should be efficiently managed in order to minimize the time and fuel needed to provide transportation to students. Internal auditors can analyze transportation routes to ensure that bus routes are designed efficiently and effectively to minimize costs and time that students ride the buses to and from school.
- **Insurance** – Insurance coverage, whether it is for buildings, vehicles, equipment or employees, can be a substantial cost to your district. Internal auditors can evaluate whether your insurance coverage is adequate and help you determine if there are opportunities to combine, decrease or eliminate certain types of coverage.
- **Portable (or walkable) inventory items** – These types of inventory, such as food and beverage items, computers and audio/visual equipment involve smaller items that can easily be misused. These inventory items require heightened physical security controls beyond an inventory tagging system or perpetual inventory records. Internal auditors can review the controls over the storage and location of these items and analyze whether they are being properly secured.
- **Fuel facilities** – Controls over fuel facilities are important to ensure that fuel is dispensed properly for district purposes only. Internal auditors can analyze fuel usage and fuel facility security to ensure misuse is not taking place.

- **Investment earnings** – Your cash management practices must be continually monitored to ensure that investments are being made to enhance interest earnings. Internal auditors can review cash management strategies to ensure that the district is maximizing its interest earnings safely and properly.
- **Travel, meals and conferences** – Expenditures incurred when staff travel or attend conferences can easily become a large dollar item. Internal auditors can review the policies and procedures in place for controlling these types of expenses, and ensure that staff is complying with applicable rules.
- **Tuition for out-of-district students** – When students attend your school from another district, you must have adequate arrangements in place for billing and collecting tuition for the students. Internal auditors can review whether tuition for out-of-district students is being billed and collected on a timely basis.
- **Any adopted board policy** – The board adopts policies containing procedures covering most aspects of school operations, not just financial management. Internal auditors can review staff compliance with any of your internal policies and procedures and any laws and regulations that you may deem significant to district operations in order to identify or avoid potential problems.

What Else Can the Internal Auditor Do For You?

Beyond those specific areas outlined above, here's a general list of other tasks for you to keep in mind as you assign work to your internal auditor. These items have universal applicability across business functions in your school district:

Training – Internal auditors can conduct training sessions to show you how to identify risks and ensure you have internal controls in place to address those risks. For instance, internal auditors can conduct training for your business staff and board members on how to implement internal controls in their respective areas, or even show students and faculty advisors how to safeguard money in the extracurricular activity fund.

Analysis – Internal auditors can analyze financial and nonfinancial data and give advice on trends that they see. Internal auditors can analyze your expenditures for the last couple of years, identify positive or negative trends and help find ways specific departments can save.

Appraisals – Internal auditors can review your processes to ensure that risks have been identified and that the procedures in place sufficiently control those risks. Are you planning on implementing a new procedure or changing an old one? Do you want to know if a procedure you have in place is adequately controlling the risks that you might face?

Recommendations – Internal auditors can review your operations and offer recommendations for improvements before a potential problem becomes an issue. For instance, if you have a segregation of duties issue in your business office, your internal auditor should be working with you to identify practical, useful and cost-effective ways to address segregating the duties, not just notifying you that a weakness exists.

Counsel – Internal auditors can be a good source of advice on a variety of subjects. If they don't know the answer to a question, they can help do the research to find the answer. Do you have a question about a policy or procedure? Or would you like an outside perspective on a subject?

Conclusion

The internal auditor should be helping you to improve your operations, policies, procedures and internal controls. The emphasis should be on providing you with objective information to determine whether public accountability is being maintained and to assist you in improving the efficiency and effectiveness of your operations and activities. You should call on the internal auditor to help you accomplish these goals.

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