



***Internal Control Evaluation Progress Report
for
Frisco Independent School District***



March 7, 2011



Topics

- 2010 Internal Control Evaluation Activities - Phases III and IV
- 2010 Actual Hours and Fees – Phases III and IV
- Future Steps – Phase V Processes
- Discussion



2010 Internal Audit Activities

- During 2010, we continued our internal control evaluation project. Our procedures included the documentation and evaluation of internal controls over the following areas:
 - Financial Statement and PEIMS Reporting
 - Construction Projects
 - Human Resources Administration
 - Information Technology General Controls
 - Network Security
- After assessing the design effectiveness documented in the walkthroughs, risk and control matrices, and segregation of duties matrices, we evaluated whether there are design deficiencies or gaps in the current control environment.
- We provided recommendations across the processes as we identified areas of improvement to strengthen the controls in place or add a control to cover identified risk.



2010 Internal Audit Activities

- We documented points for consideration to assist the District with filling identified control gaps or enhancing existing processes to reduce overall risk to an acceptable level to ensure that financial control objectives are achieved.
- During 2010, management of each process area has taken responsibility for their respective PFC's and has completed evaluating our recommendations.
- We reviewed the responses to our recommendations with management to ensure that risks identified in our design evaluation have been reduced to an acceptable level and that financial reporting objectives have been met.



2010 Internal Audit Activities

- Management has made significant progress in implementing the recommendations for all 2010 audit areas to appropriately remediate the risks identified.
- Management has provided a status as to the implementation of recommendations for each process area reviewed in 2010. Status is defined in one of three ways:
 - Accepted and Closed – indicates that Management agreed with and has successfully implemented the recommendation.
 - Accepted and In Process – indicates that Management agreed with and is in the process of implementing the recommendation.
 - No Action Taken – indicates that Management does not currently have the resources to implement the recommendation.



Financial Close and Reporting

- During our analysis of the Financial Close and Reporting (FCR) process, we identified the process to be overall effective, yet with a high reliance on manual procedures performed by a small group of accounting personnel. We identified internal controls in place and operating for two sub-processes as indicated below:
 - Financial Statement Close and Reporting – 14 controls identified
 - PEIMS Reporting – 9 control identified
- We identified 21 recommendations for the FCR process, see chart below for details:

		Risk Rating		
Process	Total	High	Moderate	Low
Financial Statement Close and Reporting	18	9	6	3
PEIMS Reporting	3		3	
Nature of Recommendations		System (Pentamation) access authorization, Balance Sheet account reconciliation, formalizing policies and procedures, timing for recording transactions, preparation of financial reports.	Enhanced automation to reduce manual procedures, evidencing review procedures, implementation of checklists and closing schedules, increased segregation of duties.	Consideration of the preparation of a CAFR, establishing formal CPE requirements.



Financial Close and Reporting

- The chart below indicates the current status of the 21 recommendations identified for the Financial Close and Reporting process. The status below is supplied by Management of the individual department reviewed.

Process	Number of Recommendations	Accepted and Closed	Accepted and In Process	No Action Taken
Financial Statement Close and Reporting				
Financial Statement Close and Reporting	18	13	2	3
PEIMS Reporting	3	3		
Total	21	16	2	3



Construction Projects

- During our analysis of the Construction Projects (CP) process, we identified the process to be highly effective, yet with a high reliance on manual procedures to track construction costs and budgets. We identified internal controls in place and operating for three sub-processes as indicated below:
 - Construction Department – 31 controls identified
 - Accounting for Construction Projects – 9 controls identified
 - Project Management – 6 control identified
- We identified 27 recommendations for the CP process, see chart below for details:

Process	Total	Risk Rating		
		High	Moderate	Low
Construction Department	21	3	14	4
Accounting for Construction Projects	5	2	2	1
Project Management	1		1	
Nature of Recommendations		Standardization of procurement policies across departments, timely (monthly) Construction in Progress account updates in Pentamation, and use of encumbrances to track construction budgets.	Enhanced automation to reduce manual procedures, evidence of review procedures, standardization of checklists used in the process.	Periodic evaluation of the architectural services, taking minutes for construction meetings, tracking / monitoring credits to the District for returned Deposits.



Construction Projects

- The chart below indicates the current status of the 27 recommendations identified for the Construction Projects process. The status below is supplied by Management of the individual department reviewed.

Process	Number of Recommendations	Accepted and Closed	Accepted and In Process	No Action Taken
Construction Projects				
Construction Department	21	17		4
Accounting for Construction Projects	5	4		1
Project Management	1			1
Total	27	21	0	6



Human Resources Administration

- During our analysis of the Human Resources Administration (HR) process, we identified the process to be mature and highly effective. We identified internal controls in place and operating for four sub-processes as indicated below:
 - HR Hiring Process – 29 controls identified
 - Personnel Contracts and Compensation – 19 controls identified
 - Performance Reviews – 12 controls identified
 - Terminations and Resignations – 10 controls identified
- We identified 11 recommendations for the HR process, see chart below for details:

Risk Rating				
Process	Total	High	Moderate	Low
HR Hiring Process	4	1	2	1
Personnel Contracts and Compensation	4		2	2
Performance Reviews	1		1	
Terminations and Resignations	2		2	
Nature of Recommendations		Increased security over personnel files.	Enhanced automation to replace manual tasks involved in the process, implementation of checklists to guide specific HR tasks.	Retention of documentation, evidence of review and approvals, using Pentamation capabilities for monitoring contract employees.



Human Resources Administration

- The chart below indicates the current status of the 11 recommendations identified for the Human Resources Administration process. The status below is supplied by Management of the individual department reviewed.

Process	Number of Recommendations	Accepted and Closed	Accepted and In Process	No Action Taken
Human Resources Administration				
HR Hiring Process	4	3	1	
Personnel Contracts and Compensation	4	3	1	
Performance Reviews	1	1		
Terminations and Resignations	2	1	1	
Total	11	8	3	0

- During our analysis of IT General Controls, we identified internal controls have been designed and implemented to support a strong IT process. We identified internal controls in place and operating for nine sub-processes as indicated below:
 - Organization and Administration – 13 controls identified
 - Program Changes – 7 controls identified
 - Computer Operations – 9 controls identified
 - Database Administration – 4 controls identified
 - Hardware and Software Inventory – 5 controls identified
 - Disaster Recovery and Business Continuity – 9 controls identified
 - Student Records Management – 5 controls identified
 - PEIMS Data Validation and Records – 9 controls identified
 - District Communications – 3 controls identified



IT General Controls

➤ We identified 22 recommendations for IT General Controls, see chart below for details:

Process	Total	Risk Rating		
		High	Moderate	Low
Organization and Administration	0			
Program Changes	5	1	3	1
Computer Operations	2		1	1
Database Administration	1		1	
Hardware and Software Inventory	2		2	
Disaster Recovery and Business Continuity	8	3	4	1
Student Records Management	1	1		
PEIMS Data Validation and Records	2	1		1
District Communications	1			1
Nature of Recommendations		Development of a formal disaster recovery plan, formal approval of software changes prior implementation, enhancing automation to reduce manual procedures.	Restricting access of outsourced providers, formalization of the change management process, development of policies over database management and equipment disposals, formalization of disaster recovery procedures.	Periodic review of service agreements, implementation of open change tickets log and prioritization of requests, tracking in-stock communication inventory.



IT General Controls

- The chart below indicates the current status of the 22 recommendations identified for the IT General Controls process. The status below is supplied by Management of the department reviewed.

Process	Number of Recommendations	Accepted and Closed	Accepted and In Process	No Action Taken
IT General Controls				
Organization and Administration	0			
Program Changes	5		3	2
Computer Operations	2	2		
Database Administration	1		1	
Hardware and Software Inventory	2	2		
Disaster Recovery and Business Continuity	8	6	2	
Student Records Management	1			1
PEIMS Data Validation and Records	2	2		
District Communications	1		1	
Total	22	12	7	3



Network Security

- During our analysis of Network Security, we identified strong internal controls in place and operating to ensure the security of FISD systems and data, including the following three sub-processes:
 - Network Security – 16 controls identified
 - Logical Access – 14 controls identified
 - Physical Access – 3 controls identified
- We identified 19 recommendations for Network Security, see chart below for details:

Process	Total	Risk Rating		
		High	Moderate	Low
Network Security	8	1	4	3
Logical Access	9	2	4	3
Physical Access	2	1	1	
Nature of Recommendations		Increasing monitoring of software downloads at individual workstations, enhancing automation in monitoring invalid log-in attempts, further restricting access to Network Operations Center.	Formalization of software and hardware acquisition policies, enhancing antivirus monitoring, setting priorities for network traffic, inventory management, increasing password security, shared directories access, and periodic review of individuals with access to the Network Operations Center.	Development and periodic review of a network diagram, formalization of wireless security procedures, standardization of shared accounts policy across elementary schools, periodic review of system access parameters, enhancing security of backing up disabled user account data.



Network Security

- The chart below indicates the current status of the 19 recommendations identified for the Network Security process. The status below is supplied by Management of the department reviewed.

Process	Number of Recommendations	Accepted and Closed	Accepted and In Process	No Action Taken
Network Security				
Network Security	8	4	3	1
Logical Access	9	2	2	5
Physical Access	2	2		
Total	19	8	5	6



2010 Actual Hours and Fees – Phases III and IV

	Process Area	Projected Timing	Hours Estimate	Actual Hours - As of 12/31/10	Variance
Phase III - Fiscal Year 2010					
1	Financial Statement Close and Reporting - Bank reconciliation, Closing process, Journal entries and adjustments, Period end accruals, Internal Financial Statement preparation, GASB 34 compliance, Financial Reporting, Bond-Statement of Activities, PEIMS Financial Reporting.	Feb - March 2010	160 - 180	160.50	19.50
2	Construction Projects - Requests for proposals and awards, Construction plan approval and contract, Construction in progress insurance binders, Construction warranties and bonds.	Feb - March 2010	130 - 153	139.00	14.00
		Low	High		
		290	333	299.50	33.50
		\$ 43,500	\$ 49,950	\$ 44,925.00	\$ 5,025.00
Phase IV - Fiscal Year 2011					
3	Information Technology, General Control Review - Database administration, Disaster recovery and business continuity planning, Outsource vendor compliance, Hardware/software inventory, Software license compliance, Telephony/cell radio systems/security cameras, Data reporting, PEMS data verification and reporting, Student records management.	September 2010	150 - 170	169.75	0.25
4	Network Security - Logical access, Physical access, Application security, Internal and external network security.	September 2010	120 - 150	149.35	0.65
5	Human Resource Administration - Hiring and termination policies, Pay rate authorization (STEP Compliance), Employee policies, Salary changes and verification, employee performance review, job classification and compensation, independent contractors, stipend qualifications.	September - October 2010	130 - 170	149.25	20.75
		Low	High		
		400	490	468.35	21.65
		\$ 60,000	\$ 73,500	70,252.50	3,247.50
		Low	High		
		690	823	767.85	55.15
		\$ 103,500	\$ 123,450	115,177.50	8,272.50



Future Steps – Phase V Processes

	Process Area	Projected Timing	Hours Estimate
Phase V			
1	Athletic Department Cash receipts collection and validation, summer programs and camps, special events, natatorium activities, athletic uniforms and equipment.	June - July 2011	140 - 160
2	Property, Plant, and Maintenance Building maintenance, fleet vehicle and bus, maintenance contracts, and rental income and collections.	August - September 2011	150 - 170
3	Student Services Employee benefits, textbook custodial and tracking, custodial services and staffing	October -November 2011	110 - 140
		Low	High
Total Hours Phase V		400	470
Estimated Cost Phase V		\$ 60,000.00	\$ 70,500.00



Discussion

Alyssa Martin, Partner
Advisory Services
12221 Merit Drive, Suite 1400
Dallas, TX 75251
Alyssa.Martin@weaverllp.com
214.448.6975