

**FAIRFAX COUNTY PUBLIC
SCHOOLS
AUDIT RISK ASSESSMENT OF
DEPARTMENTS AND PROGRAMS**



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Purpose of Risk Assessment

The level of risk associated with Fairfax County Public Schools varies from department to department, program to program and school to school. The definition of risk for any business entity can be broken into four elements as follows:

Strategic Risks – relates to doing the wrong things.

Operating Risks – relates to doing the right things the wrong way.

Financial Risks – relates to losing financial resources or incurring unacceptable liabilities.

Information Risks – relates to inaccurate or non-relevant information, unreliable systems, and inaccurate or misleading reports.

Utilizing a structured risk assessment methodology as outlined in this report, allows the Internal Auditor to quantify the level of risk related to FCPS departments and processes. Schools were not included in this risk analysis based on the fact that we contract with a CPA firm to audit local school activity funds. On the basis of the risk scores calculated for each area, the Internal Auditor can then develop a proposed audit schedule identifying risk covered and those are subject to exposure based on resource shortages.

As an additional tool for assessing risk in FCPS I included a self-audit tool for use by Assistant Superintendents and their respective management personnel. This self-assessment tool recognizes the fact that managers are responsible for establishing and maintaining internal controls within their respective operating environments. My job will be to evaluate whether the controls are in place and working as designed. The tool will facilitate my reviews of FCPS departments and should be distributed to all Assistant Superintendents and their management staff.

Risk Assessment Methodology

The Risk Assessment Methodology consists of the following six-part process:

- ❑ Developing the risk assessment model;
- ❑ Identifying FCPS department activities;
- ❑ Scoring risks using impact and probability factors and weights;
- ❑ Ranking the auditable areas;
- ❑ Developing the audit plan; and
- ❑ Submitting the audit plan for management review and approval.

The risk assessment model is based upon both impact and probability risk factors. Impact evaluates the effect resulting from a breakdown in the operation’s environment, processes, and/or controls. Probability looks at the likelihood that an event will occur. Impact is broken into seven (7) evaluation factors and probability contains fifteen (15) evaluation factors. Each factor is given a weight based on their importance in evaluating the overall risk of a process. The following are the evaluation factors for both impact and probability:

IMPACT	PROBABILITY
<ol style="list-style-type: none"> 1. Volume and Dollar Value of Transactions. 2. Financial Statement Significance. 3. Proprietary Nature of Information. 4. Impact on Reputation. 5. Impact on Customers 6. Failure to Meet Organizational Goals and Objectives. 7. Regulatory Scrutiny and/or Penalties 	<ol style="list-style-type: none"> 1. Asset Liquidity 2. Complexity of Operations 3. Information Systems Reliability 4. Access to Assets 5. Verification of Valuables and Information 6. Segregation of Duties 7. Audit Considerations 8. Accountability 9. Policies and Procedures 10. Regulatory Compliance 11. Contingency Planning 12. Environmental Factors 13. Control Environment 14. Commitment to Excellence 15. Structure of Authority

The table below lists a description of the impact and probability factors and the related assigned weight.

IMPACT RISK FACTORS

	Factor	Definition	Weight
1	Volume and Dollar Value of Transactions	A measure of exposure from the volume and/or dollar value of transactions. Select the higher value of either the annual volume or annual dollar value when scoring the risk factor.	10%
2	Financial Statement Significance	A measure of exposure arising from the entity's relationship to the asset, liability and revenue accounts.	5%
3	Proprietary Nature of Information	A measure of the degree of loss or embarrassment from the misuse of information produced or collected by the entity's operations.	10%
4	Impact on Reputation	A measure of the reputation effect on FCPS, the business entity and/or customers resulting from a process or control breakdown. The greater the potential negative effect, the greater the impact scoring.	20%
5	Impact on Customers	A measure of the effect on customer services resulting from a process or control breakdown. Activities performed incorrectly or inefficiently that result in disruption, delay or slow down of delivering services to customers will have a high impact score.	20%
6	Failure to Meet Organizational Goals and Objectives	The greater the effect that a business unit or process has on FCPS or department strategic objectives and goals, the greater the related impact score.	15%
7	Regulatory Scrutiny and/or Penalties	The greater the extent that activities are covered by enforceable standards, regulations and/or legal requirements, the greater the possibility of noncompliance.	20%

PROBABILITY RISK FACTORS

	Factor	Definition	Weight
1	Asset Liquidity	The probability of fraud or other loss occurring in a particular unit reflected by how easy it is to convert assets into cash for personal gain, causing a loss.	5%
2	Complexity of Operations	A measure of the difficulty in performing a process or a function. The more difficult or complex increases the likelihood of errors.	10%
3	Information System Reliability	A measure of the exposure concerning the level of automation reliability of the technology used in the department.	5%
4	Access to Assets	Measures the availability of assets to personnel and/or the public. The greater the availability the greater the exposure to risk.	5%
5	Verification of Valuables and Information	Measures the performance and documentation of confirmations/settlements/edits of the accuracy of transactions at points in the processing flow where accountability is transferred or there is entry processing, output, distribution or transfer of information.	5%
6	Segregation of Duties	Measures the assignment of responsibility precluding any individual from processing assets or data transactions in their entirety, and from maintaining records of the transactions or changes in which that individual participates.	10%
7	Audit Considerations	Considers the existence of data that substantiates the accuracy of the action take and evidence of proper storage and maintenance of assets, data and systems and application software. Considers prior audits or high risk areas identified but not yet audited.	5%
8	Accountability	Considers the assignment of responsibility for the control of assets and data, the processing of transactions and/or fulfillment of the entity's mission so that each individual involved in a transaction can be identified and held accountable for the portion of the transaction in which they participated.	10%
9	Policy and Procedures	Considers the importance of a complete set of written instructions that guide personnel in the successful execution of their duties and the duties of the office for which they work.	5%
10	Regulatory Compliance	Measures the existence of, and potential non-compliance with accounting and procedural requirements relating to applicable Commonwealth of Virginia, Virginia Department of Education, County of Fairfax and FCPS regulations, policies and procedures.	10%
11.	Contingency Planning	Evaluates the need for management to provide tested and documented alternative procedures and processing capabilities for manual and automated functions to be implemented in case of emergency or abnormal	5%

		conditions which restrict normal processing (including the availability of necessary data, software, hardware, documentation and personnel).	
12	Environmental Factors	Evaluates the need for preventative and detective measures to be taken by management to minimize service disruptions; promote the integrity of the information and computer services; and protect FCPS assets including facilities, equipment and personnel.	5%
13	Control Environment	Measures the need for management's promotion and support of an ethical environment as well as employee's compliance with FCPS policies that promote ethical behavior.	10%
14	Commitment to Excellence	Measures the necessary ability to accomplish today's organizational objectives and to manage anticipated changes through effective recruiting and training of personnel. Consideration is also given to the retention, placement and advancement of assigned personnel.	5%
15	Structure of Authority	Measures the degree to which roles, responsibilities, and authority need to be clearly defined, communicated and understood by all assigned personnel.	5%

Identifying FCPS department activities is accomplished by using various research techniques. Some of the techniques used to identify and develop department activities included interviewing department heads and other personnel, Internet research and auditor experience.

Scoring Department Activity Risk is the central process of the risk assessment. Once all the audit areas of a department are identified, each of the areas are weighed according to the significance to the overall department's mission and objective. Each impact and probability factor is then separately evaluated and assigned a point level (0-5) with zero representing the lowest level of risk and 5 the highest. The individual factor scores are then multiplied by the risk weight factor. The weighted risk factor elements are added together to obtain the respective total impact and probability score for each department.

Ranking the Auditable Areas is achieved by sorting each all the auditable areas by their respective total risk score.

Developing the Audit Plan is achieved by scheduling audits for the highest risk areas. However because the internal audit function is still in the development phase and all departments have not been reviewed, audits were scheduled using a combination of risk score, and available audit resources to ensure that auditable areas of FCPS will be audited within eight years. Adding additional audit resources may reduce the audit schedule.

Submitting the Audit Plan for Review and Approval is achieved by providing the risk assessment and audit plan to the Division Superintendent for action.

Risk Scoring By Department

**Fairfax County Public Schools
Audit Plan 2001-2005
Risk Analysis Worksheet**

Departments	Audit Area	Combined Risk Factor	Budget Hours				
			2001	2002	2003	2004	2005
Division Superintendent							
Financial Services	Petty Cash		160	160	160	160	160
Financial Services	Community Use		400	400	400	400	400
Facilities Services	Construction Fund Mgmt Controls	3.10			400		
Facilities Services	Construction Bond Projects	2.90				400	
Facilities Services	Facilities Maintenance	2.45					400
Facilities Services	Vehicle Maintenance	2.30				400	
Facilities Services	Audit of Leased Rental Space	1.70					400
		12.45					
Financial Services	Lawson Payroll System	8.15	800				
Financial Services	Grants Reimbursements	6.70	400				
Financial Services	Credit Card Program Review	6.60	400				
Financial Services	Cash Receipt Controls	6.55	400				
Financial Services	Accounts Payable	5.95	400				
Financial Services	Fixed Asset System (FAACS) Review	4.20		400			
Financial Services	Department Budget Monitoring	4.15		400		400	
Financial Services	Bank Account Data Call	1.95					
		44.25					
General Services	Procurement Process CASPS	6.35		400			
General Services	Managing Workplace Injuries	4.60			400		
General Services	School Bus Scheduling	3.95				400	
General Services	Food Service Vendors	3.00			400		
General Services	Vehicle Replacement	1.95			400		
General Services	Textbook - Cost of Shipping	1.70				400	
		21.55					
Human Resources	Payroll Leave Management	6.00	400				
Human Resources	Recruitment Selection Process	5.50		400			
Human Resources	Staffing Allocation Position Control	3.90			400		
Human Resources	Worker's Compensation Administration	2.15					400
Human Resources	Health Insurance TPA Cost Review	2.05					400
		19.60					
Information Technology	Computer Security Administration	5.00		400			
Information Technology	Software Licensing Compliance Review	4.05				400	
Information Technology	Disaster Recovery Planning	3.75					400
		12.80					
Instructional Services	Foundation for Applied Technical Educatic	4.40		400			
Instructional Services	Adult Education Registration (AIMS) Syste	3.85				400	
Instructional Services	Tuition Reimbursement Program	1.80			400		
		10.05					
Non Departmental	Cellular Phone Cost and Usage	2.95			400		
Non Departmental	Legal Services	1.50					400
		4.45					
Student Services Special Education	Medicare Claims Mgmt	6.60	400				
Student Services Special Education	Employee Payment Procedures	6.35		400			
Student Services Special Education	Alternative School Program	1.70					400
		14.65					
	Budgeted Hours		3,760	3,360	3,360	3,360	3,360
	Available Hours		2160	2160	2160	2160	2160
	Over/Short		(1,600)	(1,200)	(1,200)	(1,200)	(1,200)

Computation of Available Hours

Fairfax County Public Schools Internal Audit Computation of Available Hours for the year ending 12/31/2001

	A	B	
	Internal Auditor	Accounting Technician	Total
Total Hours January- December 2001 (260 days) Available Hours	2080	2080	4160
Less: Vacations	200	160	360
Sick Leave	80	80	160
Professional Development	40	40	80
Administration			
Staff/Committee meetings	80	40	120
Annual Plan/Risk Assessment	160	40	200
Audit Follow Up	40	40	80
Advisory Services/Special Requests	400	80	480
Office Administration (25%)		520	520
			2000
Total Available Audit Hours			2160
Projects			
Audit of Petty Cash Funds			160
Audit of Grant Reimbursement Procedures			400
Audit of Community Use of School Facilities			400
Audit of the Credit Card Program			400
Audit of Medicare Claims Management			400
Audit of Controls over Cash Receipts			400
Review of Lawson Payroll System Controls			800
Review of Payroll Leave Management			400
Audit of Accounts Payable Processing			400
			3760
Total Budgeted Audit Hours			3760
Resource Over/Short			(1600.00)

FCPS SELF-AUDIT TOOL

Internal control Questionnaire for Assistant Superintendents, Directors and Department Heads

This document is a self-assessment tool which will assist you in evaluating the five key elements of internal control in your area of responsibility: Control Environment; Risk Assessment; Control Activities; Information and Communication; & Monitoring.

The questionnaire is designed so that the preferred or most desirable answer is "Yes". We recommend that you print this questionnaire, attempt to answer the questions as objectively as possible, and then return to Internal Audit (c/o Jim Kaplan) when completed. We can help you interpret the internal control issues and advise you on ways you may be able to improve the level of control, as well as the overall effectiveness, of your area of responsibility.

<i>CONTROL ENVIRONMENT</i>	Yes	No	Don't Know	Room For Improvement
1. Does your management philosophy and style communicate high expectations regarding integrity and ethical values? Are your directives and actions consistent with these expectations?	[]	[]	[]	[]
2. Is the organizational structure in your area clearly defined?	[]	[]	[]	[]
3. Are human resources policies clearly communicated to your personnel?	[]	[]	[]	[]
4. Have all important expectations or "policies" been formalized and communicated to your personnel?	[]	[]	[]	[]
5. Do you reprimand inappropriate behavior in a consistent manner regardless of the individual's position or status? Is this done in a timely and direct manner?	[]	[]	[]	[]
6. Have you identified your organization's customers and/or clients? Is your area perceived by these groups as one where there are fair and honest dealings?	[]	[]	[]	[]
7. Do you expect full compliance with laws, regulations and policies?	[]	[]	[]	[]
8. Are the number of requests to approve exceptions to established policy kept to a minimum? Are such approvals always documented?	[]	[]	[]	[]
9. Are realistic performance objectives set for your personnel?	[]	[]	[]	[]

- | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 10. Are job descriptions accurate and up to date? Do they include all major expectations? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Do your personnel have the knowledge and skills required for their positions? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Do you provide adequate training for all categories of personnel? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Is employee turnover in your area at an acceptable level? If turnover is excessive, do you know the root causes? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Are accounting and budgeting activities an integral part of your decision making processes? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Do management reports tell the whole story? Are they timely and do they raise "red flags" where appropriate? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. Are your employees appropriately empowered and given adequate resources to fulfill their responsibilities? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

RISK ASSESSMENT

- | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. Have department or division objectives been established? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have activity-level objectives also been established? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are there documented objectives for all key activities? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Do they include statements of purpose regarding operations, reporting and compliance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are they realistic and consistent with past practices and performance, or with relevant benchmarks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are they periodically reviewed and updated? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Do they include measurement criteria? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Have the objectives been prioritized? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Were all employee levels represented in establishing the objectives? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have risks or obstacles to achieving each | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

objective been identified?

- Were risks from external sources (suppliers, technology changes, economic and political conditions, regulations, etc.) adequately considered?
 - Were risks from internal sources (employee turnover, morale and commitment to objectives, performance of information systems, etc.) adequately considered?
6. Have the risks been prioritized?
- Was there an evaluation of the likelihood of occurrence?
 - Has the potential monetary impact been estimated?
 - Have the risks been categorized as (a) tolerable or (b) requiring action?
7. Were appropriate levels of management involved in analyzing the risks?
8. Have overall strategies for managing important risks been established?
9. Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees?

CONTROL ACTIVITIES

Have you considered necessary control activities for each of your operations? For example:

-
1. Do you and your employees evaluate performance with regard to established objectives? Are these evaluations based on previously agreed upon standards?
2. Are all new programs or activities formally authorized in advance?
3. Are you currently operating within budget? Did you complete last year within budget?
4. Are important financial and operating reports routinely reviewed and shared with your key personnel?

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|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 5. Are key reconciliation reports prepared and reviewed? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do you or your key managers review and approve all financial transactions? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do you track the location and use of all equipment and property? Is missing equipment investigated? Are there additional controls for equipment checked out to individuals or taken off site? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Do you provide adequate physical security for cash and other assets subject to theft? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Do you provide adequate guidance and training for personnel who have responsibility for cash and similar assets? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Are individuals who control assets prohibited from also recording transactions related to those assets? For example, is the cashier not allowed to handle record keeping for accounts receivable? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Please list the <i>primary</i> control activities you rely upon in managing your organization? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

INFORMATION AND COMMUNICATION

- | | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. Do you receive relevant information regarding legislation, regulatory developments, economic changes, or similar external factors that may affect your organization? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is key information about your organization's operations identified and regularly reported? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Do managers receive sufficient information to carry out their responsibilities? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the information understandable and usable? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is information available in a timely manner? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is there a means for you to identify emerging information needs? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are plans for the effective use of information technology developed and linked with strategic initiatives? Are the plans consistent with available resources? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are training, meetings, seminars, on-the-job | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- supervision sufficient to communicate to the employees their duties and responsibilities?
6. Is there a way to communicate suspected improprieties upstream through someone other than a direct superior? Is the complainant protected from retaliation? [] [] [] []
 7. Is trust actively promoted between employees, supervisors and departments? [] [] [] []
 8. Are employees encouraged to provide recommendations for improvement? Are they recognized or rewarded for suggestions? [] [] [] []
 9. Have you communicated your organization's standards and expectations to key outside groups or individuals? [] [] [] []
 10. Are client complaints taken seriously, investigated, and acted upon? [] [] [] []
 - Is there follow-up communications with the complainant? [] [] [] []
 - Is management aware of the nature and volume of complaints? [] [] [] []

MONITORING

1. Do you routinely evaluate the overall effectiveness of your internal control system? [] [] [] []
2. How do you monitor the control environment? [] [] [] []
 - Do you assess employee attitudes? [] [] [] []
 - Do you review your organization structure for effectiveness? [] [] [] []
 - Do you review and evaluate policies and procedures? [] [] [] []
3. Do you periodically evaluate the effectiveness of your risk assessment procedures? [] [] [] []
4. Do you regularly monitor the effectiveness of key control activities? [] [] [] []
 - Do you spot-check transactions, records, and reconciliation reports to ensure they meet your expectations? [] [] [] []
 - Do you randomly compare assets on hand (cash, inventories, etc.) to recorded [] [] [] []

amounts and investigate discrepancies?

5. Are all information and communication systems periodically evaluated for accuracy, timeliness and relevance?

- Do you question financial and management reports that appear unusual or inconsistent?

- Does management encourage employees to provide feedback on whether controls operate effectively?

- Are there performance evaluations, at least annually, where employees and supervisors discuss expectations, goals and performance?