



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



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Introduction

The Columbus City School District's mission to educate the children in its district is among the most important missions of any public or private entity in central Ohio. As a large urban school district, Columbus City School District is faced with many challenges, both educationally and administratively. Members of the Board of Education and management continue to work to address these challenges.

In 1999 management began implementing our recommendations which we made to the District in our reports on the 1997 and 1998 financial statements audits. We made these recommendations in order to provide a clear direction to assist the District in addressing their challenges.

Two of our recommendations, first advanced in our reports on the 1997 financial statements audit, hold great promise to assist the District in continuing to effect real change in the culture of the District. We recommended that the District establish and effectively use an audit committee of its Board of Education, and an internal audit function. While these recommendations were adopted in 1999, the Board of Education desires to be certain that the internal audit structures in place achieve full benefit for the District.

Therefore, the Board of Education requested that we review the District's current Audit Committee structure and internal audit functions. This report contains the results of our review and our recommendations to the Board of Education. In order to enjoy the benefits of these recommendations, the Board of Education, Superintendent and Treasurer must embrace both the Audit Committee and internal audit functions in the spirit of continuous improvement and continue to support their missions. By acknowledging their full faith in and support of these functions, the Board, Superintendent and Treasurer will acquire a powerful tool to continue to improve management practices. Without this support, these two initiatives will remain less effective.

The District is currently without a Director of Internal Auditing. The former Director resigned his position effective August 1, 2002. The District needs to take quick action to hire an expert auditor with the strong interpersonal skills necessary to effectively interact with the Board of Education, its Audit Committee, Superintendent, and Treasurer

Scope

Earlier this year, the Board of Education asked us to clarify certain issues affecting the establishment and operation of the Audit Committee and Internal Audit department. The Board of Education specifically asked for recommendations regarding the:

- Charter for the Audit Committee
- Bylaws of the Audit Committee
- Charter of the Internal Audit Department
- Organization of the Internal Audit Department
- Placement of the Internal Audit Department in the overall District organizational chart and its reporting relationships
- Policies and procedures of the Internal Audit Department
- Budget and training plan of the Internal Audit Department
- Audit plan and corresponding audit objectives

During the course of interviews, our assistance was requested to clarify roles and responsibilities in the internal audit process, and suggest an appropriate salary range for the Director of Internal Auditing. We have addressed both issues in this report.

Methodology

In developing our recommendations, we coordinated a review of current audit committee and internal audit best practices literature with extensive interviews of members of the Board of Education, Audit Committee and District staff, including the Superintendent, Treasurer, Director of Internal Auditing. With respect to School District Internal Audit benchmarks, we were greatly assisted by the publication in 2000 and 2002 of the results of surveys of the 50 largest United States school district internal audit departments

published by Jim Kaplan, Internal Auditor of the Fairfax County (VA) Public Schools which is the 12th largest school district in the United States.

Literature Review

For the most part, audit committee and internal audit best practices literature has been developed in the private-sector, and, in the light of recent accounting and financial reporting scandals, is being currently reviewed for effectiveness. However, we are most grateful for the publication the “Final Report of the Interim Audit Committee” (1998) commissioned by the Columbus City School District Board of Education and “Public Sector Audit Committees: Hallmarks of Accountability” (1998) by Deloitte & Touche.

Any literature review of documents bearing on any discussion of audit committee and internal auditing must include such seminal works as the “Report of the Nation Commission on Fraudulent Financial Reporting” (1987), also known as the Treadway Commission Report, and “Internal Control – Integrated Framework” (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission.

More recently published documents include “Recommendations for Improving Corporate Governance” (2002) published by the Institute of Internal Auditors, “21st Century Governance and Financial Reporting Principles” (2002) proposed by the Corporate Governance Center at Kennesaw State University, and “Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999) commissioned by the New York Stock Exchange and the National Association of Securities. The Blue Ribbon Committee’s recommendations have been adopted as rules by the Securities Exchange Commission. Significantly, these reports were published after the “Final Report of the Interim Audit Committee,” and its recommendations were not available to the Interim Audit Committee.

We are indebted to PriceWaterhouseCoopers for its publication of “Audit Committee Effectiveness – What Works Best” (2000) which is annually updated for current developments, and “Audit Committees: Best Practices for Protecting Shareholder Interests” (1999).

For internal auditing best practices, we are indebted to the Institute of Internal Auditors Professional Practices Framework, which is an extensive databank of guidance for chartering and operating an internal audit department. We used this source for best practice criteria in developing recommendations for the internal audit department including evaluating its charter, policies and procedures.

We are also indebted to Jim Kaplan, Internal Audit Director, Fairfax County (Va.) Public Schools, for his survey of the internal audit departments of the 50 largest school districts in the United States. The results of this survey, published in 2000 and 2002, were used to illuminate an industry trend for internal audit departments to report directly to boards of education or their audit committees. It was also used as a data point for benchmarking the Director's salary and to determine reasonableness of the Department's staff size.

Interviews

We discussed the establishment and operation of the Audit Committee and Internal Audit Department with every member of the Board of Education and Audit Committee. We interviewed the Superintendent, Treasurer and Director of Internal Auditing. We interviewed almost every member of the Superintendent's Cabinet and Senior Cabinet, and the Treasurer's management team. We conducted extensive personal interviews with every member of the entire Internal Audit Department. In all, we conducted over 40 personal interviews with those responsible for chartering the operation of the Audit Committee and Internal Audit Department, directing their operations, and responding to their reports. These interviews helped in identifying areas most in need of clarification.

Recommendations

Audit Committee Charter

In its Final Report dated May 19, 1998, the Interim Audit Committee recommended a method for establishing a permanent audit committee and delegating to it specific powers and duties. We note that Audit Committee was formed along the lines established by the Final Report, but that a formal Audit Committee charter was never drafted and adopted by the Board of Education. ***We recommend the Board of Education formally adopt an Audit Committee charter.***

The recommendations regarding the powers and duties of the audit committee that were proposed by the Interim Audit Committee and were embodied in Attachment A to their Final Report and are reproduced below interspersed with our observations and recommendations.

Establishment of Audit Committee

There will be an Audit Committee of the Board of Education which shall serve at the pleasure of the Board of Education and be under its control. The Audit Committee will have the following membership and powers:

We recommend that the members of the Audit Committee be appointed by the Board of Education on the recommendation of the President and consent of a majority of the Board of Education, and that removal of a committee member be effected by resignation of the member, expiration of a his or her appointment term, or for cause.

We recommend that the Audit Committee serve the Board of Education as its primary investigatory arm. Investigations required by the Board of Education should be assigned to the Audit Committee for procurement, management and reporting. The Audit Committee should have a budget sufficient to discharge these investigatory responsibilities quickly and effectively.

Our proposal for the Audit Committee Charter (Appendix A, page 33) and Code of Regulations (Appendix B) incorporates our recommendations in this area.

1. The Audit Committee will have at least three members. The members will be appointed by the full board. Collectively, the three members will have sufficient knowledge of accounting, finance, law and business practices to provide oversight in regards to the external and internal audit functions.

We recommend that two classes of membership be provided for the Audit Committee: Elected members and Non-elected members. Three members

should be elected members of the Board of Education and two members should be qualified members of the business community.

We recommend that the current policy prohibiting a member of the Board of Education serving as chairperson on more than one standing committee (Policy Number 9231) be amended to exclude its application to the Audit Committee. In other words, the policy should be revised so that a member may chair the audit committee and another standing committee of the Board.

We recommend that the Audit Committee also review management's corrective action plans and assure the scheduling of Internal Audit follow up and reporting on management's execution of its corrective action plans.

Our proposal for the Audit Committee Charter and Code of Regulations incorporates our recommendations in this area.

2. In the absence of the State Auditor performing the District's financial audit, the Audit Committee shall recommend to the Board of Education for its action the appointment of the District's independent auditors. This shall be based on the Audit Committee's judgment of the independence of the auditors, the fees charged for audit and non-audit services and the quality of its work.

Private sector auditors should not be allowed to provide non-audit services to the District. We agree that the Audit Committee should have this specific power and duty to review proposals and recommend a private sector auditor in the event the audit is not performed by the Auditor of State, and we have included it in our proposal for an Audit Committee Charter.

3. The Audit Committee shall review and approve the scope and plan of the independent audit.

We agree that the Audit Committee should have this specific power and

duty, and we have included it in our proposal for an Audit Committee Charter.

4. The Audit Committee shall meet with the independent auditors at appropriate times to review among other things the results of the audit, the financial statements and the opinions, reports and management letters the auditors propose to issue with such statements.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter.

5. The Audit Committee shall review and approve each professional service utilized by the internal auditor of a non-audit nature that arises as a result of a recommendation.

This is a power implied by the functional supervision of the Internal Audit Department by the Audit Committee.

6. The Audit Committee shall recommend to the Board for its action the appointment or removal of the Director of Internal Auditing.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter

7. The Audit Committee shall review and approve the Internal Auditing Charter.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter.

8. The Audit Committee shall review and approve internal audit plans and budget.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter.

9. The Audit Committee shall review the results of the internal audit activities.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter.

This area is discussed in greater detail in our discussion on the audit plan at page 24.

10. The Audit Committee shall review the results of quality assurance reviews.

We agree that the Audit Committee should have this specific power and duty, and we have included it in our proposal for an Audit Committee Charter.

Once a new Director of Internal Auditing is appointed, scheduling a quality assurance review should be among his or her highest priorities. The review should build upon the work presented in this report by providing a methodical examination of Department's compliance with its policies and procedures.

11. The Audit Committee shall have the power to direct the independent auditors and the internal audit staff to inquire into and report to it with respect to any of the District's contracts, transactions, or procedures or the conduct of the district office, or any District employee, or any other matters having to do with the District's business and affairs. The Board of Education may authorize the Audit Committee to initiate special investigations into such matters under the control of this committee.

We recommend this provision be strengthened to allow the Audit

Committee to independently recommend initiation of investigations. To the extent that such investigations cannot be accomplished with internal District resources or are of such a nature that internal investigation would not provide the appropriate level of independence, the Audit Committee should be specifically authorized to procure the necessary investigatory services on behalf of the District. This recommendation implies that spending authority will be granted to the Audit Committee upon Board of Education approval of the investigation.

12. The Audit Committee shall have other duties as may be lawfully delegated to it from time to time by the Board of Education.

We agree with the provision, and we have included it in our proposal for an Audit Committee Charter

We have incorporated into Appendix A (page 33) of this report, a proposed Audit Committee Charter for the Columbus City School District which incorporates the recommendations of the Interim Audit Committee as adjusted for the recommendations in this report. The Audit Committee Charter should be approved by the Audit Committee and adopted by the Board of Education.

Additionally, we believe the Internal Audit Department would benefit from an early quality assurance review of its policies and procedures and its compliance with those policies and procedures

Audit Committee Bylaws

Section 1.A. and Section 2 of the Final Report of the Interim Audit Committee contains its recommendations regarding a system regulating the appointment, terms, meetings and governance of the Audit Committee. We reproduce those recommendations below interspersed with our observations and recommendations.

Permanent Audit Committee (Section 1.A.)

A Permanent Independent Audit Committee should be formed to assist the Board of Education, the District Superintendent, the District Treasurer, and management at

operational levels to achieve the District's goals and objectives relating to financial reporting, compliance with laws and regulations, operations and safeguarding the District's assets.

Structure (Section 2.A.)

An Audit Committee of the Board of Education which shall serve at the pleasure and under the control of the Board of Education be hereby created and established. The Permanent Audit Committee will report through the Finance and Investment Panel of the Board of Education.

We recommend that the Audit Committee be elevated to a standing committee of the Board of Education. It should have direct access to the Board of Education on a regular basis.

A sample resolution adopting this reporting structure and the Audit Committee Charter is attached as Appendix A on page 33.

The Audit Committee shall be composed of three (3) voting members and an ex-officio Board member.

We recommend that two classes of membership be established: Elected and Non-elected, that three (3) members be elected Board of Education members, two (2) be qualified, non-elected members of the business community, and that there be no distinction in voting privileges between the two classes.

Our recommendation does not suggest removal of any current non-elected Audit Committee member. Rather, the excess of non-elected members should be resolved by the expiration of their terms. In other words, for a while, there should be six (6) members of the Audit Committee until a non-elected member's term expires.

The Columbus Board of Education will appoint the Chair of the committee. The Chair shall recommend two persons to serve on the committee.

We recommend that, for non-elected members, the Board president

recommend and the Board of Education approve all appointments to the committee. We recommend that elected members serve at the request of the President of the Board of Education.

We recommend that the Chair of the committee be an elected member of the Board of Education. This recommendation should not apply to the initial Committee chair appointed by the Board of Education and should become effective upon the expiration of the initial Chair's term of appointment or his resignation.

A member of the Columbus Board of Education shall serve as an ex-officio member.

We recommend that three elected members of the Board of Education serve on the Audit Committee. Elected members' voting privileges should be identical to those granted to non-elected members.

All recommendations are contingent upon approval by the Board of Education.

As a committee of the Board of Education, the Audit Committee can only advise the Board of Education and take no action directly, except as it relates to a recommendation to the Board of Education or to discharge a duty specifically delegated to it by the Board of Education. We believe that extent and limitation of committee power is adequate and obviates the need for a specific limitation placed in the charter.

The non-voting board member shall be determined at the Columbus Board of Education organizational meeting.

We agree that the organizational meeting is the appropriate time to appoint members to fill elected member vacancies caused by the expiration of the departing members' term of office. Vacancies of non-elected members and vacancies of elected members occurring between organizational meetings should be filled expeditiously by the Board of Education without waiting for an organizational meeting. For example, if the Board of Education agrees to

increase elected member representation by at least one and not more than two Board members, those vacancies should be filled promptly. All members of the Audit Committee should have full and identical voting privileges.

Terms (Section 2.B.)

The Chair shall serve a term of four years. The members' terms will be two and three years, respectively. At the expiration of the initial terms, the subsequent terms shall be three years. These terms shall be renewable for two consecutive terms.

We recommend that the chair's term be limited to two years and be independent of his or her term as a member of the Committee. We agree with the staggered expiration plan proposed by the Interim Audit Committee and adopted by the Board of Education. We recommend clarifying the reappointment language to specify that an elected member may serve one additional term of three years upon the mutual agreement of the member and the Board of Education.

Elected members terms' of appointment should extend from their appointment to their resignation or expiration of their terms of office. In the event a member stands for and is re-elected, their term of office is deemed to be continuous.

Committee Meetings (Section 2.C.)

This body will meet at least quarterly as called by the Committee chair.

We recommend the Committee meet as often as necessary to be effective, and at least monthly. We recommend that, in addition to convening at the call of the Committee Chair, the Audit Committee should convene at the call of any three of its members, or by the request of the Director of Internal Auditing or the independent auditors.

The recommendation that any three members of the committee may convene the committee is consistent with current Board policy and the recommendation that the Committee convene at the request of the Director of Internal Auditing or the independent auditors is consistent with best practices

for Audit Committees.**Reporting** (Section 2.D.)

This body shall report and provide recommendations through the Finance Panel of the Board of Education.

We recommend that the Audit Committee be elevated to the level of a standing Board Committee and report directly to the Board of Education.

Attached to this report as Appendix B (page 36) is a proposed Code of Regulations (bylaws) for the Audit Committee of the Columbus City School District which incorporates the recommendations of the Interim Audit Committee as adjusted by the recommendations contained in this report.

Internal Audit Department Charter

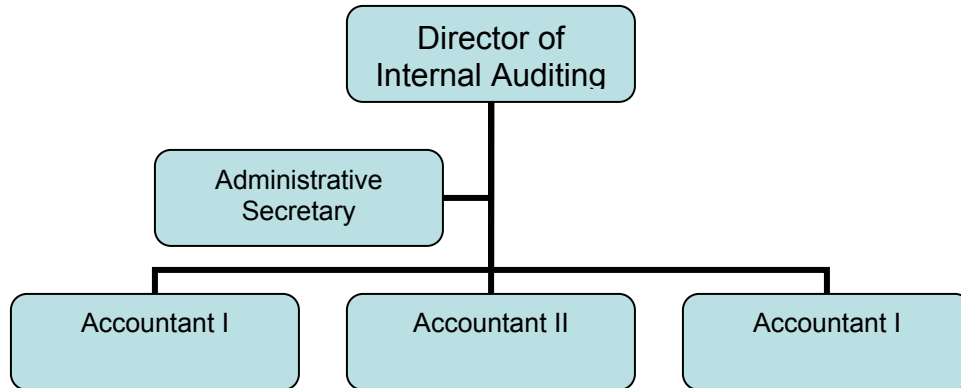
Section 1.B. of the Final Report of the Interim Audit Committee contains its recommendations regarding an Internal Auditor. Attachment B to the Report is the Position Description – Director of Internal Auditing. An Internal Audit department charter exists in the form of a department policy dated July 31, 2001. Our review of the minutes of the Internal Audit Committee for the period August 2001 through June 2002 revealed no discussion or approval of the Internal Audit department charter.

We recommend that the Audit Committee approve and Board of Education adopt a charter for the internal audit department similar to the one presented as Appendix C on page 40.

Internal Audit Department Organization Chart

The organization of the Internal Audit Department is described in Section A-4 of the Columbus Public Schools Internal Audit Policies and Procedures Manual. It is reproduced below:

Internal Audit Department Organizational Chart



We have no recommendations for the organizational chart of the department. It adequately describes the lines of authority and reporting. We note that the Accountants I and II may often find they operate as a team with a leader based on technical or process knowledge rather than rank.

Several persons interviewed expressed concern about the staffing level of the Internal Audit Department, and asked for our comments. The 50 Largest School Districts Audit Survey indicates that the average number of total audit staff in 2002 was eight. Further analysis shows that the average number of administrative staff was two while the number of full-time auditors was six. The smallest staff was reported by Granite School District (2002 budget \$375 million) at 0.5 full-time equivalent. The largest staff was reported by the Los Angeles Unified District (2002 budget \$10 billion) at 50 full-time equivalents. With four full-time audit staff persons and one full time administrative staff person, Columbus City School District's Internal Audit Department has fewer full-time auditors and administrative personnel than the average of the 50 largest school districts.

The internal audit department is not used effectively by the Board of Education and Audit Committee to respond to breaking issues. For example, the assignment of the investigation into excessive custodial overtime wages should have been made to the internal audit department rather than the Superintendent's office. To use internal audit more effectively to respond to these issues, the Board of Education may need to provide additional staff resources to the department.

We do not recommend a staffing adjustment for the Internal Audit Department at this time. However, given increasing public expectations of accountability, the intense focus on improving corporate governance, and the inherent ability of the Internal Audit Department to assist the Board of Education meet these expectations and improve corporate governance, we suggest the District be more disposed to increase rather than decrease the scope of the Internal Audit Department's services. Such increases in service expectations from the Internal Audit Department may drive requests for additional staff.

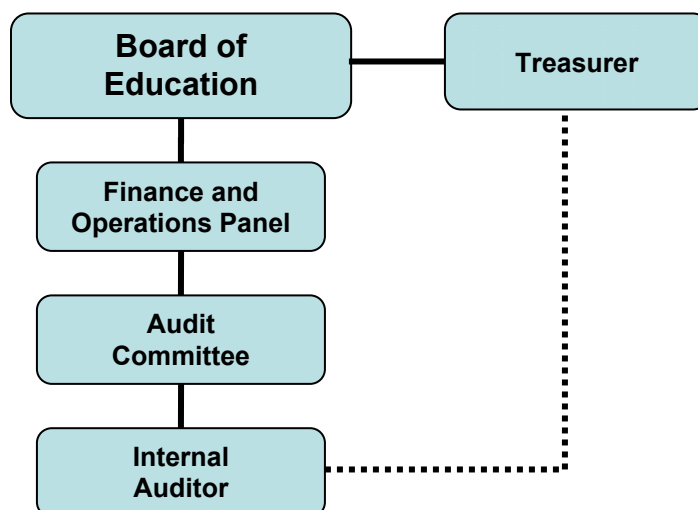
Internal Audit Reporting Level

In our 1997 Management Letter we suggested that "Board of Education policy should clearly establish the responsibilities of the internal auditor within the organization." The Board of Education asked for our assistance in clarifying the reporting relationships among itself, its Audit Committee, the Internal Auditor, and the rest of District management. We evaluated the models proposed, adopted and modified by the Board of Education. In this section, we propose a working model which adequately express our 1997 recommendation.

Final Report of the Interim Audit Committee (1998)

The Interim Audit Committee proposed the following Table of Organization in its Final Report dated May 19, 1988.

Original Proposal (Interim Audit Committee, May 1998)



The key features of this plan are:

- The Audit Committee exists as a subcommittee of the Finance and Operations Panel.
- The Internal Auditor functionally reports to this Subcommittee.
- The Internal Auditor administratively reports to the Treasurer.

The Board of Education adopted this model by resolution dated July 21, 1998.

This plan, proposed by the Interim Audit Committee reflected best practices at the time of its development with a single exception. Best practices as defined in the *Report of the National Commission on Fraudulent Financial Reporting, October 1987* (Treadway Commission) and *Internal Control – Integrated Framework 1992* considered the audit committee to be a committee rather than a subcommittee of a standing committee. The proposal of the Interim Audit Committee did not adopt that best practice.

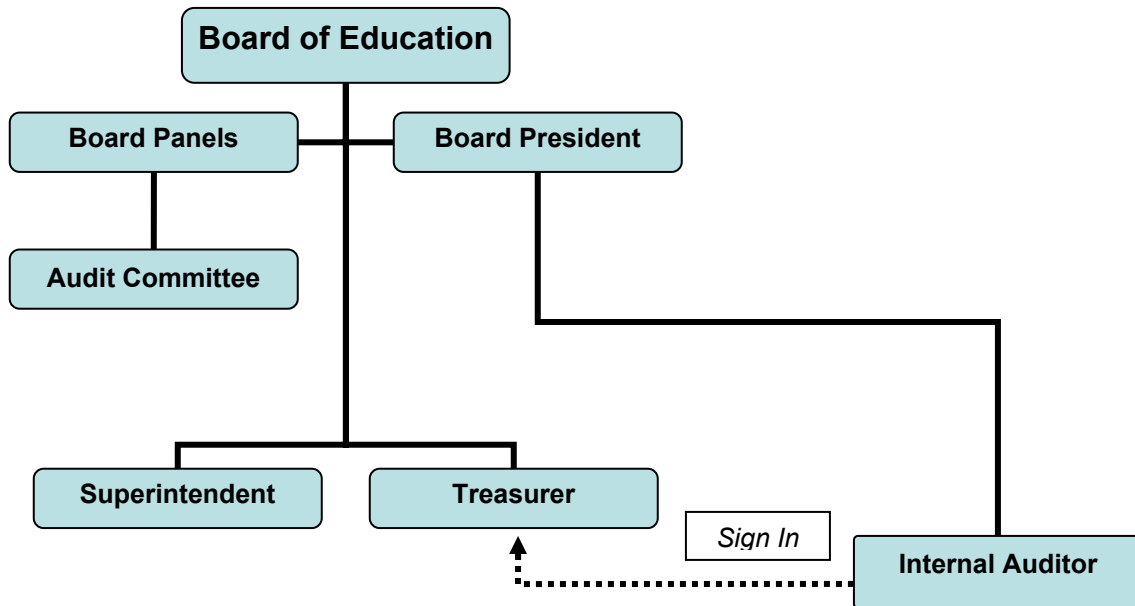
Since 1998, the *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999)* was released. It stated that "...the proper functioning of the audit committee relies first on the entire, board, and then specifically on the audit committee members; attitude toward their own role"¹ The recommendation of the Interim Audit Committee does not meet the guidance of the Blue Ribbon Panel in that, under the recommendations of the *Final Report*, the Audit Committee relies first on the Finance and Investment Panel of the Board of Education not on the entire Board of Education.

Hightower Memorandum (2001)

President Hightower, in a memorandum to Internal Auditor Mitch Coffman, dated April 10, 2001, changed the reporting relationship of the Internal Auditor within the District to be a direct report to the Board President. The organization chart below describes the revised reporting relationship and is based on review of documentation and interviews with members of management and Board of Education members, and represents the current official reporting model in place in the District.

¹ Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. The New York Stock Exchange and the National Association of Securities Dealers. 1999. Page 37.

Current Reporting Model (Hightower Memo, April 2001)



This change perpetuated the subcommittee status of the Audit Committee and restricted its oversight authority by removing its functional supervision of the Director of Internal Auditing, and set apart the Board President, as a single individual, as the direct supervisor of the internal audit function. The addition of a requirement that the Internal Auditor “sign in” with the Treasurer relegates the Director of Internal Auditing subordinate to the Treasurer. We believe that each change effected by this memo results in a migration away from rather than toward best practices, and places the Board President in an awkward position vis-à-vis the rest of the Board of Education.

AOS Working Model

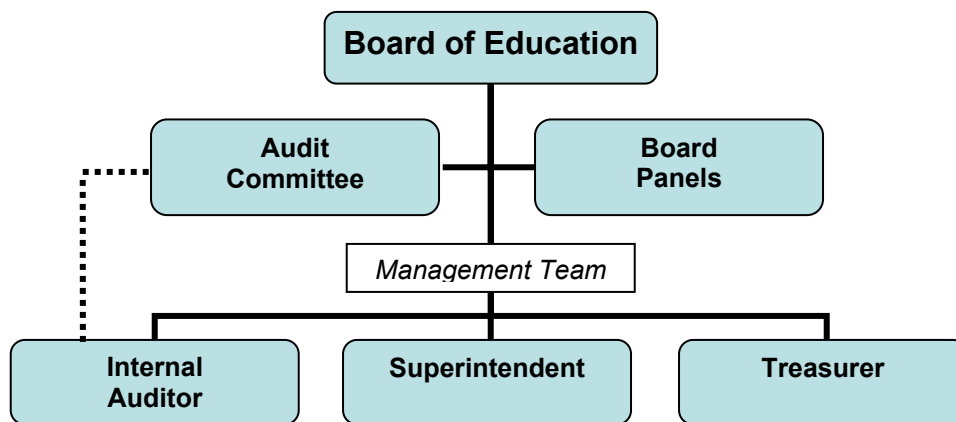
In our 1997 Management Letter we said:

“Independence is critical to the effectiveness of internal auditing. This independence is obtained primarily through organizational status and objectivity. The status of the internal audit function within the organization and the support accorded it by management are major determinants of its range and value. The head of the internal audit function, therefore, should be responsible to a person or body whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of, and effective action on, the audit findings and recommendations. At Columbus City School District, we believe the reporting level should be the Board of Education or its finance panel.”

The recommendation was made independently of the Audit Committee recommendation made in the same Management Letter. While not stated in the internal audit recommendation, we believe the Audit Committee is also an acceptable reporting level for internal audit.

Below we have depicted the form of organization which accurately reflects our 1997 recommendation.

Proposed Reporting (AOS, 2002)



First, the Audit Committee is elevated to a full standing committee status, the peer of other Board Committees. Second, the Director of Internal Auditing is a direct report of the Board of Education, both functionally and administratively. The Board of Education has a model for managing this relationship in its oversight of administrative activities of the Treasurer and Superintendent. The Board of Education has delegated its duty to functionally supervise the Director of Internal Auditing to the Audit Committee. The dotted line represents the exercise of functional supervision by the Audit Committee as delegated to it by the Board of Education and the normal communication channel of technical and functional tasks from the Director of Internal Auditing through the Audit Committee to the Board of Education.

We believe this model not only reflect current best practices but are also in line with the gathering consensus to improve corporate governance by maintaining a strong,

independent internal audit process. This working model emphasizes the management team aspect with the Director of Internal Auditing clearly part of the management team.

Internal Audit Department Position Descriptions

Professional Staff

We received position descriptions of the Director of Internal Auditing, Accountant I, Accountant II and Administrative Secretary from the District. The position descriptions of the Accountant I and Accountant II are those of Treasurer's Office employees.

The skill sets and task priorities of full-time, district-wide internal auditors differ from those of Treasurer's office employees who occasionally engage in internal auditing. The position descriptions of the District's internal auditors should contain skill sets and task priorities customized for their work.

We examined the position descriptions maintained by Ohio for its Internal Auditor classification series. Specifically, we looked at the position descriptions of the Internal Auditor 1, Internal Auditor 2 and Internal Auditor 3. We also obtained and reviewed the position descriptions created by the Auditor of State for its AA1, AA2 and AA3 positions. While not internal auditors, these position descriptions provided a useful summary of task common to both internal and independent auditors.

We recommend the Board of Education replace the Accountant I and Accountant II position descriptions currently applied to the employees in the Internal Audit department with position descriptions which more closely match the skills and task priorities needed for these employees.

We provide position description examples in Appendix D on page 43. Adoption of these position descriptions would satisfactorily address this recommendation.

Administrative Secretary

We examined the position description of the Administrative Secretary and find it to be adequate.

Director of Internal Auditing

We recommend the Director of Internal Auditing be functionally known as the Chief Audit Executive and that his or her job description be based on the responsibilities contained in the Internal Audit Charter proposed at Appendix C (page 40).

Internal Audit Department Policies and Procedures Manual

We reviewed the Internal Audit Department's Policies and Procedures manual adopted July 30, 2001. We compared the policies and procedures to those proposed by the Institute of Internal Auditors' Professional Practices Framework, which we consider to be a source of best practice information.

The Department Policies and Procedures Manual follows closely the design of the Professional Practices Framework. It includes a requirement that the Department's quality assurance program will undergo a review by a party unaffiliated with the School District once every three years.

Interviews with the Director and staff indicate that they are familiar with the Department's policies and procedures. Review of compliance with these policies and procedures was outside the scope of our review.

We have made recommendations regarding the Charter of the Internal Audit Department in another section and have no other recommendations to make regarding the Manual.

Internal Audit Department Budget and Training Plan

The Budget of the Internal Audit Department should be submitted by its Director to the Audit Committee for consideration. The Audit Committee should consider the Department's budget, revise, if necessary, and propose it for adoption by the Board of Education. This budget process should be independent of the budget process engaged in by the Superintendent and Treasurer's Offices, however the Department's budget should be integrated into the accounting system maintained by the Treasurer.

We reviewed the Internal Audit department's budget for FY 2003 which is disclosed in the Budget Account Summary. The budget is summarized as follows:

Expense Account	FY 2003 Appropriation	FY 2002 Carryover Encumbrances	Total FY 2003 Spending Authority
Salaries	\$258,700		\$258,700
SERS Employer's Share	67,700		67,700
Professional & Technical Services	42,750	\$273,220	315,970
Travel, Mileage, and Meeting Expenses	12,788	2,076	14,864
Contracted Craft/Trade Services		870	870
General Supplies	6,750	3802	10,552
Equipment		2,874	2,874
Dues and Fees	1,000		1,000
Total	\$389,688	\$282,842	\$672,530

Salaries are broken out among the Director, professional staff, and administrative staff. The District's spending authority for the Director is \$77,600. Elsewhere in this report we recommend a targeted salary range of between \$90,000 and \$125,000 for the Director's position. If the Director is compensated in accordance with our recommendation, insufficient spending authority may exist to compensate him or her, and a supplemental appropriation for the Director's salary may be required for FY 2003. The amount of the supplemental appropriation would be dependent on the salary assigned to the director's position and how long the position remained vacant prior to it being filled

No overtime budget was requested by the department or budgeted by the District for the department. Professional and administrative staffs are not overtime exempt. Comp time may be taken in lieu of overtime, but staff is not required to use comp time. Lack of a budget for overtime may limit the Internal Audit department's ability to respond to District special requests in a timely and effective manner. ***We recommend that future budget requests from the Internal Audit department should contain consideration of overtime needs.***

The position of Director of Internal Auditing has been vacant since July 31, 2002. This position is critical to the proper functioning of the Department and to the District in order to achieve the benefits of the internal auditing function. The absence of a Director also directly affects the functioning of the Audit Committee. ***We recommend that the***

Director's position be filled without delay with a qualified auditor with strong management, communication and interpersonal skills, and of sufficient stature to communicate as a peer of the Superintendent and Treasurer.

We note that the SERS Employer's share budget represents 26.17% of budgeted salaries. The FY 2001 actuarially-determined employer's share percentage was 14%. The District advised us that, for budgeting purposes all benefits (e.g., health, vision, dental, and life insurance) have been budgeted within the object code for SERS employer's share. When benefit expenses are recognized, they will be charged to the appropriate object code for benefits. In order to determine that benefits are within budgeted spending authority, one must evaluate all benefit object codes together because the budget authority is not distributed to each object code. **We recommend that benefits be separately budgeted within departments, including the internal auditing department.**

Professional and technical services budget relates to targeted MIS audits begun in FY 2002 and is not yet completed.

We note that the budget for dues and fees, at \$1,000, represents an average budget of \$200 for each department employee. The Auditor of State budgets between \$200 and \$500 for its professional staff depending on level, and separately budgets for certifications (e.g., CPA, CIA, CISA, CGFM). The department's budgeted for dues and fees appears low. **We recommend a supplemental appropriation be passed that increases the dues and fees budget based on the following schedule:**

Administrative Staff:	\$200
Professional Staff:	\$400
Director:	\$500

We also recommend that a separate budget be established for professional certifications. The amount budgeted should be sufficient to cover up to two professional certifications per professional employee and one professional certification for the administrative employee.

Internal Audit Plan and Corresponding Audit Objectives

We reviewed a Ghannt Chart provided to us by by Internal Audit Department in response to our request for the one year Audit plan. The chart listed a total of 10 jobs and covers the period from March to October 2002. It contains time allotments for both new and follow-up audits. Minutes of several meetings of the Internal Auditing Committee describe a discussion of the plan.

We reviewed reports issued by the Internal Audit department within the last year. These reports were all issued on November 30, 2001 and covered the areas of:

Cash Management

Management Information Systems Network Assessment

Payroll

Purchasing and Procurement

Accounts Payable

Personnel

The report on Personnel was apparently reissued with a management response on June 12, 2002 and the Internal Auditor's opinion on the District's personnel process apparently went from adequate to requires improvement.

Additionally, we were provided with a number of reports marked "draft," including six reports on high school audits, and school security and student information systems audits. While apparently not final, these reports carry dates between December 4, 2001 and July 29, 2002.

It is not clear through review of the Audit Committee or Board of Education minutes whether any of these reports have been approved by the Audit Committee or adopted by the Board of Education.

The reports did not follow a single format. It was difficult to determine the audit objectives from the report.

We recommend that Internal Audit reports undergo a formal Committee review and approval process and a formal adoption process by the Board of Education. These actions should be documented in the minutes.

We recommend that the Superintendent and Treasurer be active participants in developing the annual audit plan. And that management response should be provided within a reasonable time frame.

We recommend that the audit plan be maintained and discussed in Committee at a level of detail sufficient to manage the department. The plan should contain, in addition to start and end dates, project phases (e.g., planning, fieldwork, and report writing) and milestones (e.g., Director review, exit conference, corrective action plan submission, Audit Committee review, and Board of Education submission). Commonly available project management software such as Microsoft Project can be used to provide this level of reporting.

We recommend that the Internal Audit Department settle on a single report format which clearly identifies audit objectives and describes how those objectives were met by the audit work.

In subsequent interviews with the Director and staff, we were informed that major budget and time summaries for each job are not created at a detailed level. Budget and time summaries should distribute estimated job hours among tasks and staff. ***We recommend that the department prepare time and budget summaries for each of its scheduled assignments which distributed estimated job hours among tasks and staff.***

An audit plan should balance resources with audit requests and identifies resource shortages. In order to balance resources with audit needs, one should start with an inventory of time available (for example, 2080 hours for each available staff member. From that time should be deducted administrative time, allowances for leaves (vacation, sick and personal), and sufficient unscheduled time to allow quick response to special requests. Remaining time should be budgeted against the audit requests on the basis of priorities set by the Board through its Audit Committee.

The audit plan documentation submitted for our review did not take into account the inventory of time, allowance for leave or unscheduled time. No priority listing of jobs was provided.

We recommend that scheduled jobs be assigned based on the priorities of the Board of Education as expressed by the Audit Committee.

We recommend the Department inventory its staff hours, allow sufficient time for leaves, professional development and unscheduled time (up to 20% of time after allowances) to enable the district to respond quickly to fraud and abuse allegations while still assuring the completion of its scheduled audit work on time and on budget.

Clarification of Roles in the Audit Process

Several persons interviewed expressed concern about a lack of clarification about their roles in the audit process, and how reports are delivered by the Internal Audit Department.

Audits are conducted by a variety of disciplines. The Columbus City School District has undergone audits ranging from traditional financial statement and compliance audits to curriculum audits. While the subject of the audit may differ widely, the process engaged in by management and the auditor is similar.

Auditing is a process, engaged in by management and the auditor, which illuminates management practices in light of laws, regulations, provisions of contracts and grants, and standards of practice, commends management practices that embody best practices and recommends management action to comply with or achieve best practices in other cases. Both the auditor and management have specific roles to play in the audit process. The failure of either party to discharge their responsibilities effectively and in good faith diminishes the value delivered by the audit process and report.

While both parties play essential roles, managing the audit process is the primary function of the auditor and, therefore, auditors must take the lead in describing the

process and answering management's questions about it. The audit process consists of planning, fieldwork, and reporting phases.

Annual audit plans are developed by the Internal Auditing Department and approved by the Audit Committee. The annual plan is based on Audit Committee directives; the auditors' knowledge of existing and proposed operations and results of previous audits conducted both internally and by the independent auditors.

Knowledge of current and proposed operations is affected chiefly by discussions with District management. District management, therefore, plays a necessary role in developing the annual audit plan. District management should openly discuss concerns about the efficacy and efficiency of processes and their proposed solutions. Management also is responsible for providing the auditors with complete and accurate information with respect to the process being audited.

Internal auditors should develop and execute an audit plan which will quantify the extent of an issue and evaluate the cost benefit of proposed solutions. They must also write and vet with management each finding prior to delivering the report to the Board of Education.

The culmination of the planning phase should be an entrance conference with the auditee-client.

In the fieldwork phase, the auditor gathers information, researches criteria, and develops recommendations. In this phase the auditor works closely with management and employees responsible for the process undergoing audit.

The reporting stage should consist of a vetting process for audit findings. This process can be described as an agreement or an understanding of the extent of disagreement about the components of the audit finding. The components of a finding are described below²:

² These components are identical to those described in the Internal Audit Policies and Procedures Manual Section I-1 Findings Format.

Condition: The facts that presented themselves to the auditors. Management can benefit from the audit process most effectively by engaging the auditor in an active, thorough discussion of the facts and management's perspectives on them. Of all the components of a finding, the condition statement should exhibit the highest level of agreement between the auditors and management.

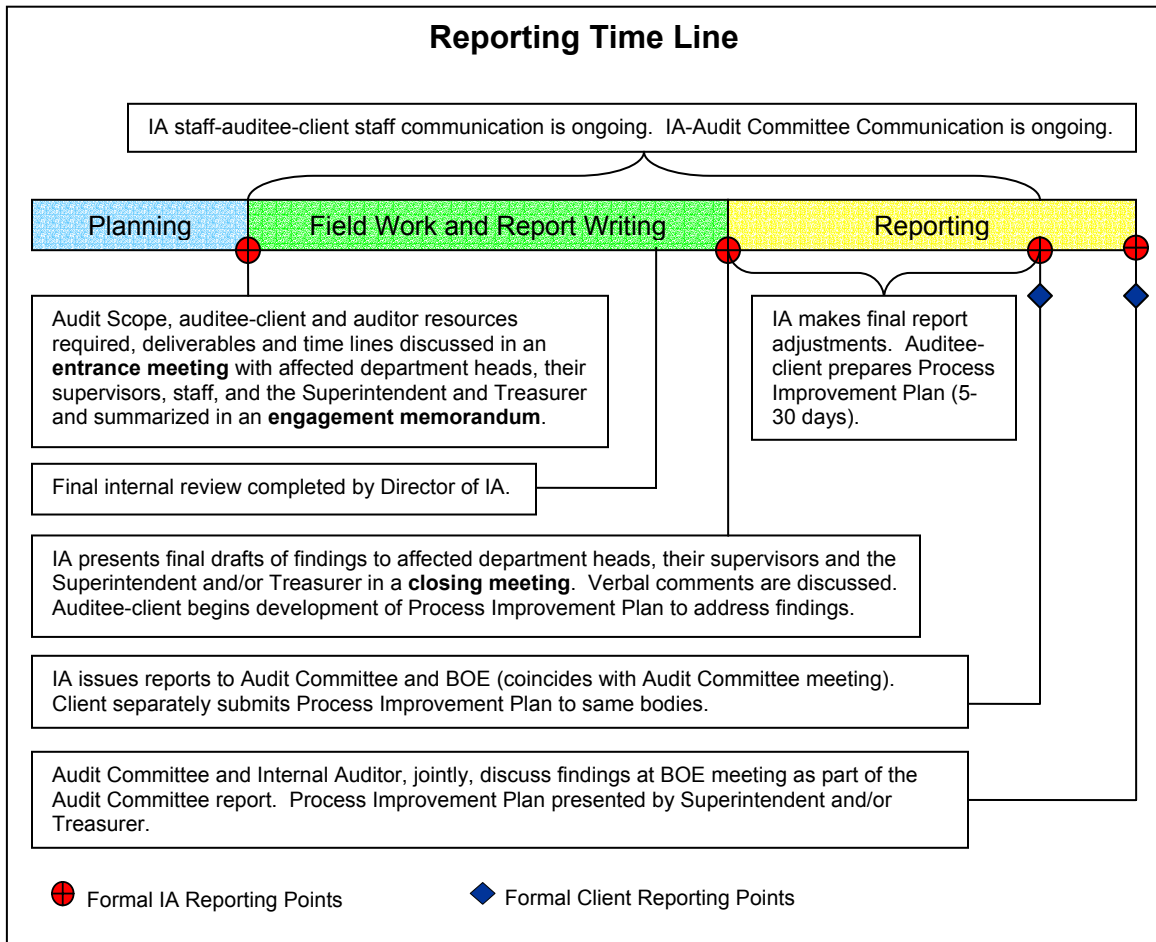
Criteria: The standard for comparison. Criteria can be a law, regulations, or provision of a contract or grant. It can be a Board of Education Policy or a District procedure. It can be a best practice. In most cases, there should be close agreement on the criteria between the auditor and management, although this may not happen in all cases. For example, the auditor and management may disagree on what the wording of a policy or procedure means or whether a specific procedural change represents migration toward or away from a best practice. In the event agreement cannot be reached, management and the auditor must understand each other's position and the extent of the disagreement. The report should contain the auditor's criteria, but may contain the alternative criteria proposed by management if, by doing so, the reader will better understand management's actions.

Effect: Simply the difference between the Condition and Criteria statements. It is important that the effect statement provides the reader with perspective on the issue. Ways to provide perspective are to quantify the condition in relation to the number of items reviewed and processed in total. For example, the auditor found five errors out of a sample of 60 items. The number of transactions processed by the District in a year is 200,000. The dollar amount of the transactions in error was \$500,000 out of a total transaction volume of \$2 million. The auditor and management should agree on the facts which provide the perspective.

Cause: If known, the auditor should provide a statement as to the cause of the error. For example, if the errors were limited to a period when the normal account processor was on an extended leave, the auditor may attribute the error to a lack of training of the person filling in. In many cases it may not be possible to attribute a cause to a finding, and if that is the case, no cause should be reported. Management and the auditor should be in close agreement on the cause if one is to be reported.

Recommendation: The recommendation should suggest a cost-effective plan for management to migrate toward compliance or a best practice. The recommendation should be supplemented by a management-prepared corrective action plan. The corrective action plan can be incorporated into the audit report if it is received prior to the reporting deadline, if not management should be held responsible for submitting a corrective action plan to the Board of Education separately.

Below is a visual representation of the auditing process, showing key reporting events.



Compensation of Director of Internal Auditing

Several persons interviewed expressed the desire that the compensation of the Director of Internal Auditing position be reviewed, a salary range established and that the salary range be comparable to similar positions in the public and private sectors.

In our interviews with district management, it became clear that the District choice of salary, benefits and contract term for the Director will send clear, unambiguous messages to District management about its support and commitment to the mission of internal auditing.

The Board of Education is responsible for overseeing the operation of a large organization. According to the 2001 Comprehensive Annual Financial Report, the District manages:

- Over \$1 billion in assets
- Over \$500 million in liabilities
- Over \$600 million in revenues and expenses

The operations of the District are more complex than those of a similarly sized private sector organization because, as a public body, it has an added burden to conduct and maintain records of its operations in a manner that provides transparency and accountability in addition to being efficient.

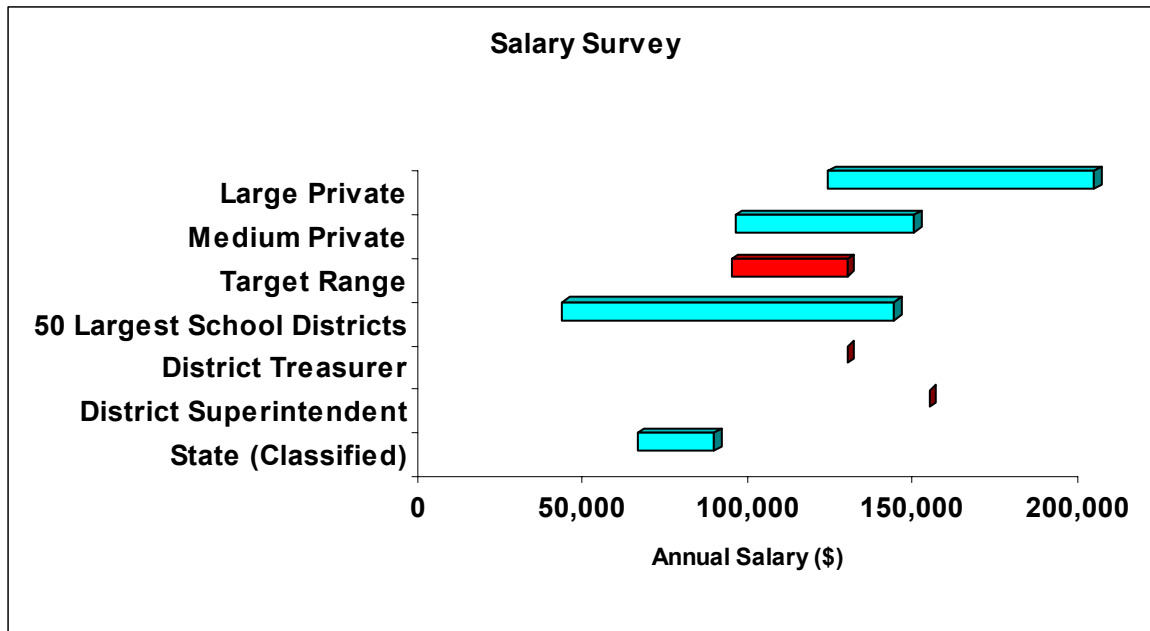
Salary is the largest component of a compensation package. We reviewed current salaries of chief audit executives in the private sector as surveyed by Robert Half International, Incorporated in its *2002 Salary Guide*, and among the 50 largest school districts in the United States as surveyed by Jim Kaplan, Internal Audit Director of the Fairfax County (Va.) Public Schools in his *Largest School Districts Audit Survey – 2002*.

The Robert Half International Survey classifies companies by dollar volume. The largest category is *over \$500 million volume* and the next largest category is *between \$250 and \$500 million volume*. Both salary ranges are included in this survey. The Robert Half Survey reports salary ranges on a national basis, and provides a mechanism for adjusting the national salary to local markets, such as Columbus. The salary ranges in this report are adjusted for local market cost of living. For large companies the adjusted range is between 119,505 and \$199,950; for medium-sized companies the adjusted range is between \$91,373 and \$145,545. The Robert Half survey does not report an average salary.

The *Largest School Districts Audit Survey – 2002* does not provide factors to adjust its salary to local market costs of living. We used the factors reported by Robert Half International to adjust salary range reported to reflect the Columbus cost of living. The adjusted salary range established in this survey is between \$38,843 and \$139,500. The average adjusted salary is \$78,028.

Finally, we obtained information on the State of Ohio’s Internal Auditor classification series published and maintained by the Ohio Department of Administrative Services. This series already reflects local market cost of living and is not adjusted. The range reflects all steps applied to the class and does not reflect actual salaries of incumbents. No average salary is reported. The highest managerial level in the series is State Internal Auditing and Accounting Administrator and its salary range for fiscal year 2003 is between \$61,318 and \$84,864. All positions in the Internal Audit series are classified, and would likely be higher to attract candidates for the unclassified position of Director of Internal Auditing.

In considering the salary to provide for the position of Director of Internal Auditing, District salaries of other employees who are direct reports to the Board of Education should be considered. The Superintendent and Treasurer salaries are \$150,000 and \$125,000 respectively. The results of our salary survey are represented below:



For the position of Director of Internal Auditing, we recommend the Board of Education set a target salary range of \$90,000 to \$125,000. The range is determined in reference to the national market for chief audit executives and specific District salary structures for top-level administrators, including the Superintendent and the Treasurer. This target range should attract candidates of sufficient expertise and stature to operate at the organizational level which we recommend.

This salary range is below that of established for large corporations and in the lower part of the range established for medium corporations. It is between the 50th and 85th percentile of the range established for the 50 largest school districts, is below the current salary of Superintendent, and the range tops out at the salary level of the Treasurer. It is above the range established for the State classified position.

Benefits and perquisites are important components of a compensation package. In our interviews with district management, it became clear that the District choice of salary, benefits and contract term for the Director will send clear, unambiguous messages to District management about its support and commitment to the mission of internal auditing. By adopting the proposed target salary range, the District is acknowledging that the Internal Auditing function is an important element of its internal control environment.

We recommend that benefits and perquisites of the Director of Internal Auditing be equivalent to those offered to other direct reports of the Board of Education.

Salary, benefits and perquisites should be paid under a contract between the Board of Education and the Director of Internal Auditing. The contract term is an important consideration for the unclassified position of the Director of Internal Auditing. The contract term should provide the Director with security sufficient for him or her to execute the duties of the position without undue concern about employment status caused by unpopular reports or shifting Board of Education composition. ***We recommend the Board of Education employ its Director of Internal Auditing under contract and that the term of the contract be from two to four years.*** Non-renewal procedures should follow District standards in place for the Superintendent and Treasurer.

Appendix A

Columbus City School District

Proposed Resolution Establishing the Audit Committee as a Standing Committee, Revising the Audit Committee Charter, and Removing Prohibition against a Member Serving as Chair of the Audit and another Board Committee**CHARTER AND POWERS OF THE AUDIT COMMITTEE**

RESOLVED, that the Audit Committee is hereby elevated to the status of a standing committee of the Board of Education and shall report its activities as often as necessary (at least monthly) at meetings of the Board of Education.

RESOLVED, that the mission and general and specific powers and duties of the Audit Committee as described in the Final Report of the Interim Audit Committee dated May 19, 1998 and adopted by the Board of Education by resolution dated July 21, 1998 are hereby replaced by the mission and general and specific powers and duties contained herein.

RESOLVED, that the mission of the Audit Committee of the Columbus City School District shall be to assist the Board of Education in fulfilling its responsibility to assure District stakeholders that the District's:

- Internal and external financial reporting is reliable;
- Internal control structure is effective and efficient;
- Management practices and operations comply with all Board of Education policies, and applicable laws, regulations, and provisions of contracts and grants; and
- Management practices and operations are effective and efficient.

In fulfilling its mission, the Audit Committee maintains free and open means of communication between the members of the Board of Education, the Director of Internal Auditing, the independent auditors, and management of the District (primarily, but not limited to, the Superintendent and the Treasurer).

RESOLVED, that the general power and duty of the Audit Committee of the Columbus City School District shall be to oversee that:

- Management has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the District;
- Management has established and maintained processes designed to assure effective and efficient district operations;

- anagement has established and maintained processes to assure compliance by the District's compliance with all Board of Education policies, and applicable laws, regulations, and provisions of contracts and grants;

RESOLVED, that the Audit Committee shall have the following specific powers and duties:

1. Holding such regular meetings as may be necessary and such special meetings as may be called by the Chairperson of the Audit Committee or at the request of the Director of Internal Auditing, or the independent accountants.
2. Creating an agenda for the ensuing year;
3. Reviewing the performance of the independent accountants and, in the event the independent auditors are other than the Office of the Auditor of State, making recommendations to the Board of Education regarding the appointment or termination of the independent accountants;
4. Conferring with the independent accountants and the Director of Internal Auditing concerning the scope of their examinations of the books and records of the District;
5. Reviewing the independent accountants' annual engagement letter and recommending action to the Board of Education;
6. Reviewing, approving, and recommending the adoption of the District's internal audit charter, annual audit plans and budgets;
7. Directing the special attention of the independent auditors and the Director of Internal Auditing to specific matters or areas deemed by the Committee or the auditors to be of special significance;
8. Authorizing the auditors to perform such supplemental reviews or audits as the Committee may deem desirable;
9. Reviewing with management, the independent auditors and internal auditors significant risks and exposures, audit activities and significant audit findings;
10. Reviewing the range and cost of audit and non-audit services performed by the independent accountants;
11. Reviewing the Company's audited annual financial statements and the independent auditors' opinion rendered with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application therein;
12. Reviewing the adequacy of and recommending changes designed to improve the District's systems of internal control;
13. Obtaining from the independent auditors and the Director of Internal Auditing their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the District and reviewing the corrective action plans of management designed to improve control activities deemed to be deficient;
14. Providing an independent, direct communication between the Board of Education, the Director of Internal Auditing, and independent auditors;
15. Reviewing the adequacy of internal controls and procedures related to executive travel and entertainment;
16. Reviewing the programs and policies of the District designed to ensure compliance with applicable laws and regulations and monitoring the results of these compliance efforts;

17. Reviewing the procedures established by the District that monitor the compliance by the District with its loan and indenture covenants and restrictions;
18. Reporting through its Chairperson to the Board of Education following the meetings of the Audit Committee;
19. Maintaining minutes or other records of meetings and activities of the Audit Committee;
20. Reviewing the Audit Committee Charter and Code of Regulations annually and reporting and making modification recommendations to the Board of Education on these responsibilities;
21. Conducting or authorizing investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee shall recommend, if outside assistance is considered necessary, to the Board of Education the retention and payment of independent counsel, accountants, or others to assist the Board in the conduct of any investigation;
22. Considering such other matters in relation to the financial affairs of the Company and its accounts and in relation to the internal and external audit of the Company as the Audit Committee may, in its discretion, determine to be advisable.
23. Reviewing and approving for submission to Board of Education internal audit department reports.
24. Reviewing and commenting on management's corrective action plans prepared in response to Internal Audit Department reports.
25. Directing the Internal Audit Department to schedule follow up audits to assure management's compliance with its corrective action plans.

RESOLVED, that the provisions of Board of Education Policy 9231 which states that no member shall be appointed chairman of more than one standing committee shall not apply to the chairmanship of the Audit Committee.

Appendix B

Columbus City School District

Audit Committee

Proposed Code of Regulations

ARTICLE I

NAME AND PURPOSE

SECTION 1.1 Name. The name of this committee shall be the Audit Committee of the Columbus City School District Board of Education.

SECTION 1.2 Purpose. The purpose of the Audit Committee of the Columbus City School District Board of Education is contained in its charter which is incorporated herein by reference.

ARTICLE II

POWERS AND DUTIES OF THE COMMITTEE

SECTION 2.1 General Power and Duty. The general power and duty of this Committee is contained in its Charter which is incorporated herein by reference.

SECTION 2.2 Specific Powers and Duties. The specific powers and duties of this Committee are contained in its Charter which is incorporated herein by reference.

ARTICLE III

MEMBERS

SECTION 3.1 Elected Members. The Committee shall be composed of three elected members of the Board of Education. The expiration of the term of office of at least one elected member shall not coincide with those of the other elected members.

SECTION 3.2 Non-elected Members. The Committee shall be composed of two non-elected members appointed by the Columbus City School District Board of Education.

SECTION 3.3 Qualifications for Membership. Elected and non-elected members shall have, collectively, sufficient knowledge of accounting, finance, law, and business practices to exercise its general power of management oversight.

ARTICLE IV

APPOINTMENT TO THE COMMITTEE

SECTION 4.1 Elected Members. Elected members shall be appointed at an organizational meeting by the Board of Education. Vacancies shall be filled by an elected member assigned by the Chairperson whether or not at an organizational meeting.

The chairperson may be appointed or may assign her or himself to the Audit Committee.

SECTION 4.2 Non-elected Members. Non-elected members shall be appointed upon the recommendation of the Chairperson and the approval of a simple majority of the Board of Education. This provision shall have no effect on the initial non-elected members of the Audit Committee.

Appointments may occur as necessary and be made without regard to the Board of Education's organizational meeting.

ARTICLE V

TERMS OF APPOINTMENT

SECTION 5.1 Elected Members. Elected members, once assigned to the Audit Committee, shall serve until resignation, the expiration of their terms of office, or until removal from office by cause whichever comes first. Re-elected members' terms of office are deemed to be continuous.

The expiration of the term of office of at least one elected member of the Committee shall not coincide with that of the other elected member(s).

The Chair shall be an elected member of the Board of Education.

SECTION 5.2 Non-elected Members. Non-elected members appointed to the Audit Committee shall serve until resignation, the expiration of a term of three years from the date of appointment, or removal by cause. Non-elected members may serve one additional three year term, upon the mutual agreement of the member and the Board of Education.

Initial non-elected members shall serve staggered term with the Chairman serving for four years, one member serving three years and the other member serving two years. Initial members may be reappointed for one additional three year term upon mutual agreement of the member and the Board of Education.

ARTICLE VI

RESIGNATION OF APPOINTMENT

SECTION 6.1 Elected Members. Elected members may resign their

appointment upon the expiration of their terms of office or by written notice of intent to resign submitted to the Chairperson of the Board of Education. Resignations not caused by the expiration of a term of office are effective upon the appointment of a replacement member, or the lapse of sixty (60) days from the date that notice of intent to resign is submitted to Chairperson of a Board of Education, whichever comes first.

SECTION 6.2 Non-elected Members. Non-elected members may resign their positions upon the expiration of their term of appointment or by written notice of intent to resign submitted to the Chairperson of the Board of Education. Resignations not caused by the expiration of a term of appointment are effective upon the appointment of a replacement member, or the lapse of sixty (60) days from the date that notice of intent to resign is submitted to Chairperson of a Board of Education, whichever comes first.

ARTICLE VII

ORGANIZATION OF THE COMMITTEE

SECTION 7.1 Regular Meetings. The Committee shall comply with meeting regulations established by Regulation 9230 of the Columbus Ohio City School District, which is hereby incorporated by reference. Sufficient regular meetings shall be held to enable the Committee to exercise its general and specific powers and duties.

In addition, the Committee shall meet at the request of the Director of Internal Auditing or the independent auditors.

SECTION 7.2 Presiding Officer. Meeting of the Committee shall be presided over by the Chairperson who shall be an elected member of the Committee, or by an elected member designated by the Chairperson. The provision that the Chairperson shall be elected shall not apply to the initial Committee chairperson. The presiding Officer shall deliver the Committee's report at the Board of Education meeting next following each regular meeting.

SECTION 7.3 Quorums. Members in attendance representing at least one more than one-half of the Committee appointments constitutes a quorum.

SECTION 7.4 Ratification. At a meeting at which a quorum is present, the Committee may ratify any action taken by or on behalf of the Committee.

SECTION 7.5 Public Meetings. The meetings of the Committee shall be open to the public pursuant to the Ohio Sunshine Law, Revised Code Section 121.22 et seq. Executive sessions and other closed meetings shall be held only as permitted by law.

ARTICLE VIII

COMPENSATION AND EXPENSE REIMBURSEMENT OF MEMBERS

A member of the Committee shall not receive compensation for services on this Committee. A member may, upon submission to and approval by the Board of Education of a report of expenses incurred, receive reimbursement of reasonable, ordinary and incidental expenses.

ARTICLE IX

AMENDMENTS

This Code of Regulations may be altered, amended or repealed only by a majority vote of the Board of Education. The Committee shall annually review this Code of Regulations for suitability to its purpose and suggest alterations or amendments to the Board of Education for its action.

Appendix C**Columbus City School District****Proposed Internal Audit Charter****MISSION AND SCOPE OF WORK**

The mission of internal audit is to provide independent, objective assurance and consulting services to Columbus City School District designed to add value and improve the District's operations. Its mission is aligned with an element of the District's mission to provide accountability to its stakeholders. Internal audit adds value primarily by improving the control environment of the District through a systematic, disciplined, standards and risk-based evaluation of the design of the District's internal control structure and the compliance of its employees with the accounting and administrative control procedures expressed or implied by Board of Education policy, law, regulation, or provision of contracts and grants. Internal audit adds additional value by offering available consulting resources to District management designed to identify process best practices or offer suggestions for migrating current District practices to best practices.

The scope of work of internal audit encompasses planning, data-gathering, evaluation and reporting activities designed to assure that the design and operation of the District's internal control structure, as represented and implemented by management, are adequate to ensure:

- Employees' actions are in compliance with standards, procedures and practices as expressed or implied by Board of Education policies, laws, regulations and provisions of contracts or grants.
- Resources are acquired economically, used efficiently, and adequately protected.
- Quality and continuous improvement are fostered in the organization's control process.
- Interaction with the various governance groups occurs as needed.
- Risks, including those presented by significant legislative or regulatory actions, are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Programs, plans, and objectives are achieved.

Opportunities for improving management control, profitability, and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The chief audit executive, in the discharge of his/her duties, shall be accountable to Board of Education to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to District control procedures including suggestions for improvements to those processes.
- Follow-up on corrective action taken by management in response to previously reported significant issues until their resolution.
- Periodically provide information on the status and results of the annual audit plan and the adequacy and sufficiency of department resources to adequately address that plan.
- Coordinate with and provide oversight of other control and monitoring functions, such as risk management, compliance, security, legal, ethics, environmental, external audit.

The chief audit executive shall be guided in his/her Board of Education accountability through the functional supervision of the Board of Education Audit Committee.

To establish and maintain trust relationships between internal audit and District management, the chief audit executive will be accountable to management for establishing and following auditing and reporting processes designed with the goal of obtaining management input in the planning, data-gathering, and reporting phases.

INDEPENDENCE

To provide for the independence of internal audit, its personnel shall report to the chief audit executive, who shall reports functionally to the Audit Committee and administratively to the Board of Education in a manner outlined in the above section on Accountability.

RESPONSIBILITY

The chief audit executive and staff of the internal auditing department shall:

- Develop a flexible annual audit plan, and periodic updates, using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and the Board of Education for approval.
- Implement the audit plan, as approved, including, as available resources allow, any special tasks or projects requested by management, the Audit Committee, or the Board of Education.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Assess significant new, changing, merging, or consolidating control processes, coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Board of Education, its Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.

- Provide a list of significant performance measures and results designed to evaluate the effectiveness of internal audit to the Audit Committee and Board of Education.
- Provide first response to allegations of significant fraudulent activities within the District, assist in their investigation, and notify management and the Audit Committee and Board of Education of the results.
- Consider the scope of work of the external financial statements and other auditors, as appropriate, for the purpose of providing optimal audit coverage to the District at a reasonable overall cost.

AUTHORITY

The chief audit executive and staff of the internal audit department are authorized to:

- Have unrestricted access to all District functions, records, property, and personnel
- Have regular, full and free access to the Audit Committee.
- Upon request, to be recognized by and report at meetings of the Board of Education.
- Obtain and allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the District where they perform audits, as well as other specialized services from within or outside the District.
- Administer the internal audit department.

The chief audit executive and staff of the internal audit department are not authorized to:

- Perform any operational duties for the District, except those duties necessary for the operation of the internal audit department.
- Initiate or approve accounting transactions, except those transactions necessary for the administration of the internal audit department.
- Direct the activities of any District employee, except employees of the internal audit department and other employees that have been assigned to assist the internal auditors in a functional or administrative role.

STANDARDS OF AUDIT PRACTICE

The internal audit department will meet or exceed the *Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

Chief Audit Executive

Dated

Chairperson, Audit Committee

President, Board of Education

Appendix D**Proposed Job Descriptions for Internal Auditors****CLASSIFICATION SERIES****Internal Auditor****SERIES PURPOSE**

The purpose of the internal auditor occupation is to conduct formal reviews and analyses of District-wide internal operations and controls, which may include review of financial or operating data and reports for accuracy, to provide management with information concerning effectiveness of operations and areas of inefficiency and non-compliance with District policies laws, regulations and provisions of contracts or grants.

Internal Auditors learn to and/or conduct routine audits of simply structured and/or complex programs or act as lead worker and/or conduct non-routine audits of simply structured programs and/or complex programs.

The following are definitions of terms that will be cited herein for this classification series.

Financial audit: review and analysis of financial accounts or transaction cycles to determine their accuracy, completeness, and fair presentation in accordance with general accepted accounting principles.

Compliance audit: review and analysis to determine whether an entity is adhering to Board of Education policies and procedures, and applicable laws, regulations and provisions of contracts and grants.

Operational audit: review and analysis of acquisition, control and utilization of personnel, facilities, and supplies to determine economy and efficiency.

Program audit: review and analysis of actual or potential programs, projects and activities to determine progress, success and impact (i.e., focus placed on program results).

Routine Audits of Simply-Structured Programs

Characteristics of routine audits of simply-structured programs include, but are not limited to:

- Audit areas are normally smaller in size, involve smaller dollar volumes, have good internal controls, few prior audit problems and one contract or a few simple contracts (e.g., audits of travel vouchers, review of timekeeping procedures with attendance records, communications involving fund expenditures, or audits of petty cash)
- Audit procedures are straightforward and uncomplicated (such as checking for compliance with statute, regulation or policy).
- Audit issues require basic research to gather facts
- Audit findings and recommendations are minor
- Questioned costs are few,

Routine Audits of Complex Programs

Characteristics of routine audits of complex programs include, but are not limited to:

- Audits which may involve use of past audit work plans for same functions being audited, and which are conducted in accordance to formulated audit guidelines,
- Audits for which audit trail may cover several departments or activities for which records or documentation of several units or functions interrelate
- Audits for which auditor must identify processing or function weakness in one area and its impact on the total program; auditor must state the problem, causes hereof, risk exposures and recommend corrective action that helps management assure its corrective action will be effective and is adequate

Non-Routine Audits of Simply-Structured Programs

Characteristics of non-routine audits of simply-structured programs include, but are not limited to:

- Audits which involve one area or where there are suspected problems in programs;
- Audits in which almost all assumptions are challenged, and which requires an auditor to anticipate large uncovered risks based upon association of identified program weaknesses;
- Audits which require non-standard audit procedures;
- Audits in which auditor recommends management action to completely & realistically resolve the problem (e.g., audit of overtime abuse, suspected fraud or mismanagement in one department or function).

Non-Routine Audits of Complex Programs

Characteristics of non-routine audits of complex programs include, but are not limited to:

- Audits required because of known or suspected problems of programs which involve interaction of several units, processes, functions & departments
- Audits in which all assumptions are challenged
- Audits in which the auditor must cross-relate challenged assumptions across programs, units or functions to anticipate larger risks, or in which identified processing or functional weaknesses are related to all other assumptions and control aspects of entire program (e.g., audits in new areas with large dollar amount and/or mismanagement involving several units and several different statutes, regulations, and policies).

CLASS TITLE

Internal Auditor 1

CLASS CONCEPT:

The full performance level class works under direction of an Internal Auditor II or above and requires considerable knowledge of accounting and auditing in order to learn to conduct and/or conduct routine audits of simply structured and/or complex programs, including financial, operational and compliance audits and prepares report of findings and recommendations.

CLASS TITLE

Internal Auditor 2

CLASS CONCEPT:

The advanced level class works under direction of an Internal Auditor III or above and requires thorough knowledge of accounting and auditing in order to learn to conduct and/or conduct non-routine audits of simply structured programs and routine audits of simply structured and/or complex programs including financial, operational & compliance audits, prepares report of findings & recommendations and learns to conduct non-routine audits of complex programs.

CLASS TITLE

Internal Auditor 3

CLASS CONCEPT:

The advanced level class works under direction of the Director or other technical leader assigned by the Director and requires thorough knowledge of accounting and auditing in order to prepare audit programs, coordinates work of internal audit personnel, conducts non-routine audits of complex programs and/or acts as lead worker, conducts financial, operational and/or compliance audits of entities regardless of program complexity and resolves and/or assists lower-level internal auditors in resolving most complex audit problems.

Internal Auditor 1JOB DUTIES IN ORDER OF IMPORTANCE:

(These duties are illustrative only. Incumbents may perform some or all of these duties or other job-related duties as assigned.)

Learns to conduct and/or conducts routine audits (i.e., financial, compliance and/or operational audits) of simply structured and/or complex programs (e.g., reviews reference materials and confers with staff members relative to previous or similar audits conducted in assigned area; identifies problems and prepares questions to pose during audit; reviews and analyzes records, operations, organization, systems and controls and interviews employees involved in program, unit or function being audited) independently or as part of team (i.e., can be responsible for total audit or segment thereof)

Assists in planning and writing and/or plans and writes audit programs for assigned audits or audit segment; assists in preparing and/or prepares work papers, supporting schedules and materials and preliminary audit reports; assists in preparing and/or prepares final audit report summarizing work performed, findings and recommendations to improve/resolve deficiencies or non-compliance.

Communicates (through in-person meetings, telephone conversions and/or e-mail) with appropriate representatives to be involved in audit to participate in outlining or outline scope of audit; attends meetings to review or participate in discussion of audit findings with appropriate representatives of entity audited; conducts program audits as directed; accompanies higher-level internal auditor on non-routine audits of simply structured programs for training purposes as assigned; attends in-service training and staff meetings.

MAJOR WORKER CHARACTERISTICS:

Demonstrate knowledge and understanding of governmental accounting principles and auditing procedures and practices. Demonstrate knowledge and understanding of the types of audit evidence and the appropriate use of each. Ability to develop audit guidelines for and conduct routine financial, compliance and operational audits; prepare meaningful, accurate and concise audit reports to include accurate recommendations to resolve/reduce deficiencies or noncompliance; handle routine and sensitive contacts with representatives of entity undergoing audit and cooperate with coworkers.

Demonstrate proficiency in the utilization of word processing and spread sheet software used by the District in the performance of audit related tasks. Utilize effective time management skills to effectively and efficiently complete assignments in a timely manner. Utilize effective communication skills to obtain the information and cooperation that are necessary to complete the assignment. Utilize effective communication skills to keep the supervisor informed of audit progress and any assistance required. Understand and comply with all department policies and procedures. Maintain high standards of professionalism and objectivity.

MINIMUM CLASS QUALIFICATIONS FOR EMPLOYMENT:

- Completion of undergraduate core coursework in accounting to include coursework in auditing **or** completion of undergraduate core coursework in public or business administration, economics, computer science or related field; 16 semester or 24 quarter hours in accounting.

- Valid driver's license
- Able to lift and carry up to twenty pounds
- Demonstrate sound judgment and decision making skills in the performance of their duties and independence and objectivity while providing professional services to clients. Commitment to professionalism that serves the public interest and promotes the public's confidence in the office of the State Auditor. Ability to understand technical accounting and auditing issues and formulate efficient and effective solutions that meet professional standards.
- Knowledge of accounting, business mathematics and statistics. Ability to understand and follow both written and verbal instructions. Ability to work and contribute to a team oriented environment.

TRAINING AND DEVELOPMENT REQUIRED TO REMAIN IN THE CLASSIFICATION AFTER EMPLOYMENT:

Not applicable.

UNUSUAL WORKING CONDITIONS:

May require travel; may be required to provide own transportation.

Internal Auditor 2JOB DUTIES IN ORDER OF IMPORTANCE:

(These duties are illustrative only. Incumbents may perform some or all of these duties or other job-related duties as assigned.)

Learns to conduct and/or independently conducts non-routine financial, compliance and/or operational audits of complex and/or simply structured programs and routine audits of complex and/or simply structured programs. Prepares preliminary and/or comprehensive audit documents to include timeline, scope, goals and objectives; determines types of tests and procedures necessary to perform audit; reviews and analyzes records, operations, organization, systems and controls and interviews appropriate parties involved in program, unit or function being audited; confers with supervisor concerning changes in emphasis of audit and problems encountered during course of audit, assists in preparing and/or prepares necessary work papers, related audit materials, preliminary audit reports and final audit report or draft audit report to summarize activities, findings and recommendations to improve/resolve deficiencies or non-compliance.

Plans and/or assists in planning and conducts routine audits of simply structured and/or complex programs and prepares required work papers, supporting schedules and materials and reports (i.e., audit work can be done independently, as part of a team, under another's direction, or as team leader for particular audit).

Conducts entrance interviews with appropriate representatives to discuss scope of audit and exit interviews to review findings and recommendations; conducts program audits when necessary; answers telephoned or written inquiries concerning audits; attends in-service training and staff meetings; learns to conduct and assists higher-level internal auditor in conducting non-routine audits of complex programs.

MAJOR WORKER CHARACTERISTICS:

Demonstrate knowledge and understanding of governmental accounting principles and auditing procedures and practices. Demonstrate knowledge and understanding of the types of audit evidence and the appropriate use of each. Ability to develop audit guidelines for and conduct routine financial, compliance and operational audits; prepare meaningful, accurate and concise audit reports to include accurate recommendations to resolve/reduce deficiencies or noncompliance; handle routine and sensitive contacts with representatives of entity undergoing audit and cooperate with coworkers.

Demonstrate proficiency in the utilization of word processing and spread sheet software used by the District in the performance of audit related tasks. Utilize effective time management skills to effectively and efficiently complete assignments in a timely manner. Utilize effective communication skills to obtain the information and cooperation that are necessary to complete the assignment. Utilize effective communication skills to keep the supervisor informed of audit progress and any assistance required. Understand and comply with all department policies and procedures. Maintain high standards of professionalism and objectivity.

MINIMUM CLASS QUALIFICATIONS FOR EMPLOYMENT:

- Completion of undergraduate core coursework in accounting to include coursework in auditing; 12 months experience in internal and/or external auditing, or completion of undergraduate core coursework in public or business administration, economics, computer science or related field with at least 16 semester or 24 quarter hours in accounting, or 12 months experience in internal and/or external audit, or 12 months experience as Internal Auditor 1.
- Valid driver's license
- Demonstrate sound judgment and decision making skills in the performance of their duties and independence and objectivity while providing professional services to clients. Commitment to professionalism that serves the public interest and promotes the public's confidence in the office of the State Auditor. Ability to understand technical accounting and auditing issues and formulate efficient and effective solutions that meet professional standards.
- Knowledge of accounting, business mathematics and statistics. Ability to understand and follow both written and verbal instructions. Ability to work and contribute to a team oriented environment.

TRAINING AND DEVELOPMENT REQUIRED TO REMAIN IN THE CLASSIFICATION AFTER EMPLOYMENT:

Not applicable.

UNUSUAL WORKING CONDITIONS:

May require travel; may be required to provide own transportation.

Internal Auditor 3JOB DUTIES IN ORDER OF IMPORTANCE:

(These duties are illustrative only. Incumbents may perform some or all of these duties or other job-related duties as assigned.)

Independently conducts routine and/or non-routine audits of simply structured and/or complex programs. Acts as lead worker over lower-level internal auditors on continuous, daily basis (e.g., provides work direction and on job training to assigned auditors by monitoring daily work progress. Confers with auditors on problem areas and/or changes in emphasis of audit; reviews work papers and audit reports for accuracy, completeness and compliance with department policies and procedures and professional standards; assists supervisor and/or independently prepares audit guidelines to include timeline, scope, goals and objectives of audits; schedules and coordinates audit assignments for auditors; acts in the absence of supervisor to ensure continued functioning of department.

Independently and/or as lead worker, prepares audit guidelines and conducts routine and non-routine audits of simply structured and/or complex programs to include handling most difficult audit issues.

Prepares audit reports and work papers, or, if acting as lead worker, reviews audit reports or segments thereof prepared by team members for accuracy, completeness and compliance with agency standards and procedures and to justify findings and recommendations.

Conducts entrance and exit conferences with representatives of unit, program, function or entity audited responds to telephoned and written inquiries concerning audits; attends in-service training and staff meetings; conducts program audits when necessary.

MAJOR WORKER CHARACTERISTICS:

Knowledge of employee training and development; knowledge of supervisory principles/techniques; knowledge of accounting; laws, rules and regulations governing programs, functions, accounts or entity to be audited public relations. Skill in use of calculator and personal computer/video display terminal. Ability to develop audit guidelines for and oversee/conduct routine and non-routine financial, compliance and operational audits; prepare meaningful accurate and concise audit reports to include accurate recommendations to resolve/reduce deficiencies or non-compliance; handle routine and sensitive contacts with representatives of entity undergoing audit establish and friendly atmosphere as audit team leader as lead worker.

MINIMUM CLASS QUALIFICATIONS FOR EMPLOYMENT:

12 mos. exp. as Internal Auditor 2 with experience commensurate with type of audits to be conducted for employing agency, **or** completion of undergraduate core coursework in accounting to include coursework in auditing and 2 yrs. experience in internal and/or external auditing; **or** completion of undergraduate core coursework in public or business administration, economics, computer science or related field; 16 semester or 24 quarter hours in accounting; 2 yrs. exp. in internal &/or external auditing.

Note: positions which involve travel to audit sites in field also require valid driver's license.

TRAINING AND DEVELOPMENT REQUIRED TO REMAIN IN THE CLASSIFICATION AFTER EMPLOYMENT: Not applicable.

UNUSUALWORKING CONDITIONS: May require travel; may be required to provide own transportation.