

***NEW MEXICO PUBLIC EDUCATION
DEPARTMENT
SCHOOL DISTRICT AUDIT
POLICY AND PROCEDURE MANUAL***

Initially Developed
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NEW MEXICO PUBLIC EDUCATION DEPARTMENT SCHOOL DISTRICT AUDIT POLICY AND PROCEDURE MANUAL

CHAPTER 1:

POLICY STATEMENT FOR PUBLIC EDUCATION DEPARTMENT SCHOOL DISTRICT AUDIT

Statement of Policy

It is a fundamental policy of the Public Education Department (PED) School District Audit staff to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. It is not possible to provide guidance for all situations that may arise; therefore, it is the individual employee's responsibility to exercise good judgment to act in a manner that will reflect favorably upon the PED and the individual.

The PED is charged with the responsibility for managing the operations of the local education agencies (LEA's). Unless otherwise indicated, any and all references made to "Districts" apply to state and local charter schools.

The broad objectives of PED's School District Audit function are to:

- Safeguard the state's resources.
- Ensure the reliability of financial and performance data and information, particularly as the data relates to the public school funding formula.
- Promote efficient and effective operations.

Auditing is an integral part of managing school district operations. As such, the PED expects school district management to:

- Identify and evaluate the exposures related to the conduct of its operations.
- Specify and establish the policies, operating standards, procedures, and systems to limit the risks associated with the exposures identified.
- Establish practical data collection and reporting processes that require and encourage employees to perform their tasks in a manner that achieves a positive and desired result.
- Maintain the adequacy, accuracy, and effectiveness of the data collection and reporting processes that have been established.

The role of the PED's School District Audit function is to assist school districts to attain the state's goals and expectations by providing objective oversight activities designed to add value and improve the district's operations by reviewing and evaluating the

effectiveness of operations and controls. School District Audit also seeks to provide objective analyses and constructive recommendations.

District Responsibility

To have an adequate and effective process for accurate data collection and reporting, managers at all levels of a district must foster an environment conducive to accurate reporting and ethical behavior. Each manager's behavior and attitude will influence the attitudes of other employees. The manager who demonstrates high ethical and personal standards, integrity, diligence, loyalty, and honor will create an environment that encourages accurate and effective data collection and reporting processes within his or her sphere of influence.

PED School District Audit's Responsibility

The audit function plays an essential and useful role in the conduct of successful operations. Its function is to examine and evaluate financial, operational, and student outcome data. This policy applies to PED's School District Audit's relationship with all LEA's and sets forth the guidelines by which these functions will be carried out.

Responsibilities of the School District Audit function include, but are not necessarily limited to, the following:

- Audit the processes and systems used to collect, measure, classify, and report financial, budgetary, and student data to ensure its integrity and conformance to state statutes, administrative code, the Public School Accounting and Budgeting Manual, and other PED guidance documents. This will be completed to evaluate the accuracy, reliability and completeness of management data developed within the LEA.
- Determine the degree of compliance with policies, plans, procedures, laws and regulations which have or could have a significant impact on financial reports and the submission of funding formula data.
- Assess the economy and efficiency with which resources are employed and assets are safeguarded.
- Determine whether financial and programmatic objectives, goals, and reported results are accurately and effectively prepared.
- Assess compliance with established standards of ethics and the procedures for reporting violations or probable violations of the Code of Ethics.
- Review the adequacy of personnel records and quality of documentation.

The School District Audit staff of the PED is responsible for periodically evaluating the processes of data collection and reporting throughout the public education system in New Mexico. That responsibility is carried out by:

- Ascertaining that the design of the process to collect and report data, as it has been established and represented by school district management, is adequate.
- Determining, through compliance testing and other audit or investigative procedures, that the process is functioning as intended in an accurate and reliable manner.
- Reporting the results of audit work performed and offering recommendations for improving the data reporting process.

The frequency and scope of auditing the data collection and reporting process is determined by the PED's School District Audit Manager, in concert with executive management, and as approved by the Secretary of Public Education.

An annual School District Audit plan will be developed and pursued to provide stakeholders with evaluations of the accuracy and reliability of data collection and reporting processes associated with school district budgets, operations, administration, and student performance. PED auditors will always conduct themselves with the highest standards of business ethics, integrity and honesty within the department and with all outside parties. The Audit Manager will develop and carry out the audit program and assure its coordination with the activities of all LEA's.

Audit Manager Responsibility

The Audit Manager is responsible for the administration of the School District Audit activity. The Audit Manager is responsible for properly managing the School District Audit activity so that:

- Audit work fulfills the specific and general purposes and responsibilities approved by management.
- School District Audit resources are efficiently and effectively employed.

The Audit Manager establishes the annual plan to carry out the responsibilities of School District Audit activity. This process involves establishing goals, audit work schedules, staffing plans, and activity reports.

The Audit Manager is responsible for:

- Writing policies and procedures to guide the audit staff.
- Establishing and maintaining a program for selecting and developing the human resources of the School District Audit function.
- Establishing and maintaining a quality assurance program to evaluate School District Audit operations and performance.

The Audit Manager is responsible for the audit plans, the conduct of school district audits and the audit reports issued. These responsibilities include:

- Developing or assisting staff in the development of audit objectives, plans, and scope.
- Scheduling audits, determining the resources that are necessary, and seeing that the approved audit plan is accomplished to the extent staffing allows.
- Communicating with those who need to know about audits and interfacing with personnel throughout the PED.
- Supervising audits and reviewing the work performed to insure the adequacy of audit scope, the adequacy of testing performed, and the accuracy of conclusions reached.

Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. Supervision includes:

- Documenting audit objectives and time budgets, providing suitable instructions, and approving the audit program before fieldwork begins.
- Seeing that the approved program is carried out.
- Determining that work papers support the findings.
- Ensuring that reports are accurate, objective, clear, concise, constructive, and timely.
- Determining that objectives are met.

The extent of supervision will vary depending on the proficiency of auditors and the difficulty of audit assignments.

- Reviewing and approving detailed audit programs tailored to each audit to assure that no specific tests or activities necessary for the audit are overlooked and to assist in preventing ineffective audit techniques from being performed. This review process is directed at specific accomplishment of defined audit objectives.
- Evaluating auditor performance and mentoring/training auditors to strengthen the person's knowledge/skills/development.
- Editing audit reports to facilitate recommendations and ultimately corrective actions.
- Facilitating the audit process by resolving issues and staff questions during the day-to-day progress of audits.
- Performing any administrative duties delegated by the Deputy Secretary.

Lead Auditor Responsibility

The Lead auditor is responsible for the day-to-day conduct and completion of the audit and the audit report. Responsibilities of the lead auditor may include:

- Conducting the entrance conference at the beginning of each audit.

- Assigning audit program steps to be performed by the staff member(s) assigned.
- Explaining, where necessary, the purpose of specific program steps, documentation required, and tests to be performed.
- Monitoring the day-to-day progress on work assigned (stopping unwarranted work and assigning follow-up work when necessary).
- Reviewing audit work papers prepared by the staff member(s) assigned and initialing such work papers to indicate review and satisfactory completion.
- Upon work paper review, preparing to-do lists or mentoring the staff member(s) assigned as to additional testing, editing, further documentation judged necessary or how unnecessary work can be eliminated in the future.
- Evaluating the efforts of the staff member(s) assigned, complimenting good work performed, and constructively criticizing work needing improvement.
- Preparing personnel evaluation forms as required/requested,
- Communicating audit findings to the audit manager throughout the audit,
- Assembling the draft audit report and determining those findings to be included in the report or those to be handled as minor findings.
- Keeping the Audit Manager informed regarding the status of audits in progress, and contacting the Audit Manager regarding targeted audit completion and scheduling of the formal audit review meeting.
- Presenting and communicating audit findings at the exit conference.

In cases where two or more auditors are assigned to an audit, one will be assigned as the lead auditor. The review responsibilities outlined in this manual may be altered where experience levels warrant. In such cases, the Audit Manager will give appropriate instructions on work paper review responsibilities.

Scope of the School District Audit Function

The School District Audit program will primarily examine and evaluate the accuracy and reliability of data collection and reporting processes. In addition, School District Audit will review those policies, procedures and plans the LEA's have adopted to guide their data collection and reporting activities. The School District Audit function may occasionally be used to assist with other assignments as needed.

School District Audit staff may request access to all operations, records, documents, property and personnel within school districts and charter schools. All public school employees are expected to cooperate fully in making available any material or information requested by an auditor. Further, all employees are expected to bring to the attention of the School District Audit staff any suspected situation involving improper activity or noncompliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge. The PED expects that public school district and charter school managers will be cooperative and candid.

School District Audit Staff Conduct

It is a fundamental policy of School District Audit to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The practices and procedures set forth in this manual provide guidance in specific situations. It is not possible to provide guidance for all situations that may arise; therefore, it is the individual employee's responsibility to exercise good judgment to act in a manner that will reflect favorably upon the Public Education Department and the individual. Employees shall comply with the spirit as well as the letter of this manual. Employees shall not attempt to achieve indirectly, through the use of agents or other intermediaries, what is forbidden directly.

The following guidelines are established regarding personal conduct and the confidentiality of audit or business information acquired through audit assignments.

- As a member of the School District Audit Staff, you are representing the highest level of management. Conduct yourself in a manner that reflects favorably upon you and those you represent. You are expected to exercise professional skill, integrity, maturity of behavior, and tact in your relations with others.
- In general, you are expected to act professionally in dealing with all PED, school district, and charter school employees without affecting your objectivity. As far as possible, take the position of an independent/objective analyst and advisor.
- In the course of your assignments, you will be in contact with personnel at all levels of authority and position. At all times independence in mental attitude is to be maintained. Reports resulting from your efforts should always contain full and unbiased disclosure of all but minor audit findings.
- Be discreet on and off the job in discussing current or past audits or your personal assessments of school district or charter school employees. Judgment should be exercised in the security of audit work papers, programs, company records, and information at all times.
- Never indiscreetly discuss confidential information such as potential funding formula changes, potential changes in levels of appropriations, possible ethics investigations, or possible personnel disciplinary actions.
- Avoid extremes of dress or personal grooming.

PED's School District Audit will be primarily staffed with individuals who have the necessary knowledge, skills and core competencies to complete the assigned work. Such persons shall possess professional attributes that qualify them to excel in interpersonal relationships. They shall be inquisitive, self-motivated and have a desire to develop their ability to identify problems and convincingly present recommendations through written reports, oral presentations, and personal discussions. PED's School district auditors are expected to apply and uphold the following principles:

Integrity

The integrity of the auditors establishes trust and thus provides the basis for reliance on their judgment.

School District auditors:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of auditing or to the PED.
- Shall respect and contribute to the legitimate and ethical objectives of the organization.

Objectivity

Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- Shall not accept anything that may impair or be presumed to impair their professional judgment.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

Competency

Auditors apply the knowledge, skills, and experience needed in the performance of auditing services.

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

Conflicts of Interest

A conflict of interest is deemed to exist whenever an employee is in a position, as a result of the nature or responsibilities of his or her employment with the PED, to further any personal financial interest of the employee or a member of the employee's immediate family.

Actual or potential conflicts of interest involving an employee or his/her immediate family shall be reported in writing to the employee's immediate supervisor, who may consult with the General Counsel of the PED to determine whether a conflict of interest actually exists and to recommend measures to be taken to neutralize the adverse effect of the conflict of interest reported.

No employee should permit himself/herself to be placed in a position that might give rise to the appearance that there is a conflict of interest.

PED School District Audit Functions

The School District Audit group will insure that:

- School Districts and Charter Schools are audited at appropriate intervals. These audits will review the adequacy of procedures used to collect and report financial and other data. These regular audits will evaluate the extent to which the LEA is providing accurate and properly prepared funding formula, budget, and student data.
- The findings of the examinations by auditors, their opinions and recommendations are reported promptly. Reports of such matters are to be designed to promote expeditious action by those concerned.

School District Audit Reports

Audit Reports will be issued for each regular audit performed. Accordingly, School District Audit staff will work to ensure that corrective action is taken or planned within a reasonable period after a deficiency is reported. School districts and charter schools may be required to report on their actions taken for each finding until it is corrected. If

audit results are determined to materially affect the reported funding formula data, the audit manager will advise the School Budget Director and the Deputy Secretary.

Statutory Authority

The authority and responsibilities of the School District Audit staff are established, in large measure, by State Statute. Provisions of the Public School Code that relate to the authority and responsibility of the School District Audit function include, but are not limited to, the following:

Section 22-2-2 NMSA 1978

Subsection A: The department shall properly and uniformly enforce the provisions of the Public School Code;

Subsection C: The department shall supervise all schools and school officials coming under its jurisdiction, including taking over the control and management of a public school or school district that has failed to meet requirements of law or department rules or standards, and, until such time as requirements of law, standards or rules have been met and compliance is ensured, the powers and duties of the local school board and local superintendent shall be suspended;

Subsection E: The department shall provide technical assistance to local school boards and school districts;

Subsection F: The department shall assess and evaluate public schools for accreditation purposes to determine the adequacy of student gain in standards-required subject matter, adequacy of student activities, functional feasibility of public school and school district organization, adequacy of staff preparation and other matters bearing upon the education of the students;

Subsection I: The department shall require periodic reports on forms prescribed by it from all public schools and attendance reports from private schools;

The School District Audit staff may request access to all records, documents and personnel necessary to effectively discharge their responsibilities. Statutory authority as it relates to these requests can be found in the Public School Code.

Section 22-8-13 NMSA 1978

Subsection A-C: Each public school shall keep accurate records concerning membership in the public school. The superintendent of each school district or head administrator of a state-chartered charter school shall maintain the following reports for each reporting period:

- (1) The basic program MEM by grade in each public school.
- (2) The early childhood education MEM.
- (3) The special education MEM in each public school in class C and class D programs as defined in Section 22-8-21 NMSA 1978.

- (4) The number of class A and class B programs as defined in Section 22-8-21 NMSA 1978.
- (5) The full-time equivalent MEM for bilingual multicultural education programs.

Subsection E: All information required pursuant to this section shall be on forms prescribed and furnished by the department. A copy of any report made pursuant to this section shall be kept as a permanent record of the school district or charter school and shall be subject to inspection and audit at any reasonable time.

Quality Assurance and Improvement

The Audit Manager, in consultation with the School Budget Director, should develop and maintain a quality assurance and improvement program that covers all aspects of the School District Audit activity and continuously monitor its effectiveness. The School District Audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments. The annual plan should be designed to help the School District Audit activity add value and improve the PED and school district operations.

To continue to improve our audit performance and our contribution to overall public school performance, School District Audit staff will evaluate the technical aspects of each audit project. Specific criteria have been established for grading audit performance. These cover work paper preparation, soundness of findings and recommendations, and the communication of audit results. The audit manager and/or the lead auditor will evaluate and grade work papers in several areas including: (1) whether the scope of audits is adequate and well written, (2) how well auditors expand their scope in response to problems noted in the field, (3) clarity of the documentation of audit results, and (4) how well the findings address the cause of the deficiency being reported. The Audit Manager may choose to review audits by using the tool shown in Exhibit 1 below.

EXHIBIT 1

Audit Productivity Measurement: Auditors

District/Charter Name: _____ Lead Auditor: _____

Date of engagement letter: _____

Date of exit conference: _____ Audit Manager: _____

| Element to be Graded | Lead Auditor | Audit Manager |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| Scope of work, engagement letter, audit objectives, audit plan, and final report are well written and finalized within assigned time frames. (15 points) | | |
| Work papers effectively address known risk areas developed in the scope of work and are adequate to measure effectiveness of data collection and reporting systems. (10 points) | | |
| Planned audit work was appropriately expanded/curtailed based on actual conditions encountered. (15 points) | | |
| Work papers are complete and they clearly support/explain results and conclusions. Work papers are well organized and cross-referenced. (15 points) | | |
| Audit manager was given interim progress reports during the audit. Entrance and exit conferences with appropriate district staff were scheduled in advance, adjusted as needed, and held when agreed. (5 points) | | |
| Audit work completed and all work papers finalized/turned in on time. (15 points) | | |
| Findings include condition, standard, cause, effect; recommendations address the cause(s). (10 points) | | |
| Findings thoroughly validated and briefed with audit manager. (10 points) | | |
| Audit manager is satisfied that written materials (programs, work papers, reports, etc.) communicate clearly to the intended audience. Audit provides added value to PED and districts. (5 points) | | |
| Totals: | | |
| Average Score: | | |

CHAPTER 2: SCHOOL DISTRICT AUDIT OPERATIONS

The activity of School District Audit is primarily one of information gathering, review, analysis, evaluation, appraisal and testing for the degree of compliance with and the adequacy of managerial systems and controls put in place to ensure accurate and timely data reporting.

Audit Objective

An objective of the School District Audit function is to assist management in the effective discharge of their responsibilities by furnishing them with reports setting forth independent and objective analyses, appraisals, recommendations and pertinent comments concerning the activities audited. In the course of audit examinations, School District Audit staff shall:

- Review and appraise the adequacy, accuracy, and application of membership, financial, student, and management data reporting and make recommendations for improved practices and techniques where appropriate.
- Determine that policies and procedures are being interpreted properly and carried out as established, are adequate and effective, and make recommendations for revision where changes in operating conditions have made them cumbersome, obsolete or inadequate.
- Determine the reliability, effectiveness and efficiency of procedures designed to ensure the organization is compliant with applicable laws and regulations.

In carrying out these objectives, the auditor's work should be performed with proficiency and due professional care.

Review, Acknowledgment and Response to School District Audit Reports

It is the policy of School District Audit to make an effort to reach agreement with school districts and charter schools concerning the correctness of the facts surrounding the audit findings prior to distribution of the final report. Where appropriate, corrective action to be taken should be ascertained and included in the report. The individual responsible for the corrective action and the key milestone dates for corrective action completion should also be included. School District Audit staff may work with school districts and charter schools to seek the best solution to deficiencies noted during the audit.

Follow-up

The school district or charter school is responsible for the timely implementation of corrective action for items reported by School District Audit staff. School District Audit

should follow up with school districts and charter schools to ensure that appropriate corrective actions are implemented in a timely fashion.

Reports for the School Budget Director

The Audit Manager will prepare annual reports which will be distributed to the School Budget Director, the Deputy Secretary for Finance and Operations, and the Secretary of Public Education. The reports to be prepared are as follows:

ANNUAL AUDIT PLAN: (prospective)

- Department goals and objectives.
- Summary of annual audit program.
- List of LEA's to be audited.
- Reasons LEA's were selected for audit.

ANNUAL AUDIT RESULTS: (retrospective)

- Status of accomplishment of goals and objectives.
- Status of progress toward completing audit program.
- Summary of audits completed.
- Audits in progress.
- Summary of results of significant audits.
- Summary of significant deficiencies disclosed.
- Follow-up reports on status of corrective action
- Special requests by management.

AUDIT PERSONNEL:

- Audit department staffing.
- Training and development activities.

Professional Care and Judgment

In exercising due professional care, school district auditors should be alert to the possibility of fraud, intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They shall also be alert to those conditions and activities where irregularities are most likely to occur. Auditors review systems in order to identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices. An appropriate degree of testing is to be performed as part of the audit program in order to validate exception conditions. Auditors are expected to conduct examinations and verifications to a reasonable extent, with an appropriate degree of testing transactions.

The audit program is planned and program implementation is supervised to ensure that the objectives of the audit will be met. Continuous auditor/manager communication is conducted to ensure that actual fieldwork practices support the audit scope and objectives. Data system reviews are performed as the initial core activity of audits. System reviews are completed in a manner which evaluates the overall adequacy of data collection and reporting controls. Supplemental testing is performed as necessary.

Special Assignments

From time to time, members of the audit staff may, upon request, be assigned to work directly for other divisions and departments on special projects which are in no way connected with School District Audit's annual plan. During such assignments, the auditor will communicate with the Audit Manager and with the requesting division concerning work assignment.

School District Auditor Involvement with Investigations

School district auditors may be responsible for assisting in the deterrence of fraud or other wrongdoing by examining and evaluating the adequacy and the effectiveness of controls, commensurate with the extent of potential exposure/risk in the various segments of the school district's or charter school's operations.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. It can be perpetrated for the benefit of, or to the detriment of, the organization; and by persons outside as well as inside the organization. Fraud designed to benefit the school district or charter school generally produces benefit by exploiting an unfair or dishonest advantage that also may deceive an outside party. Perpetrators of such frauds usually benefit indirectly, since the personal benefit usually accrues when the school district or charter school is aided by the act.

Deterrence of Fraud

Deterrence consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is control. School district management is responsible for the maintenance of an effective control environment. Auditors are tasked to evaluate the control environment at school districts and charter schools to determine the adequacy of internal controls in data collection and reporting systems and processes.

Detection of Fraud

Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by school

district management, tests conducted by auditors, and other sources both within and outside the organization. Auditors should:

- Have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed. This knowledge includes the characteristics of fraud, the techniques used to commit fraud, and the types of frauds associated with the activities audited.
- Be alert to opportunities, such as control weaknesses, that could allow fraud. If significant control weaknesses are detected, additional tests conducted by school district auditors should include tests directed toward identification of fraud indicators.

If significant control weaknesses are detected, additional tests may be performed to identify other indicators of fraud. All audit and investigation activity will be carefully coordinated with the approval/involvement of the Audit manager. Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Investigation of Fraud

Investigation consists of performing extended procedures necessary to determine whether fraud, as suggested by the indicators, has occurred. It includes gathering sufficient evidential matter about the specific details of a discovered fraud. School district auditors, lawyers, investigators, and other program specialists from inside or outside the organization are the parties that usually conduct or participate in investigations of wrongdoing.

Auditors involved in an investigation should assess the probable level and the extent of fraud within the school district or charter school to help ensure auditors avoid providing information to, or obtaining misleading information from, persons who may be involved. If it is determined that school district auditors will be involved in an investigation, the audit manager determines the knowledge, skills, and disciplines needed to effectively carry out the investigation. It is most common for the audit manager to be involved in the investigation to help assure the most effective and professional results. Auditors involved in the investigations must be cognizant of the rights of alleged perpetrators and personnel within the scope of the investigation and the reputation of the organization itself.

Reporting of Fraud

A preliminary or final report may be made at the conclusion of an audit. The report should include the school district auditor's conclusion as to whether sufficient

information exists to conduct an investigation. It should also summarize findings that serve as the basis for such decision. When the incidence of significant fraud has been established to a reasonable certainty, the audit manager will be notified immediately. Written reports may be issued to communicate the results of School District Audit involvement in the investigation phase. It will include findings, conclusions, recommendations and, where appropriate, corrective action taken.

DRAFT

CHAPTER 3: ANNUAL AUDIT PLANNING

Selection of audit projects to be included in the annual audit plan is one of the most important problems confronting School District Audit management. If the objectives of the School District Audit activity are to be achieved and if audit resources are to be allocated in an effective and efficient manner, this aspect of audit planning must be given very careful consideration. Failure to select appropriate projects results in unexploited opportunities to enhance data collection and reporting systems and operational efficiency.

The assumption underlying the described audit priority plan is that an evaluation of prospective audit projects will be more effective if a formal process is followed for gathering the information necessary to make project selection decisions. The approach described herein is basically a framework in which to apply common sense and professional judgment.

The methodology presented is relatively simple; however, in a great majority of cases, it should suffice to reach reasonable, prudent, and defensible audit project selection decisions.

The following pages of this paper 1) describe why risk exposure analysis and audit project prioritization are important, and 2) provide a framework to use in performing a risk exposure analysis and establishing an audit project priority schedule.

Evaluation Framework

In addressing the audit project evaluation and selection process, School District Audit staff is confronted with an economic problem, i.e., virtually unlimited potential projects and limited resources. Given a scarcity of audit resources, i.e., manpower, funds, etc., it is important to develop a system for routine audits as well as focus on projects with the greatest risk exposure.

A number of relevant factors must be considered in the development of the annual audit plan. Ultimately, all school districts and charters schools need to be audited on a periodic basis. This will provide consistency and predictability. The deterrent effect of routinely subjecting LEA's to formal audits is one such factor in the final selection of projects for the annual audit plan.

Risk Exposure Analysis

As used here, risk exposure analysis is a technique used to examine potential audit projects and choose projects that have the greatest risk exposure. A risk exposure

analysis approach to audit project selection is important in that it affords a means of providing reasonable assurance that School District Audit resources are deployed in an optimal manner, i.e., the audit plan for the School District Audit function allocates audit resources in a manner likely to achieve maximum benefits. To this end, the risk exposure approach provides explicit criteria for systematically selecting audit projects.

Risk exposure analysis, as applied to School District Audit planning, is an area which will evolve as experience is gained through implementation. Although risk exposure analysis is difficult and not well defined, it cannot be ignored. Given present circumstances, the appropriate and prudent course of action is to use due care to consider and document all relevant factors in making risk exposure decisions. Assuming a good faith effort in this regard, judgments should stand the test of scrutiny.

This phase of the analysis should be structured to capture both tangibles and qualitative intangibles which play a key role in the audit selection process. No attempt has been made to prioritize the following list of variables in terms of relative significance.

Key Variables:

- Dollar volume - number of funding units to be audited.
- Internal controls on data collection and reporting systems.
- Results of prior/other audits.
- Changes in personnel/procedures.
- Changes in reported funding formula data.
- Complexity of activity.
- Media reports.
- Time since last audit.
- Deviations from budget/plan.

While the key variables considered in the first step are assumed to be general indicators of risk exposure, the key variables cannot be assumed to be of equal significance in evaluating every prospective audit project.

Audit Time Budget

A project time budget provides overall guidelines for the performance of the audit. In addition, it enables the lead auditor and audit manager to control the audit work in process. It is essential that we control our time carefully in order that it may be utilized in the most effective manner possible. The project time budget should be prepared by the lead auditor and approved by the Audit Manager.

Guidelines and Format

The audit time budget process will be broken down into phases. A portion of the budget should be allocated for the planning process. This will provide the necessary control over this phase of audit work.

Near the completion of the planning process, the remaining budget should be allocated to the rest of the audit. Keep in mind the following items when allocating the time budgeted for the project.

- Prior experience with similar audits.
- The nature and complexity of the function under audit.
- The experience level of the staff and the amount of supervision necessary.
- Job wrap-up.

For purposes of overall control, the time budget should be broken down into the following general categories (more may be used if warranted):

- Planning--initial planning, preliminary survey.
- Audit Program.
- Field Work--allocated to the various segments of the audit project.
- Audit Manager's Review.
- Report Writing and Editing.
- Auditee's Review.

Audit Objectives and Planning

To uniformly document the audit planning process, audit objectives and an audit plan will be developed by the lead auditor before each audit begins. The Audit Manager will review and approve the objective and the plan.

The checklist has been designed to document the following planning information:

- Reviewing prior audit work papers, prior audit scope and audit reports, and determining specific follow up steps required.
- Reviewing prior audit time versus findings and conclusions, and determining the impact on the current audit.
- Establishing specific audit objectives.
- Estimating the time and resources necessary to meet the audit objectives.
- Developing the detailed audit program.
- Communicating with all who need to know about the audit.

- Documenting the rationale for selecting audit entrance- and exit-level management to make sure that the management level selected has the authority to implement the agreed corrective actions.

Audit Techniques

The techniques discussed should not be considered all-inclusive. Auditors should use only those techniques necessary for the specific program or activity to be surveyed. Auditors should constantly strive to develop new and more effective techniques. In selecting the best method for surveying a particular activity, the auditor should use the techniques that will produce the desired result.

Interviewing

The survey includes the use of interviews in each major functional area. Interviews must be planned in advance, keeping in mind that the purpose of the interview is to discover any problem areas that may exist.

Comparative Data Analysis

This technique involves comparing data, sometimes from various sources, to identify unusual situations or deviations. It is a valuable technique available to the auditor.

Process Mapping

This technique involves using a diagrammatic network to chart steps that must be completed before a program or activity can be concluded successfully. This technique can be particularly useful to the auditor in identifying possible weaknesses in data collection and reporting processes.

Analytical Review

This technique involves comparing results such as funding formula data for the same school district or charter school from reporting period to reporting period. It also can be used when evaluating changes in results that are dependent or affected by other factors. For example, if the number of employees increased from the last period, the payroll costs should also go up in addition to the normal increase due to raises, inflation, etc.

Exploratory Sampling

The exploratory sampling method uses random sampling as a tool for use in conjunction with selected audit tests—normally employed for fiscal, compliance, and management audits.

Visual Observations

A tour of the facilities of the entity to be audited may disclose material weaknesses in the operations. Visual observations also include scanning records and reports for unusual items.

Audit Preparation

The purpose of the preparing for an audit is to obtain the information needed to effectively conduct the audit work.

The preparation can include:

- Familiarization.
- Identification of potential problem areas.
- Confirmation.
- Planning the detailed audit.

Familiarization

This phase consists of obtaining significant background information and a practical working knowledge of the following:

- Department or program objectives.
- Applicable laws, regulations, and departmental policies and procedures.
- Management, financial, and data controls.
- Operating procedures.
- Size and scope of the activities under review.
- Organization and staffing.

Some sources of information are:

- Audit programs.
- Prior audit work papers.
- Public laws, legal opinions, and special rulings.
- Operating procedures.
- Organizational charts.
- Functional statements and position descriptions.
- Processing flow charts and system narratives.
- Management, budget, financial, and operating reports.

Identification of Potential Problem Areas

An objective of audit preparation is the identification of potential problem areas. One of the first steps in determining problem areas is to identify those programs, activities, and functions that are significant. These can be identified as those programs or activities:

- Which are susceptible to fraud, abuse, or misstatement.
- In which there is a large dollar volume of transactions or large investments in assets that are subject to loss if not carefully controlled.
- About which management has expressed concerns.
- In which prior audits have disclosed major weaknesses or deficiencies.

This phase of preparation should also identify those areas that lack significance and do not appear to require detailed audit coverage.

The auditor is responsible for determining how much reliance can be placed on the district's data collection and reporting controls to assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results.

A complete review of all controls is not always necessary because some controls may be irrelevant to the subject of the audit effort. Therefore, the auditor must identify those controls that are the most important and critical to the operation and concentrate on them. The auditor's evaluation should include identification of areas in which essential controls appear to be weak, non-functioning, or missing.

When surveying to identify problem areas, we are searching for "red flags" or indicators. Some of the more typical red flags are:

- An absence or insufficiency of a clear process to manage the collection and reporting of data.
- A plan of organization that does not provide for segregation of duties appropriate for safeguarding of assets, or permits duplication of effort by employees or between organizational units, or performance of work that serves little or no useful purpose.
- Procedures, whether officially prescribed or merely followed, that are ineffective or more costly than justified; or written procedures that are unclear and confusing.
- Absence of an established system of practices to be followed in performance of duties and functions.
- Abnormally high or low program participation or accomplishment.
- Unusual program participation trends.

- Programs, functions, entities, or activities never audited before.
- Conflict of interest of personnel in a position to influence the district's policies and actions.
- A lack of information feedback (management records, financial reports, inspections, etc.) necessary to keep managers adequately informed about their operations.

Confirmation

This phase consists of limited testing to confirm the critical problem areas and the need for detailed audit work. A limited examination of documents, records, and reports is generally necessary to add supporting evidence to the preparation phase. Tests to determine the extent and significance of such matters, however, are to be performed during the detailed audit. Indicated problem areas should be discussed with audit customer officials at this point to help assure that the auditor has an accurate understanding of the situations in question and has obtained all available information needed to arrive at decisions on the extent of audit work needed.

Planning the Detailed Audit

The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The auditor's principal effort should be in those areas where significant problems or deficiencies may exist, rather than in areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

CHAPTER 4: SCHOOL DISTRICT AUDIT PROGRAM

The audit program should be prepared after the completion of the audit preparation work. The audit program is a detailed plan for the work to be performed during the audit. A well-constructed program is essential to completing the audit project in an efficient manner.

A well-constructed program provides:

- A systematic plan for each phase of the work that can be communicated to all audit personnel concerned.
- A means of self control for the audit staff assigned.
- A means by which the audit manager can review and compare performance with approved plans.
- Assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
- The basis for a summary record of work actually performed.
- An aid to the audit manager making possible a reduction in the amount of direct supervisory effort needed.
- Assistance in familiarizing successive audit staff with the nature of work previously carried out.

The program consists of directions for carrying out the assignment. It should contain a statement of the objectives of the operation being reviewed. For each segment of the audit the program should (1) list the risks that must be covered in that segment; (2) show for each risk the controls that exist or that are needed to protect against the indicated risk; (3) show for each of the listed controls the work steps required to test the effectiveness of those controls, or set forth the recommendations that will be required to install needed controls; and (4) provide space for initials of auditor completing the audit step, reference to the related audit work papers, and brief comments.

Entrance Conference

After completing the preliminary planning stages of the audit, and prior to commencing the audit fieldwork, the lead auditor and, if possible, the audit manager should meet with the appropriate school district or charter school management or other key personnel. The entrance conference provides the opportunity to begin building good relationships. Points that should be discussed during the entrance conference include:

- a. Scope and objectives - Review the basic scope and objectives planned for the audit. Outline the general audit work plan. Emphasize that the purpose of the audit

is to ensure an accurate allocation of resources and assist management by providing analysis, appraisals, recommendations, and information concerning the activities and processes reviewed.

b. Audit findings - Explain how audit findings will be handled, e.g., resolution of minor findings, the discussion of all findings to permit the school district or charter school to take timely corrective action, the exit conference at the completion of the field work, the review of the report draft, and the distribution of the formal audit report. Discuss current status of prior audit findings.

c. Audit progress - Establish a clear understanding with school district and charter school officials about keeping their personnel advised of the audit progress and findings. Determine the frequency of progress updates and management levels to be apprised of audit progress and findings. Consideration should be given to providing the school district or charter school with a general audit timeline. This timeline should include estimated dates of fieldwork, interim meetings, exit meeting, audit report issuance, and follow-up audits.

d. Consulting Activities - Ask for suggestions of problem areas where the auditors can be of assistance to school districts and charter schools. Auditors can often be in the position to consult with school districts and charter schools about “best practices”. Careful consideration must be given to any requests to insure that auditors do not become involved in internal operating issues.

e. Cooperative administration - Inquire about working hours, access to records, available work area for participating auditors, the school district’s or charter school’s various work deadline requirements, and any other information which will help schedule the audit activities to fit into the office routine with minimal disruption to the school’s operations.

f. Introduction and tour - Arrange to meet other personnel the auditor will be working with during the audit. Also arrange for a familiarization tour of the physical facilities. Effective communication at the beginning of the audit fieldwork can significantly influence the atmosphere in which the entire audit is conducted. It can mean the difference between active cooperation and open hostility. It deserves the auditor's careful attention and best efforts.

Evaluation Data Collection and Reporting Systems

The evaluation of the data collection and reporting system should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to accomplish their intended purpose, which is the submission of accurate data. The

study and evaluation should be adequately documented and properly supported by results of tests, observations, and inquiries.

Controls on the data collection and reporting process are evaluated throughout the audit examination. Generally, guidelines are incorporated into an audit program in the form of desirable control characteristics, questionnaires, checklists, and specific audit tests and procedures. Although the written audit guidelines (programs) are invaluable aids, the Audit Manager must ensure that each assigned staff member is familiar with the scope and objectives of the data collection and reporting review.

The auditor may use questionnaires, checklists, templates and other applicable techniques in evaluating the procedures used to collect and report data. These techniques are preferred because they provide consistency and adequate documentation. In addition to discussions with school district and charter school staff, auditors make inquiries and perform observations relating to the process used for collecting and reporting data. These inquiries and observations and resulting findings and conclusions are also documented in the work papers. This documentation includes identifying strengths and weaknesses and cross-referencing them to the audit tests and procedures concerned with substantive testing.

To assist in evaluating the controls established for the data collection and reporting process, the auditor should consider the following:

- Types of errors, irregularities, or misstatements that could occur.
- Control procedures to prevent or detect such errors, irregularities, and misstatements.
- Whether the control procedures have been adopted and are being followed satisfactorily.
- Weaknesses which would enable errors and irregularities to pass through existing control procedures.

Audit work papers provide the documented support for the conclusions reached by the auditor regarding the study and evaluation of data collection and reporting systems.

Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.

- Attribute sampling is used when the auditor has identified the expected frequency or occurrence of an event.

- Variables sampling is used when the auditor samples for values in a population which vary from item to item.
- Judgment sampling is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.

Electronic data analysis is an especially effective technique for identifying events within a population. In many cases, data analysis is preferable to sampling because of the accuracy and reliability of results. It also allows performance of broad based testing that otherwise may not have occurred because of limited audit resources.

Attributes of a Well-developed Audit Finding

- Statement of Condition (What is!)
- Criteria (What should be!)
- Effect (So what?)
- Cause (Why did it happen?)
- Recommendation (What should be done?)

Statement of Condition

The condition identifies the nature and extent of the finding or unsatisfactory condition. It often answers the question: "What was wrong?" Normally, a clear and accurate statement of condition evolves from the auditor's comparison or results with appropriate evaluation criteria.

Criteria

This attribute establishes the legitimacy of the finding by identifying the evaluation criteria, and answers the question: "By what standards was it judged?" In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

Effect

This attribute identifies the real or potential impact of the condition and answers the question: "What effect did it have?" The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g., dollars, number of personnel, units of production, quantities of material, number of transactions, or elapsed time. If the real

effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

Cause

The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: "Why did it happen?" If the condition has persisted for a long period of time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

Recommendations

This final attribute identifies suggested remedial action and answers the question: "What should be done?"

The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action will most likely be feasible and appropriately directed.

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change will be made is the district's responsibility. More generalized recommendations (e.g., greater attention be given, controls be re-emphasized, a study be made, or consideration be given) should not be used in the audit report, but they are sometimes appropriate in summary reports to direct district management's attention to compliance-type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. Whenever possible, the benefits should be quantified in terms of additional revenue, lower costs, or enhanced efficiencies. The cost of implementing and maintaining recommendations should always be compared to risk. Recommendations should be directed to the individual responsible for taking corrective action.

Summary

Well-written audit findings should result in recommendations that add value to the organization and include: the nature of the findings, the criteria used to determine the existence of the condition; the cause of the condition; the significance of its impact; and what the auditors think should be done to correct the situation. Fully developed findings containing each of these five attributes are easily understood and convey impact and significance to appropriate management officials.

Audit Work Papers

Work papers serve both as tools to aid the auditor in performing audit work, and as written evidence of the work done to support the auditor's report. Information included in work papers should be sufficient, competent, relevant, and useful to achieve the engagement's objectives and provide a sound basis for audit findings and recommendations.

- Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- Competent information is reliable and the best attainable through the use of appropriate audit techniques.
- Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit.
- Useful information helps the school districts and charter schools meet their goals.

In addition to serving as a reference for the preparer when called upon to report findings or answer questions, other individuals may find it necessary to use the work papers.

- The Audit Manager will use the papers to review the quality of the audit project and also to evaluate the audit staff assigned to the work.
- Management or other individuals who may have requested the audit require timely reports. Well-organized work papers help to accomplish this goal.

Qualities of Good Work Papers

Complete

Work papers must be able to "stand alone." This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each audit segment.

Concise

Work papers must be confined to those that serve a useful purpose.

Uniform

All manual work papers should be of uniform appearance. Electronic work papers should be created and saved in formats readily accessible.

Neat

Work papers should not be crowded. They should not include unnecessary listing and scheduling. All work papers should have a purpose which relates to the audit procedures or recommendations.

Electronic

Electronic work papers are preferable to manual work papers because they are easily editable, can readily be transmitted via e-mail, and can efficiently perform complex calculations, analysis and sorts. Fully integrated automated auditing systems will usually provide automated progression tracking of the audit allowing the Lead Auditor and Audit Manager to easily monitor the various stages of the audit. Such systems will also usually migrate audit findings from the basic work paper documentation stage to the end reporting stage resulting in greater audit efficiency and organization.

Work Paper Techniques

Descriptive Headings

All work papers should include the title of the audit, title of the work paper, preparer's initials, date prepared, source of information, and purpose of the work paper. If applicable, the work paper should also include the audit stamp and/or audit project number.

Cross-referencing

Cross-referencing within workpapers should be complete and accurate. Workpapers should be cross-referenced to the Audit Findings. Audit Findings should be cross-referenced to the exit conference memo and/or the audit report, to indicate final disposition of the item. Cross-referencing should be done in the margins of audit report drafts. These references readily provide direct access to the working papers. When utilizing electronic workpapers, cross-referencing can often be accomplished using electronic links within the workpaper. Automated auditing systems usually create such links for the user.

Indexing

The system of indexing audit work papers should be simple, yet leave room for flexibility. A fully numeric indexing system using decimal positions for identifying different sections/work papers provides the greatest flexibility. This type of indexing allows insertion of new work papers without interrupting the numbering scheme.

Carry forward

The auditor should make full use of the work papers developed in the prior audit. Flowcharts, system descriptions, and other data may still be valid. Those papers which remain useful should be made a part of the current working papers. They should be updated with current information, renumbered, referenced, and initialed and dated by the current auditor.

Types of Work Papers

When utilizing electronic work papers, a separate directory should be created for each audit. Subdirectories should be used for each separate section of the audit.

Data Analyses

Data analyses are useful for identifying statistical trends, verifying the accuracy of data, developing projections or estimations, and determining if tasks or records have been properly completed. Each data analysis should include the following items:

- An explanation of its purpose (reference audit step).
- The methodology used to select the sample, make the calculation, etc.
- The criteria used to evaluate the data.
- The source of data and timeframe considered.
- A summary of the results of the analyses.
- The auditor's conclusion.

Documents

Copies or actual samples of various documents can be used as examples, for clarification, and as physical evidence to support a conclusion or prove the existence of a problem. These documents can be memos, reports, electronic files, computer printouts, procedures, forms, invoices, flowcharts, contracts, or any of numerous other items. Any copied document should serve a useful audit purpose.

The following suggestions are offered for preparation of work papers using documents:

- Indicate both the person and/or file that the document came from.
- Copy and insert only that portion of the report, memo, procedure, etc., which is needed for purposes of explanation or as documentation of a potential finding. Do not include the entire document in the work papers unless absolutely necessary.
- Fully explain the terms and notations found on the document, as well as its use. These explanations may be made on an attached preceding page or on the face of the document itself.

- Each document should be cross-referenced either to the page or separate analysis where it was discussed.
- No document should be included in the work papers without an explanation of why it was included.
- Electronic links to other files/documents should be identified.

Process Descriptions

In many audits, it is necessary to describe systems or processes followed by the school district or charter school to collect and report data. Describe such procedures or processes through the use narratives.

Interviews

Most verbal information is obtained through formal interviews conducted either in person or by telephone. Formal interviews are most desirable because the interviewers know they are providing input to the audit; however, impromptu interviews, or even casual discussions can often provide important information. Any verbal information which is likely to support a conclusion in the audit work papers should be documented. Interviews are useful in identifying problem areas, obtaining general knowledge of the audit subject, and collecting data not in a documented form. Interview notes should contain only the facts presented by the person interviewed, and not include any of the auditor's opinions.

In preparing interviews for work papers, consider the following suggestions:

- Be sure to include the name, department and position title of all persons from whom information was obtained. This includes data gathered during casual conversations.
- Indicate when and where the meeting occurred.
- Organize notes by topic wherever possible.
- Identify sources of information quoted by interviewee.

Observations

What the auditor observes can serve the same purposes as interviews. If observations can be used to support any conclusions, then they should be documented. They are especially useful for physical verifications.

Observations used as supporting documentation should generally include the following items:

- Time and date of the observation.
- Where the observation was made.
- Who accompanied the auditor during the observation.

- What was observed. When testing is involved, the workpapers should include the sample selections and the basis of the sample.

Findings

All audit findings should be documented in the work papers. All findings should be documented immediately by the auditor discovering the situation.

Creation of a finding summary will assist the auditor in keeping all findings organized. This summary should include the work paper reference and the finding and recommendation.

Audit Work Paper Review

An important part of School District Audit's quality control program is a timely and thorough review of work papers by the Lead and the Audit Manager assigned to each audit. The purpose/objective of the audit work paper review is to evaluate the adequacy of audit work performed and to determine if the predetermined audit objectives have been met. The term "audit work paper" in this context applies to both hard copy audit work papers and to electronic work.

Audit work papers must be a set of stand-alone documents from which the reader will be able to identify the actions taken by the auditor(s) to satisfy the objectives of the detailed audit program and prepare the final audit report. A clear audit trail must exist.

Documentation of work paper review is the responsibility of the Lead Auditor and the Audit Manager. Responsibilities for work paper review are outlined below:

Lead Auditor

The Lead Auditor is usually responsible for periodic review of work papers during the course of the audit; generally this review should take place as each segment of the audit program is completed. The review process should be designed to ensure:

- Adequate documentation for all findings with cross-references to specific supporting work paper(s).
- Each recommendation includes the five attributes of a well-developed finding.
- Consistency in the work paper numbering scheme.
- Notes of any audit program steps which still remain open.
- Pertinent work papers/schedules with source of data, basis for selecting sample data, and conclusion. Also, all pertinent work sheets/schedules should be cross-referenced to specific audit program step(s).
- Necessary cross-referencing to ensure there is a complete tie-in to all work paper pages for a complete audit trail.

Audit Manager

The Audit Manager will assess the review of the work papers performed by the Lead Auditor. This will be accomplished by reviewing the work papers for some of the criteria stated above. The Audit Manager's review should be performed at the completion of the audit and prior to the review of the draft report with the school district or charter school personnel; however, if the audit was performed solely by the Lead Auditor, the audit paper review should be made during the course of the audit and not await completion of field work and preparation of the report draft. In addition to those matters listed for the Lead Auditor review, the Audit Manager should also be alert to the following:

Accuracy - The auditor must always keep in mind that the report must be completely factual. Every statement, every figure, and every reference must be based on hard evidence. Statements of fact must carry assurance that the auditor personally observed or validated every fact stated in the report.

Clarity - Clarity means conveying to the reader what was in the auditor's mind when the report was written. Lack of clarity in the mind of the auditor is the prime impediment to clear writing. If the auditor does not have a firm grasp of the subject, then writing should not begin until more fieldwork or research is performed.

Conciseness - Conciseness means cutting out what is superfluous and eliminating what is irrelevant and immaterial. The words, sentences, and paragraphs that do not help the auditor get across the central theme of the report should not be included in the report.

Tone - The report should maintain an objective professional tone. The auditor needs to consider the report's effect upon the area that is being reviewed. The report should always avoid the use of slang words and technical terms that would not be familiar to all individuals receiving the report. Use of inflammatory or unnecessarily harsh wording should be avoided.

There may also be occasions where the Audit Manager should consider an interim review of work papers, especially if some of the auditors assigned are relatively new, or if early in the audit significant findings are reported.

Exit Conference

The purpose of this procedure is to define certain events which should take place prior to and during the exit conference.

During the audit:

1. Fully develop all audit findings.
2. Discuss fully developed audit findings and recommendations with the responsible school district or charter school personnel. Also discuss any items requiring follow-up and document the school district's or charter school's response to the finding.

The Lead Auditor should discuss all audit findings, proposed exemptions and results with the Audit Manager before the exit conference is held.

Prior to the exit conference, a presentation strategy should be developed. Related issues may be combined, and a presentation sequence should be developed. Findings should be grouped into two categories and presented as such.

The Lead Auditor is responsible for scheduling the exit conference. The goal is to have appropriate district management personnel at the meeting. The purpose of the exit conference is to inform management of the district or charter school audited about the audit results and the report process, reach agreement on findings, and learn of corrective action measures planned or taken to correct any deficiencies disclosed by the audit. The Audit Manager and the Lead Auditor should review the audit objectives, scope, and reporting process before discussing the audit findings. Where practical, audit findings and recommendations should then be discussed by the individual who developed the audit findings or audited that area. Consideration should also be given to noting any commendable practices or procedures observed. One audit employee should be assigned to document all discussion during the exit conference.

Audit Reports

Audit reports will include a cover letter, a description of audit objectives, and a description of findings and recommendations. Reports should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The quality of our findings and how our findings are reported significantly affect perceptions about the School District Audit function.

The format audit reports will generally be as follows:

Cover Letter on Official Letterhead

The cover letter of the report will include the following:

- A. The date of the report, who the report is addressed to, and the title or subject of the audit.
- B. A brief description of the scope and objectives of the audit and, when applicable, the time period covered.

- C. A statement indicating the date that a review meeting or exit conference was held and that the report was finalized through a draft report.
- D. A summary of the most significant points/comments that highlight the results of the audit.
- E. An opinion (such as, adequate, requires improvement, or requires management attention) on the specific audit subjects. The audit opinion should be specific to the audit objective(s) so that the report readers can understand the correct breadth of the opinion.
- F. If needed, a request for a written follow-up reply by a specific date. The follow-up date should generally be ninety days from the report date. For each item in the report, the follow-up reply should outline the corrective actions that have actually taken place or a new timetable for corrective action.

The cover letter will be considered page one of the audit report. Page two of the audit report should generally include the following:

- A. A more detailed description of the audit objective(s), the period of time covered, the specific audit scope and areas tested and any limitations on testing.
- B. This section may also include the name of the auditor(s) who performed the audit, and
- C. The names of personnel who attended the report review meeting.

Next should be either "Background Information" or "Findings and Recommendations". Background information should be used when the auditor believes the various report readers do not have the first hand knowledge necessary to correctly interpret the audit report.

Significant Findings

The significant findings requiring corrective action should be discussed in detail. Data presented for each finding should include a statement of the adverse condition, supporting facts and test results, effect of the condition, and, if appropriate, the cause of the condition, and a recommendation for corrective action or a statement of action proposed by the personnel responsible. All reports should incorporate the following characteristics.

Accuracy - All reports must be supported with facts. It is extremely important that the credibility of the School District Audit activity and each auditor be maintained at the highest level by factual, unbiased, and objective reporting.

Objective - Objective communication is factual, unbiased, and free from distortion. Audit report observations, conclusions, and recommendations should be included without prejudice

Clarity - All reports must be understandable and clear. Clear communication is easily understood and logical. Clarity is improved by avoiding unnecessary technical language and providing sufficient supportive information.

Quantification - All comments must be quantified to the maximum extent possible to identify the seriousness and impact of the points made. Examples of quantification are dollar amounts, number of test exceptions, and scope of testing.

Conciseness - All reports must be to the point. This does not necessarily mean short.

Constructive - All reports should maintain a diplomatic balance with respect to the sensibilities of all readers. Emphasis should be on improvement, not on criticism of people or the past.

Complete – Audit reports should be complete. It is very important that our reports do not require interpretation or oral comment to fill in the gaps. The report should stand by itself.

Timeliness - All reports must be issued in a timely manner upon completion of the assignment. The goal is within two weeks.

Resolution - All reports must contain action plans -- cite the who, what, and when of remedial action. Without specific responses and assignment of responsibility, effectiveness is lost.

If a report is accurate, clear, concise, fair, timely, and includes specific resolution, it will be well received.

Guidelines concerning the preparation and distribution of reports follow:

- A. The Lead Auditor is expected to have a draft report, including the cover page, completed before the Audit Manager's review of the work papers is completed.
- B. A draft report should generally be provided to the management of the location/department audited before the review meeting date. All drafts that are distributed should be dated, and all in attendance at the review meeting should have the same draft. All draft reports distributed to management should be spell checked and checked for grammar. Since this may be management's first complete exposure to all findings, it is important to present a professional-looking product.
- C. Before the review meeting, the Lead Auditor's copy of the draft report should be referenced to the audit work papers.

D. Final reports will be distributed to the applicable management personnel with direct responsibility for the facility, function or department audited. Additional distribution to higher-level management personnel will be determined by the Audit Manager.

E. The Audit Manager is responsible for communicating the final results to individuals who can ensure that the results are given due consideration

The PED is aware that not everyone who will read the report will be as familiar with the subject matter as auditors are. Accordingly, auditors should write so that reports do not require interpretation or oral explanation. A primary responsibilities as professional auditors is determining that the school district or charter school takes corrective action on recommendations. Being an integral part of the School District Audit process, follow-up should be scheduled along with the other steps necessary to perform the audit. However, specific follow-up activity depends on the results of the audit and can be carried out at the time the report draft is reviewed with concerned management personnel or after the issuance of the report.

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