

III.E.

CONNECTICUT STATE BOARD OF EDUCATION
Hartford

TO BE PROPOSED:

June 3, 2015

RESOLVED, That the State Board of Education adopts the Annual Audit Plan for the period of July 1, 2015, through June 30, 2016, and directs the Commissioner to take the necessary action.

Approved by a vote of _____ this third day of June, Two Thousand Fifteen.

Signed: _____
Dianna R. Wentzell, Secretary



STATE OF CONNECTICUT
STATE BOARD OF EDUCATION



TO: State Board of Education

FROM: Allan Taylor, Chairperson
State Board of Education Finance, Audit and Budget Committee

DATE: June 3, 2015

SUBJECT: Office of Internal Audit (OIA) Annual Audit Plan
Fiscal Year Ending June 30, 2016

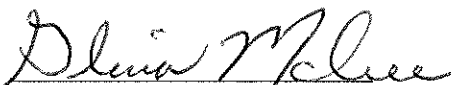
Attached is the OIA Annual Audit Plan for the fiscal year ending June 30, 2016. Schedule I, page 6, of the Plan contains the audit projects suggested for completion during fiscal year ending June 30, 2016. The remaining portions of the Plan contain background information.

The Audit Plan continues to focus on the priority areas of Education Cost Sharing (ECS) Grants and Federal/State Single Audit. The following additional areas are included in the Audit Plan:

- The review of grant calculation forms including the ECS grant and Federal Single Audit.
- The financial analysis, advice and audit services for the Charter School and Magnet School programs.
- Operational and compliance reviews of Connecticut Technical High School System (CTHSS) schools and selected CTHSS Central Office functions and activities.
- Special examinations including Board or management requests, operational reviews, and Auditors of Public Accounts (APA) activity.

The OIA appreciates the continued support of the Board, the Finance, Audit and Budget Committee members, the Commissioner, Department management and staff in performing our function. We welcome suggestions for areas of audit coverage that will provide assurances that:

- (1) operations are being conducted economically and efficiently;
- (2) desired program results are being achieved; and
- (3) the Department is in compliance with significant laws and regulations.

Prepared by: 
Gloria McCree, Director
Office of Internal Audit

STATE OF CONNECTICUT
DEPARTMENT OF EDUCATION
OFFICE OF INTERNAL AUDIT

ANNUAL AUDIT PLAN

SCHEDULE OF AUDIT PROJECTS

Fiscal Year July 1, 2015 - June 30, 2016

PREPARED BY
THE OFFICE OF INTERNAL AUDIT
MAY 2015

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ANNUAL AUDIT PLAN

FISCAL YEAR 2015/2016

INTRODUCTION

The Office of Internal Audit (OIA), within the State Department of Education (SDE), reports directly to the State Board of Education (Board) through the Board's Finance, Audit and Budget Committee (Committee). The Director of the OIA (Director) reports administratively to the Commissioner of Education (Commissioner). In addition to the Director, a Supervising Accounts Examiner, three (3) Associate Accounts Examiners, and a Secretary staff the OIA. As of the date of this report, the Supervising Accounts Examiner plans to retire during fiscal year 2015-2016. The timing of his retirement may impact the plan.

AUDIT POLICY

THE CONNECTICUT STATE BOARD OF EDUCATION ADOPTED
THE FOLLOWING AUDIT POLICY ON MAY 7, 2008:

It is the policy of the State Board of Education to maintain an Office of Internal Audit that is effective, independent and objective. Such office will be appropriately resourced and adequately staffed with highly competent individuals, to assist the State Board of Education through its Finance, Audit and Budget Committee, and the State Department of Education management in the effective discharge of their fiduciary and administrative responsibilities.

INTERNAL AUDIT MISSION, RESPONSIBILITIES AND FUNCTIONS

The Board has adopted the following mission statement for OIA:

The mission of the Office of Internal Audit is to assist the State Board of Education and the State Department of Education management in identifying, avoiding and, when necessary, mitigating risks.

OIA audit activity includes reviewing and analyzing all aspects of SDE's multi-billion dollar operation. In conducting the various reviews, audits and projects, OIA:

- reviews and evaluates the soundness, adequacy and application of accounting, financial and operating controls and procedures, and the cost effectiveness of such controls;
- determines the extent of compliance with established statutes, regulations, policies, plans and procedures;
- audits accounts and financial transactions;
- audits the operations of the Connecticut Technical High School System (CTHSS);
- ascertains the extent to which assets were accounted for and safeguarded from losses of all kinds;
- determines the reliability of management data developed within the organization and by relevant outside agencies;
- evaluates the quality and completeness with which management performed assigned responsibilities;
- recommends improvement in the operations and the use of resources in the Department;
- assesses the adequacy and effectiveness and security of information processing systems; and
- coordinates work with external CPA firms and the Auditors of Public Accounts (APA) to provide assurance to the Board, departmental managers, and state and federal regulators that resources are being used efficiently, effectively and in compliance with applicable statutes, regulations, policies and procedures.

ANNUAL AUDIT PLAN DEVELOPMENT

In addition to the previously noted responsibilities and functions, the Committee established the following procedure concerning the Annual Audit Plan:

By May 31st of each year, the Director shall, in consultation with the Commissioner and Department staff, prepare and submit to the Board's Finance, Audit and Budget Committee an Annual Audit Plan for the next fiscal year. Upon approval of the Plan by the Committee and the Board, a copy of said Plan shall be furnished to the Department's management.

To fulfill the responsibilities and functions assigned to OIA by the Board, it is essential that audit resources be applied, at planned intervals, to key functions of SDE that have been identified as critical for an effective and efficient operation. These audit resources, however, should also be flexible enough to address any special concerns of management or the Board.

The attached Audit Project Classification/Description (Schedule 1) and Annual Audit Plan (Schedule 2) for fiscal year July 1, 2015 - June 30, 2016 identifies projects that are considered significant as determined by past experience and a general understanding of the Department. It was prepared in consultation with the Commissioner and SDE management. Also, the Plan was developed giving recognition to audit activity performed by Federal, State and outside Certified Public Accountants (CPA's) to avoid duplication of effort. This includes audit activity performed under both the Federal and State Single Audit Acts. Coordination of effort is especially critical with audit activities performed by the APA.

Although this Plan identifies projects to be performed in the upcoming fiscal year, it is part of a long-range plan to address specific SDE areas on a cyclical basis. By this approach, the Board, the Commissioner, and SDE management have input into and receive assurance that critical organizational components are regularly reviewed. Schedules 1 and 2 of this report provide detail of the audit projects for the upcoming and subsequent fiscal years.

GENERAL PROJECT CLASSIFICATIONS

The audit projects can be broadly classified into two categories, external and internal. There is commonality in purpose between audits classified as external and those classified as internal. Both external and internal audits provide assurance to the Board and SDE management that resources are used efficiently, effectively and in accordance with applicable statutes, regulations, department policies and procedures. External audits consist of examinations of the financial records of entities outside the SDE, primarily local school districts that receive grant payments from SDE. Audits are performed by staff or by outside CPA firms. Audits performed by outside CPA firms are reviewed by OIA and appropriate steps are performed to follow up on audit activity as deemed necessary.

ANNUAL AUDIT PLAN
FY 2015/2016

Internal audits consist of operational and compliance examinations of SDE functions, programs and activities. These audits are performed by OIA staff. Examinations performed of the operations of a technical high school, for example, can be considered an internal audit.

PROJECT FOCUS

Approximately 85% of OIA staff time is focused on auditing grants to local school districts (external audits). This focus is a function of statutory and regulatory requirements that these audits be performed, the dollars involved, and the risks of errors or noncompliance with grant requirements. These grant payments, over the last few years, amount to about \$2.7 billion per year or about 91% of SDE's General Fund expenditures. The remaining General Fund expenditures for SDE, approximately 9% of expenditures, are associated with Personal Services and Other Expenses. This amounts to approximately \$243 million per year. Most of these expenditures are associated with the operation of CTHSS.

SCHEDULE 1

AUDIT PROJECT CLASSIFICATION/DESCRIPTION

FY 2015/2016

	<u>Budgeted Staff Days</u>	<u>Project Summary(page)</u>
<i>EXTERNAL AUDITS</i>		
Federal and State Single Audit Issues	145	7
Education Cost Sharing Grants	65	8
Charter Schools/Magnet Schools	65	8-9
Certified Public Accounting (CPA)		
Quality Assurance	15	9
Consultant Support/On-site Monitoring Reviews	<u>15</u>	9
Total	305	
<i>INTERNAL AUDITS</i>		
Operational Reviews	210	10
Special Exams/Projects	150	10
Connecticut Technical High Schools	70	11
Forms Review and Analysis	35	11
Administration and System Maintenance	<u>35</u>	12
Total	500	
Grand Total	805	

SCHEDULE 2
ANNUAL AUDIT PLAN
FY 2015/2016

FEDERAL AND STATE SINGLE AUDIT

Staff Days Budgeted FY 2015/2016 - 145 days

Product/Outcome Expected:

Audit issues associated with grantee performance as identified through the Federal and State Single Audit processes are addressed and resolved. SDE must maintain full compliance with the Federal Single Audit requirements to avoid sanctions or discontinuance of federal awards. Audit reports are due from CPA firms by 12/31 of each year. This is an ongoing process during the year.

Project Description

1. Federal Single Audit

As a pass-through entity for Federal awards, the SDE has defined responsibilities under Federal Circular A-133, Audits of States, Local governments, and Non-Profit Organizations. OIA advises grantees of federal awards of their responsibilities to have audits performed in accordance with A-133 requirements, obtains and reviews audit reports for compliance with A-133 provisions, and acts to ensure resolution of audit findings or questioned costs through the issuance of management decisions as necessary.

2. State Single Audit

The State Office of Policy and Management (OPM) is the cognizant agency for municipalities and non-profit organizations under the State Single Audit Act. OPM has assigned to SDE the cognizant agency responsibilities for regional educational service centers and charter schools. As a result, OIA performs certain defined monitoring and advisory activities to meet SDE's cognizant agency responsibilities over these entities. In addition, OIA has the responsibility to address certain audit findings involving state financial assistance provided by SDE to municipalities, non-profits and the previously named entities that are contained in reports issued under the State Single Audit Act. These findings include such issues as questioned costs, program compliance, and internal control weaknesses. Also OIA, in cooperation with SDE program management, develops program compliance supplements to be included in the Compliance Supplement to the State Single Audit Act for certain SDE State grants.

3. Contractor versus Grantee Analysis

The OIA will conduct a review of selected SDE contracts to determine whether the contractors are, in fact, grantees that would require auditing in compliance with the Federal and State Single Audit Acts.

EDUCATION COST SHARING (ECS) GRANT

Staff Days Budgeted FY 2015/2016 - 65 days

Product/Outcome Expected:

1. Audit completed of 2015-2016 Fixed ECS Entitlements by October 2015.
2. Coordinate and resolve issues identified by outside CPA firms concerning agreed-upon procedures audits of Form ED001, End of School Year Report and Public School Information System (PSIS) Data. All issues resolved for Fiscal Year 2014/2015 ED001 by 6/30/16.

Project Description

C.G.S. Sections 10-261a through 10-262 provide for education equalization aid to cities and towns. This grant program amounted to over \$2.0 billion in 2014-2015. The complexity of the grant calculation, the amount of money involved and the focused public attention on this grant warrant priority attention. The audits consist of verifying the ECS calculation(s) and coordinating and resolving issues involving CPA audits of the Form ED001, PSIS Data and related forms that are based upon an agreed-upon procedures package developed and issued by OIA. Resolution of issues can result in revised ECS calculations. Audit effort in this area is expended on an ongoing basis throughout the year and is relied upon by the APA in fulfilling their role under C.G.S. 10-260a.

CHARTER AND MAGNET SCHOOLS

Staff Days Budgeted Fiscal Year 2015/2016 – 65 days

Product/Outcome Expected:

Work is performed in this area to enhance financial accountability over charter schools and magnet schools.

OIA will provide the Bureau of Choice Programs with financial analysis, advice and audit services as necessary. This will include attending site visits for charter renewal or for reviews of school fundamentals and evaluating the financial viability and management controls over financial matters. For charter schools and magnet schools, legislation requires an audit of one randomly selected school by a CPA firm selected by the Commissioner. OIA will work with the SDE Division of Finance and Internal Operations and the Bureau of Choice Programs to

ensure these audits are conducted. In addition, OIA will work with these offices to update financial reporting requirements (ED001C and Magnet School financial reporting) to meet statutory requirements and improve program accountability.

CERTIFIED PUBLIC ACCOUNTING (CPA) QUALITY ASSURANCE

Staff Days Budgeted FY 2015/2016 - 15 days

Product/Outcome Expected:

OIA is including the review of the quality and consistency of audit work performed by CPA firms performing Federal and State Single Audits, and Form ED001 audits in its plan.

Project Description

OIA will implement a process for reviewing a sample of working papers from the CPA firms submitting audits involving the Federal and State Single Audit Acts, and Form ED001-End of the School Year Report. Under the Federal and State Single Audit Acts, the SDE has certain cognizant and oversight agency responsibilities that include reviewing the audit work performed by CPA firms. While OIA conducts reviews of audit reports, as previously described in this Plan under Federal and State Single Audit, quality control reviews of audit working papers is required by these Acts and serves to ensure that the underlying work supporting the audit report is not substandard and meets the requirements of the Acts. Similarly, examinations of working papers associated with examinations by CPAs of Form ED001 could be included in this process.

CONSULTANT SUPPORT/ON-SITE MONITORING REVIEWS

Staff Days Budgeted Fiscal Year 2015/2016 – 15 days

Product/Outcome Expected:

Titles I, II and III on-site monitoring reviews are conducted annually on selected Local Education Agencies (LEA). This work is in addition to the desk reviews that are performed. As requested by the program managers, OIA supports these activities by reviewing the financial aspects of the grant which allows the program managers to focus on the programmatic aspects of their reviews.

OPERATIONAL REVIEWS

Staff Days Budgeted Fiscal Year 2015/2016 – 210 days

Product/Outcome Expected:

This audit category includes but is not limited to:

- Completing Magnet School Transportation audits
- Completing Open Choice Transportation audits
- Responding to LEA/CPA questions
- Acting as liaison with the APA for the SDE
- Resolving and communicating SDE inventory issues
- Providing financial and operational guidance as needed to the department

SPECIAL EXAMINATIONS/PROJECTS

Staff Days Budgeted Fiscal Year 2015/2016 – 150 days

Product/Outcome Expected:

Work is performed in this area to address specific concerns communicated by the Commissioner, SDE management and/or various superintendents and to enhance financial accountability and internal control.

Over the last few years, OIA has received numerous requests from the Commissioner, SDE management and superintendents for special reviews and audits. OIA has spent considerable time in conducting these reviews due to the complexity and the problems associated with the processes audited. To date, OIA has received requests to audit special education excess costs and food services for various districts, Alliance districts and the Commissioner's Network and to expand monitoring activity for Title 1 during fiscal year 2015-2016. As is the case for all other audit activity, OIA will rank the various potential audits based on an assessment of risk and select the projects to be completed based on this risk assessment and available staffing.

CONNECTICUT TECHNICAL HIGH SCHOOL SYSTEM (CTHSS)

Staff Days Budgeted FY 2015/2016 – 70 days

Product/Outcome Expected:

Compliance audits will be performed at selected CTHSS schools and of selected CTHSS Central Office functions and activities. Audit reports will be issued with findings, recommendations, and management response.

Project Description:

An on-site examination is performed at selected CTHSS school sites in accordance with an audit program. The selection of schools for audit may be coordinated with the APA. This coordination of effort is directed towards coverage of each school on a periodic basis. In addition, OIA will continue to monitor the physical inventory process over CTHSS school equipment with the goal of improving accountability over such items. Finally, OIA may select certain functions or activities associated with the CTHSS Central Office operations for an operational or compliance review.

See Schedule 3-Schedule-CTHSS Audit Activity for planned activity for fiscal 2015-2016 and subsequent years through 2021.

FORMS REVIEW ANALYSIS

Staff Days Budgeted Fiscal Year 2015/2016 – 35 days

Product/Outcome Expected:

OIA will analyze and review new grant forms to ensure accuracy of grant calculation. This is an ongoing process throughout the year.

Revisions to grant forms and new grant forms are forwarded on a regular schedule each year to OIA from the Bureau of Grants Management. OIA evaluates revisions and new forms for compliance with statutory authority, clarity in wording, and accuracy of formula for grant calculation. Also, OIA will select at least one grant for testing of the accuracy of the payments generated as a result of the grant calculation forms.

APA LIAISON ACTIVITY, ADMINISTRATION AND SYSTEM MAINTENANCE

Staff Days Budgeted FY 2015/2016 - 35 days

Project Description:

This project area includes liaison activity with the APA, training, vacation and other personal leave time, administration and system maintenance.

Schedule 3 – CTHSS Audit Activity

Audit Project	Freq.	Audit Days					
		Fiscal Year Ending					
		6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021
CTHSS – Central Office Operations							
Conn. Technical High Schools *							
Ella T. Grasso – Groton	6			25			
Platt – Milford	6					25	
Bullard Havens – Bridgeport	6		25			25	
Henry Abbott – Danbury	6						25
H.H. Ellis – Danielson	6						
Eli Whitney – Hamden	6	25					
A. I. Prince – Hartford	6				25		
Howell Cheney – Manchester	6						25
H. C. Wilcox – Meriden	6		25				
Vinal – Middletown	6				25		
E. C. Goodwin – New Britain	6						25
Norwich – Norwich	6	25					
J. M. Wright – Stamford	6			25			
Oliver Wolcott – Torrington	6				25		
W. F. Kaynor – Waterbury	6					25	
Windham – Willimantic	6	25					
Emmett O'Brien – Ansonia	6		25				
Bristol Tech Ed Center – Bristol	6			25			
Aviation Tech – Hartford	6					5	
Aviation Tech – Stratford	6						5
Total Days		75	75	75	75	80	80

*Note: The scope of review may vary depending upon risks identified and previous experience.