

Office of Internal Compliance
External Quality Assessment
Presented to:



February 2022

Presented by:



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EXECUTIVE SUMMARY

The International Standards for the Professional Practice of Internal Auditing (The *Standards*) requires an external quality assessment (“EQA”) of an internal audit activity be performed at least once every five years. The EQA must be performed by a qualified, independent assessor from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the EQA process.

The Executive Director, Office of Internal Compliance (“ED”, “OIC”) discussed the form and frequency of the EQA, as well as the independence and qualifications of the external assessor, including any potential conflicts of interest with Management and the Board Audit Committee Chair. OIC reports functionally to the Board Audit Committee and administratively to the Superintendent.

RiverStone Associates, LLC was selected as the qualified, independent internal assessor to assist OIC with its external assessment within the Atlanta Public School System (“APS”). We confirm that we are independent of OIC as required of quality assessors by the *Standards* and have the required expertise in conducting EQA engagements in similar organizations to APS.

The EQA took place virtually during the period of January 10, 2022 through January 20, 2022. Final conclusions made by the independent assessor were as of January 20, 2022 – the last date of the fieldwork phase of the EQA.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of OIC in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

Opinion as to Conformance with the Standards and Code of Ethics

Our overall opinion for this EQA is that the Office of Internal Compliance generally conforms with the *Standards* and the Code of Ethics. This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

Attachment A shows a list of individual *Standards* and the Code of Ethics and level of conformance.

Attachment B shows a listing of Interviewees and their selected comments.

We thank the Board Audit Committee Chair, APS Senior Management, and OIC management and staff for their insight into OIC and assistance in this review.



Robert Riegel, CIA, CISA, CRISC, CRMA, CFE, CFSA, MA
Team Leader RiverStone Associates, LLC



Monty Brinkley, CPA
Managing Member RiverStone Associates, LLC

Objectives, Scope, and Methodology Objectives

The principal objective of the EQA was to assess OIC's conformance with the *Standards* and the Code of Ethics. We also evaluated OIC's effectiveness in carrying out its mission, as set forth in its Charter and expressed in the expectations of the APS's Management and Board Audit Committee Chair. We identified successful internal audit practices demonstrated by OIC; identified Gaps to the *Standards*; and identified Opportunities for Continuous Improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.

Scope

The scope of the EQA included OIC, as set forth in its Charter and approved by the Board Audit Committee, which defines the purpose, authority, and responsibility of OIC. The EQA began in December 2021 and fieldwork was conducted in January 2022. We provided the Executive Director, OIC with up-to-date information about OIC's professionalism. The Executive Director is obliged to share the results of this EQA with the Board Audit Committee and the Superintendent. The *Standards* and the Code of Ethics effective as of January 2017, were the basis for this EQA.

Methodology

At our request, the Executive Director, OIC, compiled, prepared, and presented information in advance of the on-site portion of the EQA relating to internal audit governance, staff, management, and process. OIC identified key stakeholders (OIC staff, Senior Management, and the Board Audit Committee Chair, and the external auditor). These stakeholders were informed about this EQA and the contribution expected of them.

To accomplish the objectives, we reviewed information prepared by OIC at our request; both key stakeholders and OIC staff were interviewed individually; reviewed a representative sample of audit projects and related working papers and reports; and prepared diagnostic tools consistent with the methodology established for an EQA in the Quality Assessment Manual published by the Institute of Internal Auditors, Inc.

Summary of Observations

OIC staff understands and applies the *Standards* and the Code of Ethics. Our observations are intended to build on or further improve the solid foundation already in place in the OIC.

Observations are divided into three categories:

1. Successful Internal Audit Practices.

We observed OIC generally operates efficiently and effectively. In our discussions with key stakeholders, we presented our developing observations as follows:

- ***Standard 1000 – Purpose, Authority, and Responsibility.*** The Internal Audit Charter is comprehensive and consistent with the mandatory elements of the International Professional Practice Framework (“IPPF”).

- **Standard 1111 – Direct Interaction with the Board.** OIC management has an appropriate and high level of interaction with the Audit Committee. Further, audit staff regularly attend the quarterly audit committee meetings.
- **Standard 1120 – Individual Objectivity.** OIC management and staff confirm on an annual basis that they are aware of and agree to abide by the requirements of the *Standards* and the IIA Code of Ethics.
- **Standard 1210 – Proficiency.** OIC has a qualified staff component, augmented by co-sourced audit resources.
- **Standard 1220 – Due Professional Care.** The development and use of data analytics as currently employed bring value-add results to audit engagements.
- **Standard 1311 – Internal Assessments.** In preparation for this EQA, OIC completed their first internal quality assessment (“IQA”) to determine their level of compliance with the *Standards* and the Code of Ethics. IQAs require both ongoing and annual periodic assessments. The need to report results of annual internal quality assessment to the audit committee is noted under Opportunities for Continuous Improvement.
- **Standard 1312 – External Assessments.** With this current external assessment, OIC meets the five-year cycle requirement.
- **Standard 2010 – Planning.** OIC has an annual risk assessment and planning process that incorporates input from senior stakeholders and the Audit Committee to focus engagements in areas of highest risk and impact to APS.
- **Standard 2040 – Policies and Procedures.** The Internal Audit Manual documenting the underlying policies, procedures, and infrastructure supporting OIC is well done.
- **Standard 2110 – Governance.** OIC plays an active role in affecting good governance within APS.
- **Standard 2120 – Risk Management.** OIC effectively participates in risk management activities within APS.
- **Standard 2201 – Planning Considerations.** OIC has established an effective engagement planning process to identify audits in the areas of highest risk and impact.
- **Standard 2300 – Performing the Engagement.** OIC has effective practices in place to identify, analyze, evaluate and document sufficient information to achieve the engagement’s objectives.

- **Standard 2340 – Engagement Supervision.** Audit file review notes provide appropriate evidence of engagement supervision.
- **Standard 2400 – Communicating Results.** APS public website (www.atlantapublicschools.us) contains relevant information regarding OIC’s Charter, annual plan, Ethics and Compliance Hotline, staffing and completed audit reports.
- **Standard 2500 – Monitoring Progress.** An effective monitoring process is in place to ensure observations included in the engagement reports are appropriately addressed by management in a manner consistent with the action plans and timeframes described and reported.

2. Gaps to Conformance with the Standards or the Code of Ethics.

As noted in **Attachment A**, in the evaluation of each *Standard* and the Code of Ethics, some gaps to IIA *Standards* were noted.

- **Standard 1320 – Reporting on the Quality Assessment and Improvement Program (“QAIP”)** The Executive Director must communicate the results of the QAIP to senior management and the board. The Executive Director completed an internal quality assessment (“IQA”) in advance of this required external quality assessment (“EQA”). Reporting disclosures should include: the scope and frequency of both EQAs and IQAs, qualifications of the assessor and any potential conflicts, conclusions of the assessor, and corrective action plans. Ensure annual periodic internal quality assessment results (IQAs) are reported to the audit committee. IQAs should be performed in a holistic manner, addressing both attribute and performance *Standards*.

Executive Director, OIC Response:

Concur – OIC will perform annual periodic Internal Quality Assessments (IQAs) and disclose to the audit committee the scope and frequency of both EQAs and IQAs, qualifications of the assessor and any potential conflicts, conclusions of the assessor, and corrective action plans. We will ensure an External Quality Assessment is completed every 5 years, in compliance with the standards.

Estimated Implementation: IQA – SY2023; EQA - SY2026

Responsible Party: Executive Director, OIC

- **Standard 2020, 2030 – Communication and Approval & Resource Management.** Many high-risk areas have not been audited due to audit resource constraints. Current resources are not sufficient to adequately address the identified high-risk areas within APS. The SY21 (School-Year 2021) risk assessment and approved audit plan indicate thirteen high-risk areas. Additional high-risk areas are detailed in the IT environment. Only two of the thirteen areas (Payroll and Lawson) were audited during the SY21. Likewise, for SY22, the risk assessment shows thirteen high-risk areas for which only two areas (Accounts Payable and CARES Act Funding) will be audited.

The Executive Director should continue to present the annual risk assessment (along with the annual audit plan) to Management and the Audit Committee to ensure risks are fully understood. Special emphasis should be placed on those high-risk areas that will not be audited in the current year. Not allocating sufficient audit resources to address identified high-risk areas could represent a tacit acceptance of those unaudited risks.

Executive Director, OIC Response:

Concur – OIC will continue to present the risk assessment and proposed audit plan to the audit committee for discussion and approval. To ensure a special emphasis is placed on high-risk areas that are not included in the current audit plan, OIC will develop and present a staffing analysis, showing available audit hours versus high-risk areas. This analysis should assist OIC in communicating the impact of resource limitations to the audit committee. OIC management also plans to continue its efforts to build out the department to ensure the district's highest prioritized risk are addressed. OIC plans to request additional resources during the current budget process.

Estimated Implementation: Pending SY2023 Budget Approval

Responsible Party: Executive Director, OIC

Standard 2110.A1 – Governance. OIC must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities. Since OIC manages the Ethics Hotline, a safeguard must be in place to limit any impairment to independence and objectivity to this required audit. Further, the Ethics Program should be included in the audit universe.

Executive Director, OIC Response:

Concur – OIC will propose a review of the district's Ethics Program for the SY2023 Audit Plan. To limit any impairment to independence and objectivity, OIC will engage an independent third-party to perform the review

Estimated Implementation: SY2023

Responsible Party: Executive Director, OIC

3. Opportunities for Continuous Improvement.

Even where OIC generally conforms to a *Standard*, we observed opportunities to enhance OIC's efficiency and effectiveness. These are operational ideas based on our experiences working with other internal audit activities. A management response and an action plan to address each opportunity for continuous improvement noted is normally included. Opportunities for Continuous Improvement identified during this EQA are detailed below.

Standard 1000 – Purpose, Authority and Responsibility. Consider providing onboard training for new audit committee members. Training should help new members to fully understand their roles and responsibilities.

Executive Director, OIC Response:

Concur – OIC delivered its first onboard training for new audit committee members on December 13, 2021. The training will be updated to include the audit committee’s roles and responsibilities going forward. Also, OIC management will periodically provide best practices and emerging trend information to the audit committee, when relevant.

Estimated Implementation: Next rotation of new members; ongoing

Responsible Party: Executive Director, OIC

Standard 1220 – Due Professional Care. Consider further development and expanded use of data analytics. OIC has already developed various data analytical tools which have yielded solid results. The further use of technology and data analytics will:

- enhance the audit process so it is faster and more efficient and effective;
- enhance productivity of OIC management and staff;
- shorten the audit cycle time to provide more timely risk and control assurance;
- allow an audit of 100% of data populations rather than a sample;
- improve the quality of assurance through the use of data and transactional analysis; and
- become more predictive with regards to areas of emerging risk.

The IIA’s GTAG 16, Data Analysis Technologies would be a helpful resource.

Executive Director, OIC Response:

Concur – OIC plans to continue the use of data analytics in each of our audit projects, where applicable and feasible. We will consider guidance included in the IIA’s GTAG 16, Data Analysis Technologies guidance and other new and emerging trends as we continue our efforts to expand our data analytics usage.

Estimated Implementation: Ongoing

Responsible Party: Executive Director

Standard 1300 – Quality Assurance and Improvement Program. Consider expanding the Internal Audit Quality Assurance and Improvement Program (QAIP) by including key metric performance indicators related to the approved audit plan, the status of the plan and department staffing. The indicators would ensure ongoing quality of OIC activities, promote the continuous improvement of OIC methods and practices, and enhance the value provided to the Audit Committee and Management.

The results of the monitoring should be reported to the Audit Committee and senior management. Some examples of additional performance indicators that may be considered are:

- Budget to actual times for each audit engagement
- Time from end of fieldwork to report draft issuance
- Delays in management action plans in response to audit recommendations
- Number of repeat audit recommendations
- Audit staff training and professional certifications held.

Executive Director, OIC Response:

Concur – OIC will expand on its current key metric performance indicators to include, but not be limited to client satisfaction scores, audit staff training, and time from end of fieldwork to report draft. As OIC continues to mature, additional key metric performance indicators will be considered.

Estimated Implementation: July 1, 2022

Responsible Party: Executive Director, OIC

Standard 2000 – Managing the Internal Audit Activity. Consider developing, documenting, and annually presenting a multi-year OIC Strategic Plan to the Audit Committee. The OIC Strategic Plan should address key goals and objectives for OIC to accomplish over the next two-three years. Further, the Strategic Plan should include a SWOT analysis (strengths, weaknesses, opportunities and threats) to support goals and objectives.

Executive Director, OIC Response:

Concur – OIC will develop, document, and present a multi-year OIC Strategic Plan to the Audit Committee. At a minimum, the plan will address key goals and objectives for OIC to accomplish over the next two-three years. The plan will include a SWOT analysis (strengths, weaknesses, opportunities, and threats) to support goals and objectives.

Estimated Implementation: First Audit Committee Meeting in SY2023 (Date to be determined)

Responsible Party: Executive Director, OIC

Standard 2000 – Managing the Internal Audit Activity. Finalize the implementation of the Pentana audit management software tool. The purchased software is ready for full implementation and will significantly enhance OIC's engagement planning, performance and reporting of engagement results.

Executive Director, OIC Response:

Concur – The Pentana MK software was installed, updated, and configured for OIC in December 2021. The OIC team received training in January 2022.

We anticipate using the software with our next audit, scheduled for March 2022.

Estimated Implementation: March 1, 2022

Responsible Party: Executive Director and Director, OIC

Standard 2040 – Policies and Procedures. Consider updating the audit manual by incorporating improvements noted in this EQA.

Executive Director, OIC Response:

Concur- As the improvements included in this EQA are implemented, OIC will update the Internal Audit Manual.

Estimated Completion: Ongoing

Responsible Party: Executive Director and Director, OIC

Standard 2060 - Reporting to Senior Management and the Board – Consider using a “Required Communications with the Audit Committee Checklist” to ensure that all requirements are met and documented in the appropriate time frames.

Currently, all required communications appear to take place within appropriate time frames. However, these communications take place at different times throughout the year or must be inferred from presented materials. Reporting required communications to the Audit Committee, using a checklist, is a successful internal audit practice that demonstrates communications take place within the appropriate time frames. The checklist should be updated as changes to the *Standards* become effective. The *Standards* require the Executive Director to communicate information to senior management and the Audit Committee about the internal audit charter, the independence of the internal audit activity, the audit plan and progress against the plan, resource requirements, results of audit activities, conformance with the IIA Code of Ethics and the *Standards* and action plans to address any significant conformance issues, and management’s response to risk that in the Executive Director’s judgment may be unacceptable to the organization. These and other communication requirements are referenced throughout the *Standards*.

Executive Director, OIC Response:

Concur- OIC will implement the use of a “Required Communications with the Audit Committee Checklist” to ensure that all requirements are met and documented in the appropriate timeframe. The checklist will be provided to audit committee members to ensure they are also aware of the required communications and can know when and what to expect throughout the year.

Estimated Implementation: March 17, 2022

Responsible Party: Executive Director, OIC

Standard 2500 – Monitoring Progress. Consider revamping the reporting of open and unimplemented audit recommendations reported to management and the Audit Committee. Open, delayed, past-due or deferred audit recommendations should be clearly and frequently reported in a detailed manner. Past-due or unimplemented recommendations may constitute risk acceptance of high-risk topics.

Executive Director, OIC Response:

Concur – OIC plans to enhance our current reporting of open recommendations by using the reporting and notifications features within the Pentanta MK audit management software to improve communications with the respective stakeholders and audit committee. Also, the reporting features will be used in conjunction with the previously created Power BI template to report out on the open recommendations. OIC will present information regarding open and unimplemented recommendations to the Audit committee quarterly, with a focus on unimplemented recommendations.

Estimated Implementation: First Audit Committee Meeting in SY2023 (Date to be determined)

Responsible Party: Executive Director, OIC

Attachment A – Evaluation Summary and Rating Definitions

| | | GC | PC | DNC |
|--------------------|--|----|----|-----|
| Overall Evaluation | | x | | |

| Attribution Standards (1000 through 1300) | | GC | PC | DNC |
|--|---|-----|----|-----|
| 1000 | Purpose, Authority and Responsibility | x | | |
| 1010 | Recognizing Mandatory Guidance in the Internal Audit Charter | x | | |
| 1100 | Independence and Objectivity | x | | |
| 1110 | Organizational Independence | x | | |
| 1111 | Direct Interaction with the Board | x | | |
| 1112 | Chief Auditor Roles Beyond Internal Auditing | x | | |
| 1120 | Individual Objectivity | x | | |
| 1130 | Impairment to Independence or Objectivity | x | | |
| 1200 | Proficiency and Due Professional Care | x | | |
| 1210 | Proficiency | x | | |
| 1220 | Due Professional Care | x | | |
| 1230 | Continuing Professional Development | x | | |
| 1300 | Quality Assurance and Improvement Program | | | |
| 1310 | Requirements of the Quality Assurance and Improvement Program | x | | |
| 1311 | Internal Assessments | x | | |
| 1312 | External Assessments | x | | |
| 1320 | Reporting on the Quality Assurance and Improvement Program | | | x |
| 1321 | Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” | n/a | | |
| 1322 | Disclosure of Nonconformance | x | | |

| Performance Standards (2000-2600) | | GC | PC | DNC |
|--------------------------------------|---|-----|----|-----|
| 2000 | Managing the Internal Audit Activity | x | | |
| 2010 | Planning | x | | |
| 2020 | Communication and Approval | | x | |
| 2030 | Resource Management | | x | |
| 2040 | Policies and Procedures | x | | |
| 2050 | Coordination and Reliance | x | | |
| 2060 | Reporting to Senior Management and the Board | x | | |
| 2070 | External Service Provider and Organizational Responsibility for Internal Auditing | n/a | | |
| 2100 | Nature of Work | x | | |
| 2110 | Governance | | x | |
| 2120 | Risk Management | x | | |
| 2130 | Control | x | | |
| 2200 | Engagement Planning | x | | |
| 2201 | Planning Considerations | x | | |
| 2210 | Engagement Objectives | x | | |
| 2220 | Engagement Scope | x | | |
| 2230 | Engagement Resource Allocation | x | | |
| 2240 | Engagement Work Program | x | | |
| 2300 | Performing the Engagement | x | | |
| 2310 | Identifying Information | x | | |

| | | | | |
|----------------|---|-----|----|-----|
| 2320 | Analysis and Evaluation | x | | |
| 2330 | Documenting Information | x | | |
| 2340 | Engagement Supervision | x | | |
| 2400 | Communicating Results | x | | |
| 2410 | Criteria for Communicating | x | | |
| 2420 | Quality of Communications | x | | |
| 2421 | Errors and Omissions | x | | |
| 2430 | Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” | x | | |
| 2431 | Engagement Disclosure of Nonconformance | x | | |
| 2440 | Disseminating Results | x | | |
| 2450 | Overall Opinions | n/a | | |
| 2500 | Monitoring Progress | x | | |
| 2600 | Communicating the Acceptance of Risks | x | | |
| | | | | |
| Code of Ethics | | GC | PC | DNC |
| | Code of Ethics | x | | |

GC – “Generally Conforms” means the assessor has concluded the following:

- For individual standards, the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

PC – “Partially Conforms” means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).

- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Attachment B – Interviewees and Comments

Stakeholder Feedback - Interviews:

Senior Management/Stakeholders

- | | | |
|---|------------------------------|-----------------|
| • | Audit Committee Chair | Leslie Grant |
| • | Superintendent | Lisa Herring |
| • | Chief Financial Officer | Lisa Bracken |
| • | Executive Director, IT | Olufemi Aina |
| • | Chief Human Resource Officer | Skye Duckett |
| • | Executive Director, Payroll | Saundra Burgess |
| • | Mauldin & Jenkins Auditor | Derek Foster |

OIC Management and Staff

- | | | |
|---|--------------------|--------------------|
| • | Executive Director | Connie Brown |
| • | Director | Petrina Bloodworth |
| • | Lead Auditor | Charvae Young |

Comments Received During Interviews

Comments below represent general themes that were expressed by more than one stakeholder in interviews or were validated by the independent assessment assessor through other diagnostic procedures. All interviews were conducted privately without the Executive Director present.

Strengths (What I Like)

- High integrity; thoughtfulness; willingness to engage in healthy dialogue with management regarding observations and findings.
- OIC operates in an independent and objective manner – they are a valuable component of the governance structure at APS.
- Data analysis used by OIC is adding value to their processes by identifying risks and opportunities in a more systematic, efficient, and effective manner.
- I appreciate OIC and the value they bring to our organization.
- Communication protocols before, during, and after the audit are excellent. There are no surprises. They listen effectively.
- Planning of engagements is very good – objectives and scope make sense. They solicit and use our input.
- OIC effectively communicates results of engagements to senior management and the Audit Committee. Engagement reports are well done and focus on things that are important.
- OIC is an organization that is always trying to get better – they are committed to continuous improvement.

Opportunities (What Might be Improved)

- OIC can and should do more audits. They seem to be under-staffed.
- OIC should be “right-sized” to address our risks.
- The OIC capacity issue should be discussed at the Board level.
- Onboard training for Audit Committee members would be helpful.
- Continue efforts to expand data analysis capabilities which will enhance continuous monitoring and auditing protocols.
- Look for opportunities to streamline audit processes so engagements are completed in a more-timely manner.
