

# INTERNAL AUDITING IN PUBLIC SCHOOLS



AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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## OBJECTIVE

Internal auditing provides an independent appraisal function that evaluates the efficiency and effectiveness of a school district's operations, as well as compliance with laws, rules, regulations, policies, and procedures.

## KEY FACTS

- ◆ Independent school districts (ISDs) and charter schools are not required to have internal auditors.
- ◆ State agencies with annual operating budgets exceeding \$10 million, or more than 100 full-time equivalent employees, are required to have internal auditors.
- ◆ The State Auditor's Office (SAO) and the Texas Education Agency (TEA) recommend that ISDs with 5,000 or more students employ internal auditors.
- ◆ Of the 171 schools with student enrollment over 5,000, 54 (31.6 percent) employ internal auditors.

## BUDGETARY IMPACT

Specific state funding is not provided for internal auditors. The costs can be paid from a school district's overall Foundation School Program funding.

## STATUTORY REFERENCES

Texas Government Code, Section 2102

Texas Education Code, Section 11.170

Texas Education Code, Section 44.008

The Texas Government Code, Section 2102, also known as the Internal Auditing Act, requires any state agency with an annual operating budget exceeding \$10 million, or more than 100 full-time equivalent positions, to have an internal auditor. While the majority of independent school districts (ISDs) and charter schools in Texas would meet this criterion, this act does not apply to them. ISDs and charter schools that employ internal auditors do so voluntarily. However, The Texas Education Code, Section 11.170, requires that if an ISD employs an internal auditor, the auditor must be selected by the board of trustees and must report directly to the board. This does not apply to charter schools.

The Institute of Internal Auditors defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." At the ISD and charter school level, an internal auditor provides an independent appraisal function. An internal auditor evaluates the efficiency and effectiveness of a district's operations, as well as compliance with laws, rules, regulations, policies, and procedures. Internal auditors also produce analyses concerning the adequacy of a school district's systems of internal control. Internal auditors examine how well management is carrying out assigned responsibilities, as well as investigating reported fraud, embezzlement, theft, waste, and so forth. In addition, internal auditors improve accountability of public funds, safeguard assets, help avoid waste and inefficiency, and promote sound business practices. Internal auditors achieve all this by providing recommendations to ISDs to prevent and detect such occurrences or to enhance district operations and processes.

## EXTERNAL AUDITING

In order to hold public schools accountable for state funds, The Texas Education Code, Section 44.008, requires that ISDs and charter schools receive an annual external audit by a certified public accountant. TEA is then charged with reviewing this independent audit. The external audit is designed to provide reasonable assurance that a district's financial statements accurately present its financial condition. The external audit also reviews internal controls for material weaknesses.

For many ISDs and charter schools, the only review of internal controls and compliance by an independent entity is the annual external audit. On a day-to-day basis, ISDs and charter schools must rely on board of trustee members, as well as campus and central administration, to ensure proper financial internal controls and mitigate risks. Employing an internal auditor is one tool ISDs and charter schools could use to assist them in carrying out these duties.

## SUGGESTED STATE STANDARDS

Several Texas state agencies have issued recommendations that school districts employ an internal auditor. The Legislative Budget Board's School Performance Review team

(SPR) has consistently found a lack of effective internal controls in the school districts reviewed. One of the most common recommendations the SPR team makes to ISDs is to employ an internal auditor.

The Texas State Auditor's Office (SAO) recommended in 1992 that all school districts with annual operating expenditures exceeding \$20 million, enrollment of 5,000 or more, employ an internal audit function. Finally, in its Financial Accountability System Resource Guide, TEA recommends employing an internal auditor if applicable, and especially those with 5,000 or more students.

### EMPLOYMENT DATA

Neither ISDs nor charter schools are required to report the number of internal auditors currently employed. As a result, there is no reliable data on the number of internal auditors currently employed in Texas schools. However, Fig. 1 shows employment data for ISDs from the Texas Association of School Board's Salaries and Wages survey. In addition, information has been included from a survey of ISDs and charter schools conducted by the Legislative Budget Board. The data includes information on internal auditors employed at ISDs and charter schools having enrollments of 5,000 or more.

In school year 2010–11, 171 ISDs and charter schools in Texas had enrollments of 5,000 or more. Of those 171 schools, 54 (31.6 percent) employed internal auditors. The higher the student enrollment of a school the more likely it was to have an internal auditor. Eighty-three percent of schools having enrollments of 50,000 or more employed internal auditors. In comparison, only 5.6 percent of schools with enrollments of 5,000 to 9,999 employed internal auditors.

**FIG. 1**  
**ESTIMATED NUMBER OF INTERNAL AUDITORS EMPLOYED IN TEXAS PUBLIC SCHOOLS**  
**SCHOOL YEAR 2010–11**

STUDENT ENROLLMENT GROUP	TOTAL NUMBER OF DISTRICTS	NUMBER OF DISTRICTS WITH AN INTERNAL AUDITOR	PERCENTAGE OF DISTRICTS WITH AN INTERNAL AUDITOR	MEDIAN SALARY
5,000 to 9,999	71	4	5.6%	N/A
10,000 to 24,999	53	14	26.4	\$69,392
25,000 to 49,999	29	21	72.4	81,030
50,000 and over	18	15	83.3	72,300
<b>All Respondents</b>	<b>171</b>	<b>54</b>	<b>31.6%</b>	<b>\$70,873</b>

NOTE: N/A indicates that this data was not collected for this subset of schools.

SOURCE: Texas Association of School Boards' "Salaries and Wages in Texas Public Schools 2010–11" and Legislative Budget Board Internal Audit Survey of School Districts.

### USEFUL REFERENCES

The Institute of Internal Auditors: [www.na.theiia.org](http://www.na.theiia.org)

TEA's Financial Accountability System Resource Guide (FASRG): [www.tea.state.tx.us/](http://www.tea.state.tx.us/)

Texas Association of School Boards School District Audits Guide: [www.tasb.org/](http://www.tasb.org/)

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