

**OFFICE OF INTERNAL AUDIT**  
**FISCAL YEAR 2025**  
**PROPOSED AUDIT PLAN**

I am pleased to provide you with the Fayette County Public Schools 2024-2025 Internal Audit work plan(Audit Plan). The past few years have provided an opportunity to evaluate our processes in becoming more efficient. As we enter our third year as an internal department, I believe it's important to continue to move forward. I am proud of the work we have completed and my efforts to increase the visibility and reputation of the internal audit department as a trusted advisor and effective evaluator of processes to support the District in achieving its objectives. This document lays out the steps taken to create an audit plan that meets the needs of the District but remains flexible to meet changes in the future.

## **Internal Audit's Purpose and Mission**

The Office of Internal Audit provides independent, objective assurance and consulting activities that are guided by a philosophy of adding value to improve the operations of the District. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Internal audit supports the district's efforts to achieve its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control.

## **Audit Plan Overview**

The audit universe serves as the foundation of the Audit Plan and represents the potential auditable components, including programs, activities, processes, systems, and initiatives throughout the District. A risk assessment is performed to help identify higher-risk areas to be included in the plan. Through meetings with members of the Board of Education (BOE), members of the Audit Committee, the Superintendent, Cabinet members, and other District personnel, the department uses the information to update its audit universe and create a plan that contributes to the improvement of the District's governance, risk management, and control processes. The 2024-2025 Audit Plan covers the period of July 1, 2024, to June 30, 2025. It also includes projects carried over from the prior year.

## **Audit Plan Approval Process**

In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), the Audit Plan is submitted annually to the BOE for approval. In response to changes in the District's business, risks, operations, programs, systems, and controls, the department continuously reviews and adjusts the plan throughout the audit plan period, as necessary. Significant changes required of the plan will be presented to the BOE for approval. Periodic updates on the status of the Audit Plan activities are provided to the audit committee, management, and BOE throughout the year.



Nick Clark  
Internal Auditor  
Fayette County Public Schools

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## Introduction

The objectives of the Office of Internal Audit fiscal year 2025 (FY25) plan are:

- To accomplish the Office of Internal Audit's mission, which is to independently determine whether the existing processes for the District are adequately designed, operating in an efficient, effective manner, and fully accountable to the Fayette County citizens, and
- To promote District achievement of its strategic goals, particularly in the area of resource stewardship.

Annually, the department will conduct an independent risk assessment that considers the District's financial, operational, and reputational risks. The department then develops its annual audit plan based on the risk assessment results. The FY25 Audit Plan includes audits, non-audit services, and other duties.

The risk assessment and annual audit plan prioritize areas by evaluating risks associated with each area. The risk factors used to assess each area include:

- Financial impact
- Potential operational risks are driven by:
  - o Internal controls and compliance requirements
  - o Past audits
  - o Inputs received from the School Board, Audit Committee, District leadership, and employees
  - o Relevant risks faced by other public school systems
- Opportunity for improvement

In addition to the risk factors listed above, the department evaluates the timing implications of each area being considered for an audit.

Occasionally, unforeseen circumstances may prevent the completion of audits. An audit area may experience significant turnover or operational changes that make conducting an internal audit impractical at that time. It is also possible that external entities select to audit an area before the department completes the audit. Rather than duplicate efforts by external entities, one from the audit universe will replace that specific audit area.

Specifically, "The office of internal audit shall submit annually to the Audit Committee an audit plan for the coming fiscal year which is to be presented for approval by the School Board. The plan serves as a guide, and proposed changes to the plan shall be reviewed by the Audit Committee."

Annually, all audit topics will be reassessed, new topics may be added, and existing audit topics may be removed or modified based on the annual risk assessment results.

## Audit Plan Methodology

The goal of the methodology is to create a plan that includes areas with the greatest exposure to key risks, opportunities to address operational inefficiencies and other requests that can assist the District in achieving its goals, strategic priorities, and objectives. The Audit Plan is a working document and requires continuous evaluation. To assist in the creation, the following activities were performed throughout the year:

- Updated the audit universe based on changes throughout the year.
- Met with the Superintendent, District leaders, and other personnel to identify areas of concern or opportunity.
- Performed a risk assessment.
- Identified engagements that have the potential to help improve the management of risks, the District's operations, and add value.
- Build a plan that is flexible to ensure Internal Audit can be responsive to unforeseen issues and changes in the District's risks, operations, programs, systems, and controls.
- Aligned the plan with the District's goals and the expertise of the Internal Audit staff.
- Contracted with outside firms to augment the limited number of Internal Audit staff as well as limited information technology expertise.
- Considered reviews performed by oversight entities, external auditors, and others to avoid duplication and redundant activities.

## Audit Resources

The Office of Internal Audit has a personnel and non-personnel budget of approximately \$308,000, with approximately \$30,000 included in the budget for third parties to assist with projects. With the demand for assurance and consulting services, the Office of Internal Audit includes an Associate Internal Auditor position and a .5 FTE admin assistant.

A majority (98%) of the department's budget is devoted to salary costs and outsourced internal audit expenses. The department carefully manages all discretionary aspects of its budget. Appendix C provides a summary of the department's budgeted resources.

## Audit Universe

The universe includes approximately 51 potential auditable processes excluding Information Technology. The risk universe serves as a tool used to develop the risk

assessment; it helps Internal Audit identify and prioritize the key areas of high risk, so that focus is placed on the auditable activities of greatest significance.

The audit universe consists of the District's key risk areas that could be subject to audit (auditable units). The auditable units may include departments, programs, functions, or processes in the District that are exposed to sufficient risks where controls should be implemented/reviewed. The department identifies auditable units based on a review of the District's goals/objectives, strategic plan, organizational charts, position inventory listing, annual budget, emerging risks and trends, and its staff's understanding of the current risks impacting school districts. Key auditable units included in the risk assessment are those that:

1. Contribute to the District's goals,
2. Are sufficiently large to noticeably impact the District, and
3. Are sufficiently important to justify the cost of a control.

## Risk Assessment Overview and Methodology

A risk assessment identifies threats to achieving the District's goals, objectives, and strategic plan. It is recognized as the preferred method for identifying, measuring, and prioritizing those activities based on the likelihood of occurrence and the magnitude of their impact. Risk is defined as "the possibility of an event occurring that will have a negative impact on the achievement of objectives."

Using the audit universe as the foundation, the Office of Internal Audit quantifies a risk rating for each auditable unit. The department uses a five-point risk factor scale, with one representing the lowest level of risk and five representing the highest. The risk factors are reviewed annually to ensure they are relevant and effective in helping assess the District's operating, financial, and compliance risks.

To determine the risk scores, the department gathers information relevant to the risk factors through interviews conducted with management and leadership from the auditable units and staying abreast of the District's activities through interactions, FCPS meeting minutes, and other relevant sources of information. The department performs the risk scoring. Once all auditable units have been scored, each is ranked from highest to lowest based on their risk rating. The results of the 2024-25 assessment are evaluated in concert with requests by management and assist in defining the FY25 Annual Audit Plan.

It should be noted that not all projects included in the plan were rated as high risk in the assessment process. Sometimes, the higher-risk areas are subject to increased reviews by oversight entities or external auditors. Therefore, they are not necessarily included in the

plan, and some areas that are rated lower risk may be included based on management expectations.

## FY25 Annual Audit Plan

The Office of Internal Audit's mission is to independently determine whether the ongoing processes for controlling fiscal and administrative operations and performance throughout FCPS are adequately designed, functioning efficiently, effectively, and fully accountable to the citizens of Fayette County. The Office of Internal Audit provides audit services to the School Board of FCPS.

In defining the types of audits, the Office of Internal Audit follows Government Auditing Standards:

	Definition*	FY24 Proposed Audits
Performance Audits	To provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision-making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.	Payroll Operations Overtime/Supplemental/Stipend Pay Requisitions/PO process EFT/ACI/Check Processing Student Fees Administrative Leave Process Grants/Donation Process SAF and Redbook

\*Source: Government Auditing Standards – 2018 Revision

In addition to the audits listed above, the department will be working with Weaver to conduct Information Technology auditing services.

The FY 2025 Audit Plan has been established based on the 2023-2024 risk assessment outcomes, focusing on selecting audit engagements rated Medium High or higher. In total, 16 items meet this criteria. Among these, six have been specifically chosen to be part of this year's audit plan, and one item was started in the 2023-2024 fiscal year and has carried over, and Student Activity Funds is an ongoing audit. As we embark on the planning phase for these engagements in FY 2025, our primary objective will be to formulate goals and scopes that align with the District's overarching goals and strategic priorities.



## **1. PAYROLL OPERATIONS**

The primary objective of this engagement is to establish clear audit objectives and scope, with a strong emphasis on assessing procedures related to payroll operations. This audit would focus on procedural alignment and documented policies and procedures.

## **2. OVERTIME/SUPPLEMENTAL/STIPENDS**

The primary objective of this engagement is to establish precise audit objectives and scope, with a strong emphasis on evaluating the effectiveness of internal controls concerning the approval of overtime, supplemental duty, and stipend pay. This audit is intended to ensure strict compliance with prior approval requirements and accurate tracking in alignment with the board-approved salary schedule.

## **3. REQUISITION/PO PROCESS**

The primary goal of this engagement is to define explicit audit objectives and scope, with a specific emphasis on assessing the effectiveness of internal controls related to the Requisitions and Purchase Orders process. This audit aims to ensure compliance specifically with policies and procedures, as well as the verification of proper prior approval processes.

## **4. EFT/ACI PROCESS**

The primary objective of this engagement is to establish clear audit objectives and scope, with a strong emphasis on assessing procedures related to EFT/ACI payments. This audit specifically aims to ensure compliance with internal controls, review processes for efficiency, and strengthen measures to combat future cyber threats.

## **5. STUDENT FEES**

The primary objective of this engagement is to establish clear audit objectives and scope, with a strong emphasis on assessing procedures related to charging and collection of student fees. This audit would focus on funds being used properly, that students are getting what they pay for, and not being overcharged.

## **6. ADMINISTRATIVE LEAVE PROCESS**

The primary objective of this engagement is to examine if the organization consistently follows the appropriate procedures when placing employees on leave. It ensures employees are placed on leave for valid reasons, treats all daily, and achieves its goals efficiently.

## **7. GRANTS/DONATION PROCESS**

The primary objective for a grants/donation audit is to focus on ensuring responsible stewardship of funds and maximizing their impact. By focusing on compliance, efficiency, effectiveness, and internal controls.

## **8. STUDENT ACTIVITY FUNDS**

The primary objective of this engagement is to establish clear audit objectives and scope, emphasizing assessing procedures and practices with Student Activity Funds. This audit will focus on compliance with Redbook and district policies and procedures.

## **9. CONTINUOUS MONITORING**

The Office of Internal Audit continues to elevate the importance of Continuous Monitoring in this audit plan. Continuous monitoring will be utilized to further enhance the Office of Internal Audit's understanding of the risk profile of areas within FCPS and add a surprise component to the audit plan.

## **Other Internal Auditor Duties**

In addition to the engagements listed above, the Office of Internal Audit will perform the following activities in FY25:

1. **Audit Committee Meetings** - The Internal Auditor presents work progress and audit reports to the Audit Committee.
2. **Business Process Audits** – These audits will be performed on an ad-hoc basis depending on the results of the Continuous Monitoring; departures or additions in principals, finance technicians/administrative assistants, or management/staff; or situations as deemed necessary. Areas of potential risk are controls that may not be in place or followed and questionable transactions that are not identified in a timely manner. The focus of these audits is to evaluate the effectiveness of office processes and compliance with applicable regulations and policies, determine if controls are adequate and functioning as intended, and determine if transactions are reasonable and do not appear to be fraudulent. The Internal Auditor may also expand current tests to include physical and IT access controls.
3. **Internal Audit FY26 Risk Assessment** – A formal risk assessment is the primary tool auditors use to establish primary, secondary, and long-term priorities and develop an annual audit plan. The FY26 risk assessment process evaluates each area against various risk factors, including financial implication, likelihood of errors, frequency of audits, prior audit issues,

complexity, and turnover. The result is a combination of qualitative and quantitative data that assists in prioritizing audit topics. Additionally, Internal Audit will explore facilitating regular risk discussions throughout the year with departments and offices to identify the most significant risks facing FCPS and monitor management's mitigation strategies to address those risks.

4. **Internal Audit Professional Development** - Government Auditing Standards require that staff performing work under the standards maintain their professional competence through CPE. Every two years, staff should complete at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audit entity operates. Staff holding professional certifications are required to obtain an average of 40 CPE hours per year to maintain their certification status.
5. **Recommendations Follow-Up** – Internal Auditor performs regular follow-ups to determine if timely corrective actions have been implemented to address findings identified during audits.

# Internal Audit Process

## Audit Process

### Risk Assessment

Identify and prioritize audit topics.

### Planning

Obtain a comprehensive understanding of the audit topic and objectives.

### Execution

Test and evaluate audit objectives; validate results with management.

### Reporting

Prepare and present an audit report to the School Board Audit Committee.

### Follow-up

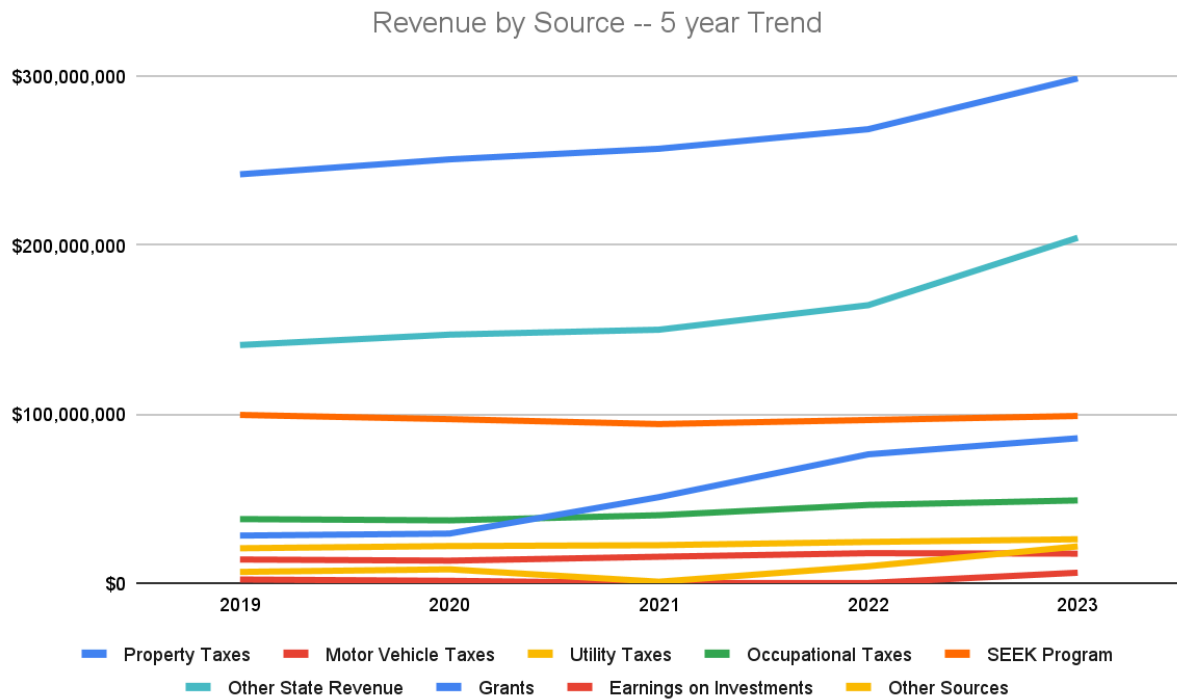
Periodic checks on the progress of recommended actions.

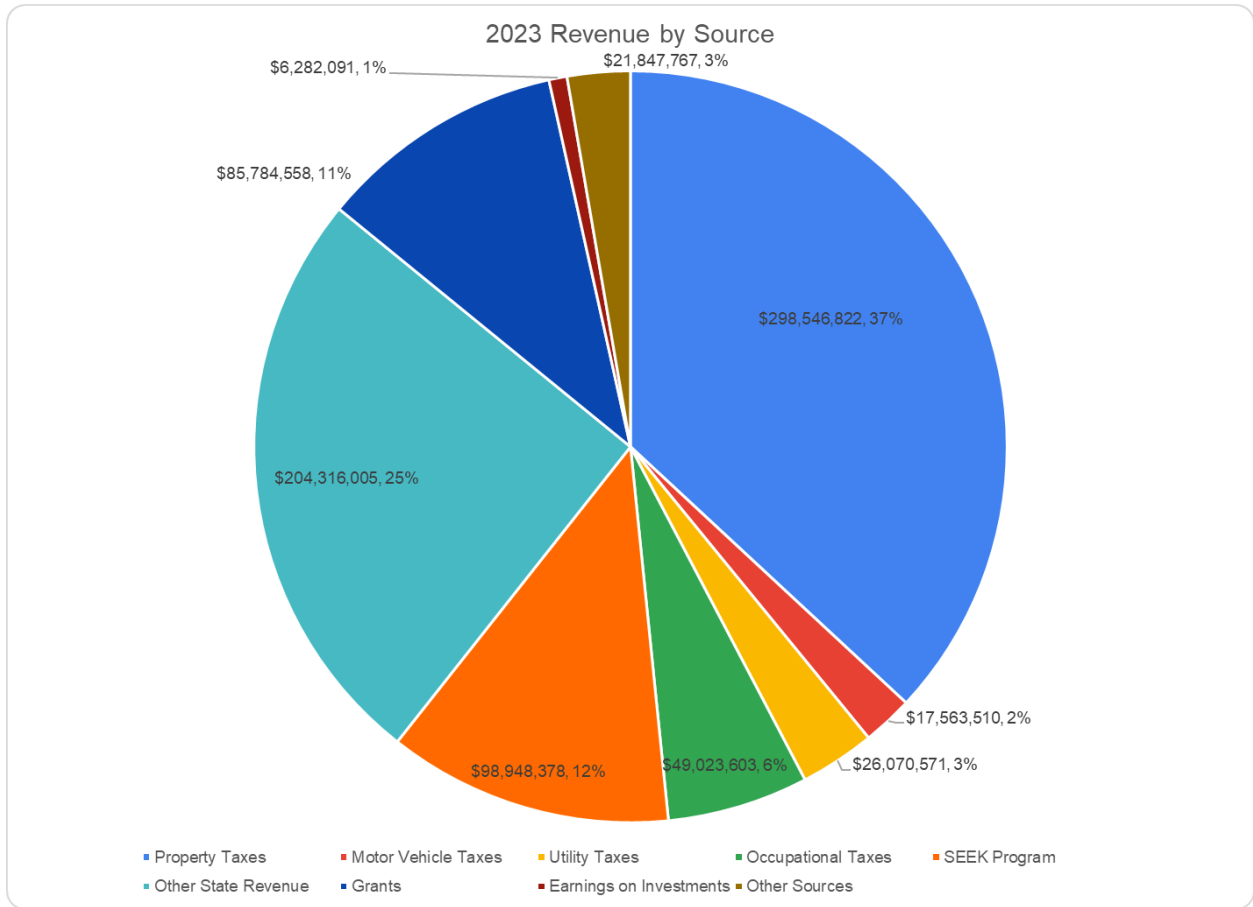
# Appendix A

## Data Analytics

The graphs below demonstrate an updated data analytics that internal audit used to enhance the previous risk assessment performed by Dean Dorton.

### Revenue





The Office of Internal Audit performed trend analysis for revenue related to governmental activities; numbers are prior to the final audit and thus may be subject to change.

- **Local Sources**

- **Property Taxes** - Property taxes have increased over the past five years due to increased assessments and new property growth in Fayette County.
- **Motor Vehicle Taxes** - The Motor Vehicle Taxes are cyclical in nature and heavily dependent on buyers in Fayette County purchasing vehicles. The Motor Vehicle Tax revenue has increased due to the higher cost of vehicles over the past five years.

- **Utility Taxes** - The District's portion of Utility Tax depends on the rate determined by the KY Department of Revenue. The District has no ability to modify rates, but the revenue amount has remained consistent.
- **Occupational Taxes** - The lower unemployment rate and larger population in KY have increased Occupation Taxes slightly over the past five years.
- **State Sources**
  - **Seek Program** - The SEEK program is based on a State-driven formula, and the District has no control over it. The SEEK program revenue has remained relatively consistent over the past five years.
  - **Other State Revenues** - The Other State Revenue sources increased due to On-Behalf Payments made by the State for employee life insurance, health insurance, and pension payments made to KTRS. These amounts are not directly received from the State, and related revenues and expenditures are not budgeted by the District.
- **Grant Revenue** - The Grant Revenue has increased over the last couple of years primarily due to the pandemic and Cares/ESSER/ARP funding.
- **Earnings on Investments** - The Earnings on Investments are volatile since they are based on market performance.
- **Other Sources** - The Other Source revenue represents miscellaneous fees such as background checks and other revenue that doesn't fit any other category. The District uses historical data to budget for this source of revenue. This source of revenue has remained relatively consistent over the past five years.



# Appendix B

	2024						2025					
	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1 REQ-PO Process												
2 EFT/ACI/Check Processing												
3 Payroll Operations												
4 Overtime/Supplemental/Stipends												
5 Grants/Donations												
6 Administrative Leave Process												
7 Student Fee												
8 Student Activity Funds												
Risk Assessment	Ongoing											
Other Duties/Follow-up	Ongoing											
	Planning(Pln), Execution(Exe), Reporting(Rpt) determined once scoping complete.											
Engagements vary in hours and variables affecting completion, include management availability, data mining, number of accessible systems, objectives and scope, extent of risk factors, type of audit, other on-going audits, and non-audit services and projects. Refer to Internal Audit Process.												

# Appendix C

The 2024-2025 Audit Plan's available staff budgeted hours equal 4,160 available to allocate among four main categories of work: Administrative, Follow-up, Audits, and Investigations. The staff's allocated hours are summarized in the following graph by category.

