

IX.D.

CONNECTICUT STATE BOARD OF EDUCATION Hartford

TO BE PROPOSED:
June 14, 2017

RESOLVED, That the State Board of Education adopts the Annual Audit Plan for the period of July 1, 2017, through June 30, 2018, and directs the Commissioner to take the necessary action.

Approved by a vote of _____ this fourteenth day of June, Two Thousand Seventeen.

Signed: _____
Dianna R. Wentzell, Secretary

TO: State Board of Education

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

DATE: June 14, 2017

SUBJECT: Office of Internal Audit (OIA) Annual Audit Plan
Fiscal Year Ending June 30, 2018

Attached is the OIA Annual Audit Plan for the fiscal year ending June 30, 2018. The audit coverage is designed to provide assurances that: operations are being conducted economically and efficiently; desired program results are being achieved; and the Department is in compliance with significant laws and regulations. Attachment I, page 10, of the Plan contains the audit areas suggested for completion during fiscal year ending June 30, 2018. The Annual Audit Plan continues to focus on the priority areas including Federal/State Single Audit, Connecticut Technical High School System, Special Projects, Charter and Magnet Schools and Educational Cost Sharing Grants. The remaining portions of the Plan contain background information.

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.

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, 2017 - June 30, 2018

DRAFT

PREPARED BY
THE OFFICE OF INTERNAL AUDIT
MAY 2017

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ANNUAL AUDIT PLAN

FISCAL YEAR 2017/2018

INTRODUCTION

The Office of Internal Audit (OIA), within the Connecticut State Department of Education (CSDE), 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.

The Supervising Accounts Examiner position is vacant due to a retirement in March 2017. Given the small size of OIA, any staff reduction has a significant impact on the Annual Audit Plan (Plan). This vacancy may not be filled at this level or be filled at any level in the immediate future due to the State's budgetary crisis. When the hiring freeze is lifted, OIA may be required to hire a displaced worker who may not have the requisite skills and experience for the position. As a consequence, this individual may not be fully productive for some period of time, which would impact the completion of the Plan. Additionally, the new person may require on the job training from one of the other staff members which will impact those staff members productivity.

Given these uncertainties, the 2017-2018 Plan is based on the available work hours of the three Associate Accounts Examiners. OIA will focus on the audit areas impacted by statutes and will continuously prioritize its work so that any important areas which are not impacted by statutes may be audited. OIA will also coordinate its audit activity closely with the Auditors of Public Accounts (APA) and with external Certified Public Accountants (CPAs) to ensure adequate audit coverage to the more important or risky areas within CSDE and to limit or eliminate duplicative work.

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 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.

In support of this mission statement, OIA audits all aspects of CSDE's multi-billion dollar operation and the Office of Early Childhood (OEC); specifically 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, including performing forensic analyses;
- audits the operations of the Connecticut Technical High School System (CTHSS);
- ascertains the extent to which assets were properly 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 improvements in the operations and the use of resources;
- assesses the adequacy and effectiveness and security of information processing systems; and

- coordinates work with external CPA firms and the 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 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 CSDE that have been identified as critical for an effective and efficient operation. It is also important that the Plan allow for the flexibility needed to address issues that were not evident during this planning phase. The Plan may be adjusted in the event that risks are identified that must be addressed or concerns are expressed by the Board, Committee, management or other parties during the fiscal year. By this approach, the Board, the Committee, the Commissioner, and CSDE management have input into and receive assurance that critical organizational issues are being reviewed. Any significant changes to the Plan will be discussed with the Committee prior to the performance of audit work.

This document identifies projects that are required by statute, past experience and a general understanding of the needs of the Department. It was prepared in consultation with the Commissioner and CSDE management. Also, the Plan was developed giving recognition to audit activity performed by Federal, State and outside CPAs and the APA and is designed to avoid duplication of effort and ensure adequate coverage of areas of risk.

The Plan continues to focus on examinations of the financial records and reports of entities outside the CSDE, primarily local school districts that receive grant payments from CSDE. The grant related audits are performed because of statutory requirements. These audits are performed by OIA staff or by external CPA firms. Audits performed by external CPA firms are reviewed by OIA and appropriate steps are performed by OIA to follow up on audit activity as deemed necessary. Additionally, OIA may request external CPA firms to conduct audits in which case OIA may prepare the specific steps of the audit program, monitor the status of the audit work, review the CPA's reports and follow up on areas of concern.

The key areas of audit activity during fiscal year 2017-2018 are discussed on the following pages. The number of staff days required by area is detailed in Attachment 1 and the long range plan for CTHSS is contained in Attachment 2.

ANNUAL AUDIT ACTIVITY

STATUTORILY MANDATED AND HIGH PRIORITY AUDIT ACTIVITY

Audit activity will be continuously prioritized with any statutorily mandated and high priority activity being given attention.

FEDERAL AND STATE SINGLE AUDIT

Audit issues associated with grantee performance as identified through the Federal and State Single Audit process are reviewed and resolved. This audit activity occurs throughout the year and is particularly important given CSDE must maintain full compliance with the Federal Single Audit requirements to avoid sanctions or discontinuance of federal awards. OIA spends considerable time during a given year completing work associated with the Federal and State Single Audits for CSDE and on behalf of the Office of Early Childhood (OEC). Approximately 22% of OIA staff time is focused on reviewing the audit reports of grants to local school districts.

Federal Single Audit

As a pass-through entity for Federal awards, CSDE has defined responsibilities under 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities include advising CSDE and OEC program management and grantees of federal awards of the requirements under the Uniform Guidance. OIA must inform the grantees of their responsibility to have audits performed in accordance with the Uniform Guidance. Most audit reports are due from the CPA firms by December 31st. Once the reports are received OIA will review them for compliance with Uniform Guidance provisions. OIA will also ensure resolution of audit findings or questioned costs through the issuance of management decisions as deemed necessary.

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 CSDE the cognizant agency responsibilities for regional school districts, regional educational service centers and charter schools. OIA performs certain monitoring and advisory activities to meet CSDE's cognizant agency responsibilities over these entities. In addition, OIA has the responsibility to address audit findings involving state financial assistance provided by CSDE to municipalities, non-profits and the 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 CSDE program management, develops program compliance supplements to be included in the Compliance Supplement to the State Single Audit Act for certain CSDE State grants.

CONNECTICUT TECHNICAL HIGH SCHOOL SYSTEM

OIA has been informed by the Principal Auditor within APA that APA will audit CTHSS in 2017-2018. OIA will closely monitor audit activity performed by APA and will coordinate its audit activity with this group and with external CPAs to ensure coverage of each school on a periodic basis, and without duplication of effort.

OIA performed an extensive review in 2016-2017 to determine if amounts paid to the Pita Group were made in compliance with State and CSDE policies and procedures and State statutes, and; whether documentation existed to support the expenses. Any work required to follow up on the results of this audit may be done in conjunction with APA and/or an outside CPA firm.

In prior years, the Plan included a long-range schedule to address all CTHSS schools on a cyclical basis. The Plan is based on a rotational schedule designed to ensure that each school is examined every six years. However, the schedule may be adjusted in the event that risks were identified that had to be addressed prior to the normal schedule or in circumstances when other priorities needed to be addressed. The schools that are scheduled to be reviewed during 2017-2018 are contained on Attachment 2, CTHSS Audit Activity. Additionally, the schedule includes planned audit activity for subsequent years through 2022. Planned activities for 2017-2018 include 3 compliance examinations (as specified on Attachment 2) of school operations, business functions, programs and activities as well as 2 implementation reviews to ascertain the status of school corrective actions planned to address OIA findings and recommendations from a previous compliance review. The objective is to determine compliance with CSDE and CTHSS policies and the adequacy of internal controls. The scope of the review performed may vary depending upon risks identified and previous experience with the school.

In addition, the Plan includes the monitoring of the physical inventory process for CTHSS school equipment with the goal of improving accountability for inventory, ensuring proper accounting, enhancing internal control and resolving issues.

EDUCATION COST SHARING (ECS) GRANT

C.G.S. Sections 10-261a through 10-262 provide for education equalization aid to cities and towns. The audit objective for the Education Cost Sharing Grant (ECS) is to verify the ECS calculation(s) and coordinate and resolve issues involving CPA audits of the Form ED001, Public School Information System (PSIS) Data and related forms that are based upon an agreed-upon procedures package developed and issued by OIA. 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. This grant program amounted to over \$2.04 billion in 2016-2017. ECS calculation process is being reviewed by the legislature. At this time, it is not possible to determine how complex the new calculation will be and how long it will take to audit it. The complexity of the grant calculation, the amount of money involved and the focused public attention on this grant warrant priority attention. Resolution of issues may result in revised ECS calculations.

The audit of the 2017-2018 Fixed (preliminary) ECS Entitlements is scheduled to be completed by October 2017. The Plan includes time for OIA to coordinate and resolve issues identified by outside CPA firms concerning agreed-upon procedures audits of Form ED001, End of School Year Report and PSIS Data. These reports are the source documents for the ECS grants. Any issues for Fiscal Year 2016-2017 ED001 are scheduled to be completed by August 31, 2018.

CHARTER AND MAGNET SCHOOLS

Work is performed to enhance financial accountability over charter and magnet schools and to recommend improvements to their internal controls.

During fiscal year 2017-2018, OIA will provide the Turnaround Office with financial analysis, advice and audit services as necessary. This will include attending site visits for charter renewals, the objective of which is to review school fundamentals and evaluate the financial viability and management controls over financial matters. Currently four site visits are scheduled for next fiscal year 2017-2018. When requested by the Turnaround Office, OIA will also review charter management organization contracts to provide feedback in general business practices, enhancements to internal control and financial accountability. Legislation requires an audit of one randomly selected charter and RESC operated magnet school by a CPA firm selected by the Commissioner. OIA will work with the Bureau of Choice Programs and Turnaround Office to recommend potential CPA firms and ensure these audits are conducted. Lastly, 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.

GRANT FORMS REVIEW AND ANALYSIS

The objective of the forms review and analysis is to ensure accuracy of grant calculations for existing and new grant calculation forms. New and revised grant forms are forwarded on a regular schedule each year to OIA from the Bureau of Grants Management. OIA will analyze and review legislative changes for impacts on grant forms throughout the year. The majority of the state and federal grant calculation forms have the potential to change. As a consequence, OIA will need to review all of the changes to these forms, resulting in additional time required from previous years. OIA will evaluate these grant forms for compliance with statutory authority, clarity in wording, and accuracy of the formula for grant calculation. Also, OIA may select 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

This project area includes liaison activity with the APA, administration and system maintenance.

CONSULTANT SUPPORT/ON-SITE MONITORING

Titles I, II and III on-site monitoring reviews are conducted annually on selected Local Education Agencies (LEA). 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. This work is in addition to the desk reviews that are performed.

OTHER AUDIT ACTIVITY

The following audit areas are not required by statute but are still very important and warrant attention due to the risk associated with failing to review these areas. After ensuring that the statutorily mandated and high priority work is being completed, OIA will address the following areas based on available hours and on an assessment of risk.

SPECIAL PROJECTS

OIA performs special projects in response to specific concerns communicated by the Committee, Commissioner, CSDE and OEC management, various superintendents and other parties, including whistleblowers. Over the last few years, OIA has received several requests for this type of work, most of which was not known during the planning cycle. OIA has spent considerable time in investigating and conducting these reviews due to the complexity and the problems associated with the processes audited.

OPERATIONAL REVIEWS

This audit category includes but is not limited to:

- Responding to LEA, CPA and federal auditor questions
- Acting as liaison with CPA firms
- Providing financial and operational guidance as needed
- Preparing agreed upon procedures and provision of data to CPAs conducting Magnet School Transportation audits and other audit activity
- Completing Open Choice Transportation reviews

CERTIFIED PUBLIC ACCOUNTING (CPA) QUALITY ASSURANCE

As previously described in the Federal and State Single Audit section of this Plan, OIA is dependent on the results of external CPA audit reports. Under the Federal and State Single Audit Acts (Acts), the CSDE has certain cognizant and oversight agency responsibilities that include reviewing the audit work papers completed by CPA firms. The objective of the CPA quality assurance work is to ensure that the underlying work supporting the audit report is

**ANNUAL AUDIT PLAN
FY 2017-2018**

compliant with auditing standards and meets the requirements of the Acts. Additionally, OIA may benefit by learning different auditing techniques. In prior years, OIA did not complete quality assurance reviews of external CPA work due to competing priorities. Time permitting, OIA will implement a process in fiscal year 2017-2018 for reviewing a sample of working papers from a CPA firm submitting audits involving the Federal and State Single Audit Acts, and Form ED001-End of the School Year Report.

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ATTACHMENT 1

AUDIT DESCRIPTION

FY 2017-2018

	<u>Budgeted Staff Days</u>	<u>Project Summary (page)</u>
Federal and State Single Audit Issues	140	5
Education Cost Sharing Grants	90	6
Connecticut Technical High Schools	60	6
Charter Schools/Magnet Schools	25	7
Grant Forms Review and Analysis	30	7
APA Liaison Activity, Administration and System Maintenance	60	7
Consultant Support/On-site Monitoring Reviews	20	8
Special Projects	135	8
Operational Reviews	70	8
Certified Public Accounting (CPA)		
Quality Assurance	<u>5</u>	8-9
Total	635	

Attachment 2 - CTHSS Audit Activity

Audit Project	Freq.	Audit Days					
		Fiscal Year Ending					
		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
CTHSS – Central Office Operations							
Conn. Technical High Schools *							
Ella T. Grasso – Groton	6		25				
Platt – Milford	6					25	
Bullard Havens – Bridgeport	6				25		
Henry Abbott – Danbury	6		25				
H.H. Ellis – Danielson	6						25
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	10					
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		60	75	75	80	80	75

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