



External Quality Control Review

of the

THE SCHOOL DISTRICT OF
ESCAMBIA COUNTY
OFFICE OF INTERNAL AUDITING

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

for the period July 1, 2014 through June 30, 2019



Association of Local Government Auditors

December 12, 2019

David J. Bryant, CIA, CPA, CFE, CGFM, CGAP, CRMA, Director
75 N. Pace Blvd., Room 403
Pensacola, FL 32505

Dear Mr. Bryant,

We have completed a peer review of The School District of Escambia County's Office of Internal Auditing for the period July 1, 2014 through June 30, 2019. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing* by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the *International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework*. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that The School District of Escambia County's Office of Internal Auditing's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the period July 1, 2014 through June 30, 2019.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Ruthe Holden, CPA, CIA, CISA
City of Pasadena
Internal Audit
Team Leader

Patrick Schafer, CPA, CIA, CFE
City and County of Denver
Auditor's Office
Team Member



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David J. Bryant, CIA, CPA, CFE, CGFM, CGAP, CRMA, Director
75 N. Pace Blvd., Room 403
Pensacola, FL 32505

Dear Mr. Bryant,

We have completed a peer review of The School District of Escambia County's Office of Internal Auditing for the period July 1, 2014 through June 30, 2019 and issued our report dated December 12, 2019. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- **Commitment to strengthening staff skills** – Continuing professional education records and staff volunteering for leadership positions in local organizations demonstrates a commitment to developing technical skills and an understanding of trending risks.
- **Providing guidance to the office** – During our review we observed the Office of Internal Auditing staff's commitment to the intent and spirit of the IIA's standards. The Policies and Procedures and the Quality Control Manuals showed a thoughtful and clear approach to compliance with the standards that were easy to follow.
- **Dedication to improving the efficiency of audit processes** – Audit documentation and interviews showed that the Office of Internal Auditing has focused on looking for opportunities to continuously improve their audit processes, in order to complete the legislatively mandated audits as efficiently and effectively as possible and provide more opportunities for this department to add value to the school district in other engagements. In addition, audit documentation is well organized, logical, and easy to review.

We offer the following observations and suggestions to enhance your organization's demonstrated conformance to *International Standards for the Professional Practice of Internal Auditing (Standards)*:

- Observation 1: Communication required by Standards: Several Institute of Internal Auditors (IIA) attribute and performance Standards require periodic communication with Senior Management and the Audit Committee. These Standards include the following:
 - 1000 – periodically review Audit Charter and present to Audit Committee
 - 1010 – periodically discuss mission of Internal Audit and mandatory elements of the IPPF
 - 1110 – confirming annually the Office of Internal Auditing's independence
 - 2010 – input from Audit Committee to develop risk-based plan
 - 2020 – confirming significant interim changes to the internal audit activity's plans to Audit Committee
 - 2060 – periodically report on the Office of Internal Auditing's purpose, authority, responsibility and performance relative to the plan, and conformance with Code of Ethics and Standards
 - 2110.A1 – periodically assess and report on ethics-related objectives, programs and activities
 - 2110.A2 – periodically assess and report on whether information technology governance supports ECSD's strategies and objectives

We noted during our review of the Quality Control System, that while some of the communications required by the Standards were being discussed with Senior Management and the Audit Committee, the Office of Internal Auditing was not consistently including all required communications in its discussions annually with the Audit Committee.

Suggestion 1: To demonstrate compliance with these Standards, we recommend that the Director schedule an annual year-end status report with the Audit Committee and include all communication required by the Standards that have not been communicated in prior agenda items for that year.

- Observation 2: Quality Assurance and Improvement Program: Standard 1311 requires periodic self-assessments to evaluate conformance with the Code of Ethics and Standards. Standard 1320 requires the Director to communicate the results of the internal quality assessments to Senior Management and the Audit Committee. During our review period, we noted the Office of Internal Auditing had not completed and reported the results of the required annual internal quality self-assessments.

Suggestion 2: To demonstrate compliance with these Standards, we recommend that the Director schedule internal quality self-assessments annually and include those results in the year-end status report to the Audit Committee.

- Observation 3: Roles beyond Internal Auditing: Standard 1112 states that when the Director of Internal Audit has roles and/or responsibilities outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. Currently the Office of Internal Auditing is responsible for compiling documentation and submission/processing of financial insurance and federal grant claims for costs incurred related to natural disasters. The Director has discussed the possible impact to the Office of Internal Auditing's independence with the Superintendent, Audit Committee, and School Board; however, safeguards such as potential oversight by an independent group of the work done by the auditors have not been put in place.

Suggestion 3: To demonstrate compliance with this Standard, we recommend that the Director work with the Audit Committee, Superintendent, and School Board to identify the necessary safeguards to mitigate any potential risk of the Office of Internal Auditing performing operational duties related to reimbursements for natural disasters.

- Observation 4: Documenting the Engagement Planning Process: Attribute and performance Standards require auditors to document their understanding of the complexity of the area being audited, including risks, controls, errors, potential fraud, and non-compliance. The Standards include documenting the following:
 - 1220.A1 – extent of work needed to achieve objectives, relative complexity of audit area, adequacy and effectiveness of governance, risk and control processes, possibilities of errors, fraud or noncompliance, and cost of assurance in relation to potential benefits
 - 2201 – strategies and objectives of the activity being reviewed, significant risks to achieving objectives, and opportunities for significant improvements to governance, risks and controls
 - 2210.A2 – considering the probability of significant errors, fraud, noncompliance, and other exposures when developing engagement objectives

During our review, we noted during interviews that most of the considerations required by Standards to be completed while planning an engagement are verbally discussed by the audit team, we did not find anything in the engagement file to document compliance to these Standards.

Suggestion 4: To demonstrate compliance with these Standards, we recommend the Director implement standardized templates to be used in all engagements to ensure compliance with the planning Standards.

- Observation 5: Proficiency and Due Professional Care: the IIA attribute Standards require that engagements be performed with proficiency and due professional care.

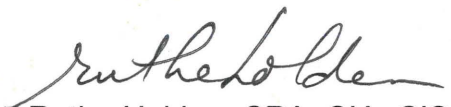
- 1210.A3 – auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform assigned work
- 1220.A2 – auditors must consider the use of technology-based audit and other data analysis techniques

We noted during our review that audit staff could strengthen their knowledge of key information technology risks and controls and identify available technology-based audit techniques that can be used to perform their audit work in a more efficient and effective manner.

Suggestion 5: To demonstrate compliance with these Standards, we recommend that the Director schedule training to help increase the audit team's knowledge of information technology risks and controls and consider using technology-based audit tools, such as data mining software, to use in audit engagements.

We extend our thanks to you and your staff we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Ruthe Holden, CPA, CIA, CISA
City of Pasadena
Internal Audit
Team Leader



Patrick Schafer, CPA, CIA, CFE
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"Making a Positive Difference"

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December 12, 2019

Ruthe Holden, CPA, CIA, CISA
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City of Pasadena
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Patrick Schafer, CPA, CIA, CFE
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Ms. Holden and Mr. Schafer,

I have received your report and associated management letter for the recent External Quality Control Review of our office. I would first like to thank you for your professionalism and thoroughness throughout the review process. I have read the report and management letter and agree with conclusions and recommendations contained therein.

We offer the following responses and action plans related to the recommendations contained in the management letter:

Observation 1: Communication Required by Standards

Our office has often relied on verbal communication of the required annual elements of the Standards, without documenting those communications. We will develop a standard report detailing all the annual communication required by the Standards. This report will be presented to the Audit Committee on an annual basis. The goal is to present the first of these reports at the Audit Committee meeting scheduled for August 3, 2020. In addition, we will update our Quality Control Manual and Policies and Procedures Manual as appropriate.

Observation 2: Quality Assurance and Improvement Program

While our office has developed and incorporated many quality control processes into our policies and practices, we have not conducted an annual internal quality assessment and reported those results to the Audit Committee. We will gather internal assessment examples from other similar internal auditing offices and develop a process to conduct this assessment. The report on the assessment will be presented to the Audit Committee on an annual basis. The goal is to present the first of these reports at the Audit Committee meeting scheduled for August 3, 2020. In addition, we will update our Quality Control Manual and Policies and Procedures Manual as appropriate.

Observation 3: Roles beyond Internal Auditing

For the past 20+ years, our office has been responsible for compiling, processing, and submitting financial documentation related to damages from natural disasters. We have relied on FEMA and insurance companies to "audit" our submissions; however, we now realize that these agencies only audit what is given to them. There are no safeguards outside of our office to ensure the documentation gathered was accurate and complete. We will discuss the need for these safeguards with the Superintendent and his staff and determine what safeguards to put in place. Once safeguards are developed, we will document those safeguards and present this information to the Audit Committee. We will update our Quality Control Manual and Policies and Procedures Manual to include

the safeguards. The safeguards will be implemented for all future natural disasters where our office is required to compile, process, and/or submit financial documentation.

Observation 4: Documenting the Engagement Planning Process

As noted in the management letter, our office has traditionally conducted engagement planning verbally, without documenting the matters discussed or actions taken. We will gather engagement planning templates from other similar internal auditing offices and develop a standard template for engagement planning. These templates will be utilized for each engagement, updated appropriately, and included in the engagement work papers. The goal is to have the planning template in place prior to commencement of the 2019-2020 school internal accounts audits.

Observation 5: Proficiency and Due Professional Care (IT Related)

While the staff in our office has received a wide-variety of training and continuing education, very little of that training has been related to information technology risks and controls and technology-based audit techniques. By December 31, 2020, all members of the office will receive training on information technology risks and controls. An assessment of technology risks and controls will be done and documented for all engagements starting with the 2019-2020 school internal accounts audits.

While we use various technology when conducting engagements, the technology is used primarily to document the fieldwork and results, not to aid in conducting the engagement itself. We will research various computer assisted audit technique software to determine the feasibility of acquiring such software. At a minimum, we will utilize the various functions of MS Excel, MS Access, and Skyward to perform engagements more efficiently and effectively.

Once again, thank you for your professionalism and for the various strategies for enhancing our policies and processes which you offered throughout the review process. I look forward to corresponding with you for additional information on best practices. I would also like to thank ALGA for offering the peer review program, which is invaluable for small government audit offices such as ours.

Sincerely,

A handwritten signature in black ink that reads "David J. Bryant". The signature is fluid and cursive, with a horizontal line extending from the end of the name.

David J. Bryant
Director of Internal Auditing
Escambia County School District
Office of Internal Auditing