Audit Committee Meeting
Tuesday, October 27, 2026 6:30 PM

Dr. Matthew Prophet Education Center - Board Auditorium
501 N. Dixon St
Portland, OR 97227

Agenda

1. Call to Order / Introduction

2. Public Comment *To sign-up for public comment email PublicComment@pps.net or call the Board Office @ 503-916-3741.*
3. Audit Committee Roles and Responsibilities
4. Office of Internal Performance Audit (OIPA) Updates
5. Monthly and Quarterly Financial Statement Review
6. Status Update on the Annual Comprehensive Financial Report (ACFR) and Single Audit
7. Other Audit Updates
8. Other Business and Future Agenda Items
9. Adjourn

Audit Committee Liaison Annual Support Plan

The CFO will serve as the staff Liaison for the Audit Committee with support from the Board Manager. The Internal Performance Auditor will serve as a resource to the committee with a standing agenda item for Audit Work Plan updates and other items as needed.

- Audit Committee Members
- Board Member Committee Chair
- Chief Financial Officer
- Internal Performance Auditor
- Legal Support (all board meetings)
- Board Manager for agenda setting and tracking
- Designee for facilitation (in-person and online options, livestream)

Sample Annual Plan (additional ad-hoc meetings can be scheduled with notice)

Month	Topics
October-December	Orientation, Annual OIPA Work Plan Review and Updates, Other Audit Activities and Current Topics
January-February	ACFR Preview (prior to Board Adoption), OIPA Work Plan Updates, Other Audit Activities and Current Topics
March-May	OIPA Work Plan Updates, Other Audit Activities and Current Topics
June	Budget changes (if needed), OIPA Work Plan Updates, Other Audit Activities and Current Topics

References:

Audit Committee Policy
Office of Internal Performance Audit Charter
Audit Committee Web Site
Financial Reports and Budget Development

Audit Committee Meeting



Michelle Morrison, Chief Financial Officer · Audit Committee Liaison · 10/27/2026

Agenda

- Welcome and Introductions
- Bond Performance Audit Updates
- Roles and Responsibilities
- Committee Vision Discussion
- Office of the Internal Auditor (OIPA) Updates
- Non-OIPA Updates
- Closing
- Meeting Dates for Reference



2024-26 Bond Performance Audit Report- Recommendation #11

Report provided to full Board, Audit Committee, and Bond Advisory Committee members on 10/20/2026.

- Janise will be consulted on the RFP and on the evaluation panel.
- The Bond Advisory Committee will be offered an opportunity for one of their members to be on the RFP evaluation panel.
- The results of the RFP will be discussed with the Audit Committee to then refer the results of the contract to the full Board for approval.

Recommendation #11:

Expedite the hiring of an external construction auditor to conduct audits reviewing accounting and payroll records of the general contractors on the CHSA, IBW, and JHS modernization projects for identifying cost savings related to labor burden rates during guaranteed maximum price (GMP) contract negotiations and throughout the project lifecycle - and ensure this level of general contractor testing and contract compliance is conducted and documented.

Bond Performance Auditor RFP Update

The 2026-27 Bond Performance Audit will be performed by GPP. This will be a rigorous review and in-depth report as they establish a new baseline for PPS Bond work.

- Request for Proposals (RFP) posted June 26, 2026.
- Proposals were due August 6, 2026
- Scoring completed August 18, 2026
- Notice of Intent to Award was posted September 21,2026
- Contract negotiations currently underway, anticipate board action on 11/4
- Internal Auditor will be consulted on the Annual Work Plan and Contract Development
- The (new) Executive Director of RISE will be the point of contact for all bond-related audits in the future

Audit Committee Roles and Responsibilities

- Confirm Board Representative and Committee Chair
- Staff Roles:
  - Chief Financial Officer as Liaison
  - Legal Counsel
  - Board Manager
- Office of Internal Performance Audit Staff
  - Janise Hansen
  - Mary Catherine Moore



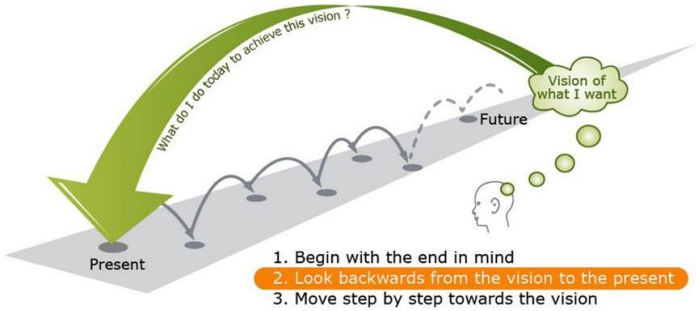
Committee Vision Concepts for 2026-27

Share and Discuss

- Audit Committee Liaison Support Plan
- Other audits to come forward to the committee (ex: Summer food plan)
- Elevate the work and compliance that happens in addition to highlighting the work of the OIPA

Upcoming Meeting Items

- Monthly and Quarterly Financial Statement accessibility training
- PERS and Health and Welfare Trust Presentations
- Multilingual Learners Audit - Implementation Plan
- Secretary of State's 2019 Audit and the Follow up on Recommendations Report issued in 2022



Office of Internal Performance Auditing

General Updates

- OIPA's Annual Report - 15 minutes
- 2026-2027 OIPA Risk Assessment and Audit Plan - 45 minutes (includes Peer Review)

Roles and Responsibilities

- Overview of OIPA and Audit Committee Roles and Responsibilities - 30 minutes
- Communication Protocols - 10 minutes
- OIPA is an independent advisor to the Audit Committee



Non-OIPA Audit Updates

Share and Discuss

- Nutrition Services Summer Meal Program
- Head Start Reimbursement Audit
- Status update on FY26 Annual Comprehensive Financial Report (ACFR)
  - ACFR and Single Audit currently underway
  - 12/17 virtual presentation of the audit results to the Audit Committee



An **audit** is a systematic, independent examination of financial records, operations, or processes to verify accuracy, compliance with laws or standards, and overall reliability.

Good of the Order

- Questions
- Comments and Feedback to Staff
- Other Topics of Interest

Janise Hansen, CIA
Internal Performance Auditor

Michelle Morrison, CFO
Liaison to the Audit Committee



Upcoming Dates

- 12/2 training and audit updates, 2019 Secretary of State Audit, 2022 Audit Update
- November Financial Report Review Training (virtual, will be recorded)
- 12/17 (noon and virtual) ACFR Review
- 1/19 Training and audit updates
- 2/23 Training and audit updates
- 3/30 Training and audit updates
- 5/4 Training and audit updates
- 6/22 Current Year Appropriation Changes and audit updates



Questions?

Why Professional Skepticism Is Too Important to Leave to Internal Audit Alone

On August 20, 2026 By Michelle Moodley



Internal auditors are trained to ask questions. So why do governance failures still occur in organizations with mature internal audit functions, established control frameworks, experienced auditors, risk registers, audit committees, and well-documented assurance processes?

The conventional answer is that risks were missed. My research suggests something more uncomfortable.

In many cases, the risks may not have been entirely invisible. The warning signs were present. The inconsistencies were noticeable. The explanations may have sounded reasonable, but not fully convincing. The questions may even have been asked. But the challenge did not go far enough.

The internal audit profession calls this *professional skepticism*.

Yet despite being one of the most important safeguards against weak governance, professional skepticism remains one of the least understood capabilities in modern internal audit. Many internal auditors would struggle to identify where professional skepticism appears in the Global Internal Audit Standards, even though the Standards require auditors to exercise it throughout the audit process as a safeguard against bias, misjudgement, and overreliance on management representations.

That should give us pause. If one of the profession's most important safeguards against weak assurance receives less attention than methodology, documentation, or compliance, perhaps we should ask why.

Professional skepticism is what makes an internal auditor pause when something appears too neat, too convenient, or too well-controlled on paper. It is the difference between confirming that a process was followed and asking whether the process still makes sense.

During more than two decades in the profession, I have worked on audits involving significant governance concerns, complex procurement environments, high-risk strategic projects, and matters that attracted board, regulatory, or public scrutiny. Looking back, what stands out is not the absence of policies, controls, or assurance activities. More often, the clues were already visible. Something did not quite make sense. An explanation felt incomplete. Yet the most difficult challenge was often not identifying the issue. It was deciding whether to push further when others were prepared to move on.

That experience led me to a question that eventually became the focus of my MBA research:

Why do experienced internal auditors who understand professional skepticism still find it difficult to apply when it matters most?

The answer may have less to do with auditors than we think.

My research suggests that the greatest barriers to skepticism are often not technical at all. They are embedded in organizational culture, leadership behavior, performance pressures, governance maturity, and the extent to which challenge is genuinely encouraged or quietly discouraged.

In other words:

> **Internal audit's skepticism problem may not primarily be an internal auditor problem. It may be a governance problem.**

The Research Surprise

When I began researching professional skepticism, I expected to find gaps in internal auditor knowledge, capability, or training. (By the way, there is limited research done on internal audit compared to external audit.)

I found something more interesting.

Most participants demonstrated a strong understanding of professional skepticism. They described it as maintaining a questioning mind, validating evidence, testing assumptions, and remaining alert to inconsistencies. They understood its importance to internal audit quality. They understood its role in governance. They understood that internal audit cannot simply accept management explanations without adequate challenge.

The surprise was not that auditors lacked skepticism. The surprise was how often the barriers sat outside the individual auditor.

Participants pointed to performance pressure, rigid engagement scopes, management resistance, time constraints, hierarchical norms, fear of escalation, and governance environments where skepticism was encouraged in principle but not always supported in practice. That distinction matters.

If auditors do not understand skepticism, training may be the answer. But if auditors understand skepticism and still struggle to apply it, then the problem is deeper. It means organizations may be unintentionally creating environments where skepticism is valued rhetorically but constrained behaviorally.

> **The Research Surprise**
> **Auditors often understand professional skepticism. The real challenge is whether organizational culture, leadership behavior, performance systems, and governance structures allow them to apply it when the stakes are high.**

We May Be Solving the Wrong Problem

When organizations identify weaknesses in internal audit quality, the response is often predictable: more training, more guidance, more methodology, more checklists. None of those interventions are wrong. But they assume the root cause is a lack of knowledge. What if the issue is not that auditors do not know how to be skeptical? What if the issue is that the organization has made skepticism difficult to exercise?

Internal auditors operate within real-world pressures. Complete the audit plan. Meet deadlines. Maintain stakeholder relationships. Avoid unnecessary escalation. Keep reports concise. Deliver value. Be collaborative. Be efficient. Individually, these expectations make sense. Collectively, though, they can create an environment where skepticism becomes increasingly uncomfortable.

No policy says, "Do not challenge management." But the environment can send that message anyway.

Participants in the research consistently highlighted the tension between speed and depth. Internal auditors described situations where performance targets, rigid methodologies, stakeholder resistance, and organizational expectations encouraged completion over inquiry.

The consequence is subtle but important: Internal auditors learn to finish rather than probe. They learn to document rather than investigate. They learn to manage disagreements rather than test them. Professional skepticism becomes something acknowledged in standards but harder to sustain in practice.

This is where governance failures often begin. Not with a lack of information. Not with an absence of controls. But with assumptions that seem reasonable and therefore remain unchallenged.

The Most Dangerous Word in Governance

One word appears repeatedly before governance failures are uncovered: "*reasonable*." Management's explanation seemed reasonable. The control appeared reasonable. The variance looked reasonable.

Professional skepticism requires auditors to be cautious whenever *reasonable* becomes a substitute for *verified*.

Consider a procurement audit. Competitive bidding requirements have been met. Approval thresholds were respected. Documentation is complete. The audit concludes that controls are operating effectively.

A skeptical internal auditor asks different questions:

-Why do the same suppliers repeatedly appear on bid lists?

-Why are contract awards consistently just below escalation thresholds?

-Why are emergency purchases becoming more frequent?

-Why has supplier concentration increased despite competitive processes?

Professional skepticism does not mean distrusting management. Nor does it mean assuming misconduct. It means asking whether the available evidence is sufficient, whether alternative explanations exist, and whether the conclusion remains sound when challenged. That is the difference between audit as a compliance activity and audit as a governance safeguard.

> **Reasonable is not the same as verified.**

From Auditor Competency to Governance Capability

This was perhaps the most significant implication of my research. For decades, professional skepticism has largely been viewed as an internal auditor competency. The assumption has been simple: strengthen the auditor and skepticism will improve.

My findings challenge that assumption. Professional skepticism should be viewed not merely as an auditor competency, but as a governance capability.

When skepticism is viewed as an individual trait, organizations ask: "How do we train auditors to be more skeptical?"

When skepticism is viewed as a governance capability, the questions become much more powerful:

- Do leaders model constructive challenge?
- Are difficult questions welcomed or avoided?
- Do performance systems reward insight or merely completion?

- Does the audit committee actively probe management responses?

These are not merely audit questions. They are governance questions. And they determine whether skepticism survives contact with organizational reality.

The strongest governance environments are not necessarily those with the most policies, controls, or procedures. They are the environments where challenge is normalized. Where assumptions can be questioned. Where difficult conversations are not avoided. Where internal auditors can ask uncomfortable questions without fearing personal or professional consequences.

Governance structures alone cannot achieve that. Culture must support it. Leadership must model it. Governance must protect it.

> **Shift the Question**
>
> Instead of asking:
> **"How do we make auditors more skeptical?"**
>
> Ask:
> **"How do we create environments where skepticism can flourish?"**

Internal Audit as the Governance Conscience

Internal audit is evolving. Stakeholders increasingly expect more than assurance over historical controls. They want insight, foresight, perspective, and challenge. Professional skepticism is the bridge between those expectations and audit's ability to meet them.

Without skepticism, internal audit risks becoming a compliance mechanism that confirms what management already believes. With skepticism, internal audit becomes something far more valuable: *A governance conscience.* It is not designed to create tension. Rather, it is the independent voice willing to ask the difficult questions before regulators, shareholders, boards, customers, employees, or the public are forced to ask them instead.

-It challenges assumptions.

-Tests explanations.

-Looks beyond compliance.

-Questions whether outcomes make sense.

-And asks what might have been overlooked.

In many ways, this is where the future value of internal audit lies. Not merely in confirming that controls exist. But in helping organizations see risks, behaviors, assumptions, and blind spots that others may miss.

What Will You Do Differently on Monday Morning?

The next major governance failure in any organization may not occur because internal audit failed to identify a risk. It may occur because the risk was identified, discussed, rationalized or ultimately accepted without sufficient challenge. That is why professional skepticism matters. Not simply because the Standards require it. But because effective governance depends upon it.

If organizations want stronger internal audit functions, they must stop treating skepticism as something internal auditors should merely learn and start treating it as something leaders must enable, governance structures must protect, and organizational cultures must reward. Because internal audit becomes the governance conscience of an organization only when it is permitted and expected to ask the question others may prefer to avoid: *What if we are wrong?*

And so perhaps the most important question remaining is not what your organization should do next year, or what your audit function should do next quarter. It is much simpler: *What will you do differently on Monday morning?*

Will you accept an explanation because it sounds reasonable, or will you seek evidence that validates it?

Will you close an issue because it sits outside scope, or will you ask whether the wider risk has truly been understood?

Will you focus on completing the audit program, or on understanding what the evidence is really telling you?

These moments shape audit quality. And ultimately, they determine whether internal audit merely reports on governance or acts as its conscience.

The real test of audit quality is not whether the file was complete, the report was issued, or the audit plan was delivered. It is whether, when something did not make sense, internal audit stopped long enough and pushed hard enough to ask: "*Are we really sure*?"

Michelle Moodley is a senior internal audit specialist and governance professional with more than two decades of experience in complex assurance environments. She recently completed her MBA at Henley Business School Africa, where her research focused on strengthening professional skepticism among internal auditors as a governance capability.

Board Policy 1.60.040-P

District Performance Auditing

I. Office of Performance Auditor

A. Portland Public Schools shall maintain an Office of Performance Auditor. The office shall be staffed by a Board-approved District Performance Auditor (Auditor), who shall be hired, evaluated, and may be removed by the Board, and such other employees or contractors as the Board provides budgetary funding.

B. The Office of Performance Auditor shall adhere to Generally Accepted Government Auditing Standards (GAGAS) in conducting its work and shall be considered independent as defined by those standards.

II. Audit Committee

A. The Audit Committee shall be comprised of five members appointed by the Board and all appointees shall be independent of the district's management and administrative service. The Audit Committee will be comprised of three members of the Board and two community members that have a general knowledge of the District and the audit process.

B. The two community members shall serve as non-voting members of the Audit Committee for two years and may be re-appointed at the end of their term.

C. The Board recognizes that community members bring specialized knowledge and expertise to the Audit Committee. Community members serving on the Audit Committee shall employ discretion, avoid conflicts of interest and their appearance, and exercise care in performing their duties. Community members appointed to the Audit Committee shall follow the ethics rules contained in ORS Section 244.

D. The Audit Committee welcomes up to two students to participate as ex officio members of the Audit Committee. The students may be appointed to the Audit Committee by the Student Representative to the Board and/or at the discretion of the Chair of the Audit Committee.

E. The Auditor and their staff shall report to the Audit Committee, and the Auditor shall be annually evaluated by the Board using the school district's evaluation instrument. The Auditor shall report to the Deputy Superintendent for Business & Operations (or comparable role) for administrative purposes such as leave approval, office space and supplies, paychecks, and reimbursements.

III. Assistants and Employees

A. The Office of Performance Audit shall be provided a separate budget (subject to available resources) sufficient to carry out the responsibilities and functions established in this policy.

B. Within budget limitations and consistent with District policies and procedures, the Auditor shall have the authority to , employ, and remove other employees of the Office of Performance Audit or contractors as deemed necessary for the efficient and effective administration of the duties of the office,.

IV. Scope of Audits

A. The Auditor shall have authority to conduct performance or other audits of all schools, offices, activities, and programs – including contracted programs - to independently determine whether:

1. Activities and programs being implemented have been authorized by District policy, state law, or applicable federal law or regulations;

2. Activities or programs are conducted efficiently and effectively to accomplish the objective intended by District policy, state law, or applicable federal law or regulations;

3. Activities and programs are being conducted and funds expended in compliance with applicable laws;

4. Revenues are being properly collected, deposited, and accounted for;

5. Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, and that is necessary to establish a proper basis for evaluating the programs and activities;

6. There are adequate operating and administrative procedures and practices, systems or accounting internal control systems, and internal management controls which have been established by management; or

7. Indications of fraud, abuse, or illegal acts are identified for further investigation.

B. The Auditor may provide non-audit services that are not covered by Government Audit Standards, provided that the service does not impair the auditor's independence. Decisions to perform non-audit services will be based on two overarching principles:

1. Audit organizations should not provide non-audit services that involve performing management functions or make management decisions; and

2. Audit organizations should not audit their own work or provide nonaudit services in situations where the non-audit services are significant/material to the subject matter of audits.

V. Audit Plan

A. At the beginning of each fiscal year, the Auditor shall submit a proposed annual audit plan to the Audit Committee for review and input. The plan shall include the schools, offices, activities, functions, and programs proposed for audit during the year. Upon review of the plan, the Audit Committee will recommend an annual audit plan to the full Board for approval.

B. In consultation with the Audit Committee, the Auditor will select topics based on potential for cost savings and service improvements; level of public and school board interest; evidence of problems or wrongdoing; risk of loss or abuse; and availability of audit staff.

VI. Access to Employees, Records and Property

A. All District officers and employees of shall furnish the Auditor with requested information and unrestricted access to employees, information, and records within their custody or control regarding powers, duties, activities, organization, property, equipment, financial transactions, contracts, and methods of business required to conduct an audit or otherwise perform audit duties. Officers or employees who fail to provide access and/or information requested by the Auditor, may be subject to discipline up to and including termination.

B. All contracts with outside contractors and subcontractors shall provide for Auditor access to all financial and performance-related records, property, and equipment purchased in whole or in part with District funds.

C. The Auditor shall not publicly disclose any information received during an audit involving matters that are confidential, privileged, or are otherwise exempt from disclosure under applicable state or federal law. Reporting in such cases may be limited to the Board.

VII. Views of Responsible Officials

A. A final draft of each audit report shall be delivered to the manager responsible for the audited program and the Superintendent for review and comment before it is released. The responsible manager must respond in writing specifying agreement with audit findings and/or recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to issues identified, and a timetable to complete such activities. The auditor must receive the response within 15 working days. The Auditor may revise its report based on the substantive input of the responsible manager. The Auditor will report the responsible manager's response to the Auditor's findings, conclusions, and recommendations, as well as the responsible manager's

planned corrective actions. If no response is received within the specific timeframe, the Auditor will note that fact in the audit report and will release the report. In the case of contracted audits, audits may be released without inclusion of a response.

VIII. Audit Reports

A. Each audit will result in a written report containing relevant background information, findings and recommendations and shall be delivered to the Audit Committee, Board, and the Superintendent. The report shall also be available for public examination, except as otherwise provided in this policy or prohibited by law.

IX. Report of Irregularities

If during an audit, the Auditor becomes aware of abuse or illegal acts or indications of such acts that could affect the District, the auditor shall report the irregularities to the Audit Committee and the Superintendent. If the Superintendent is believed to be a party to abuse or illegal acts, the Auditor shall report the acts directly to the Audit Committee chair.

X. Annual Report

A. The auditor shall submit an annual report to the Board within 90 days of the fiscal year end indicating audits completed, major findings, corrective actions taken by administrative managers, and significant findings which have not been fully addressed by management.

XI. Audit Follow-up

A. Responsible managers should provide quarterly reports about the implementation of corrective action plans as specified in the plan. The Auditor may request periodic status reports from audited entities regarding actions taken to address reported deficiencies, audit recommendations, and completed action plans.

XII. Contract Auditors, Consultants, and Experts

A. Within budget limitations, the Auditor may obtain the services of Certified Public Accountants, qualified management consultants, or other professional experts as necessary to perform the Auditor's duties.

History: Adopted 6/71; amended 12/83; re-organizational rescission 9/9/02; re-adopted 6/13/05 BA 3330; Amended 8/13/07; Amended 12/11/2018; 1/2024

Portland Public Schools (PPS) Audit Committee and Internal Performance Audit Charter & Process

Purpose and Mission

State and local governments can enhance credibility with the taxpayers by implementing performance audits to support accountability and guarantee that tax dollars are spent as effectively as possible.

Portland Public Schools (PPS) performance auditing is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function. The goal of these audits is to improve program effectiveness; improve the equity of service delivery; provide useful, objective, and timely information; strengthen administrative and management systems and controls; facilitate decision-making by parties with responsibility for overseeing or initiating corrective action; and improve student achievement District-wide. The objectives of performance audits vary, but generally address whether PPS is operating economically and efficiently, and/or whether it is achieving desired results.

The purpose of the internal performance audit function is to help improve the accountability and performance of PPS through independent auditing and reporting.

The authority and responsibilities of the PPS Performance Auditor ("the Auditor") are defined in this charter, which is approved by the Audit Committee and Board of Education.

Standards

The Office of Internal Performance Auditor shall adhere to Generally Accepted Government Auditing Standards (GAGAS, aka yellow book) in conducting its work and shall be considered independent as defined by those standards.

Authority

1. All District officers and employees shall furnish the Auditor with requested information and unrestricted access to employees, information, and records within their custody or control regarding powers, duties, activities, organization, property, equipment, financial transactions, contracts, and methods of business required to conduct an audit or otherwise perform audit duties. Officers or employees who fail to provide access and/or information requested by the Auditor may be subject to discipline up to and including termination.
2. All contracts with outside contractors and subcontractors shall provide for Auditor access to all financial and performance-related records, property, and equipment purchased in whole or in part with District funds.
3. The Auditor shall allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives for the approval

of the Audit Committee.

4. The Auditor may obtain the necessary assistance of PPS personnel, as well as other specialized services and/or auditors outside PPS.
5. The Auditor shall not publicly disclose any information received during an audit involving matters that are confidential, privileged, or are otherwise exempt from disclosure under applicable state or federal law. Reporting in such cases may be limited to the Board.

Contract Auditors, Consultants, and Experts

Within budget limitations, the Auditor may obtain the services of Certified Public Accountants, qualified management consultants, or other professional experts as necessary to perform the Auditor's duties. This must be reviewed and approved by the Audit Committee, and the Audit Committee will make a recommendation to the Board of Education for approval.

Independence & Objectivity

The Auditor may provide non-audit services that are not covered by Government Audit Standards, provided that the service does not impair the auditor's independence. Decisions to perform non-audit services will be based on overarching principles:

1. Auditor should not provide non-audit services that involve performing management functions or make management decisions,
2. Auditor should not audit their own work or provide non-audit services in situations where the non-audit services are significant/material to the subject matter of audits.
3. Auditor should disclose any impairment of independence or objectivity, in fact or appearance, to the Audit Committee and the Board of Education.
4. Auditor should take necessary precautions to avoid being unduly influenced by their own interest or by others (e.g. management, board members) in forming judgement.
5. Auditor will conduct an audit by not being affected by influences that compromise professional judgement, thereby allowing Auditor to act with integrity and exercise objectivity and professional skepticism.

When preforming an audit, the auditor will act with integrity and exercise objectivity, professional skepticism, professional judgment and work in the best interests of students and independent from the interests of others.

Responsibility

1. At the beginning of each fiscal year, the Auditor will submit a proposed annual audit plan to the Audit Committee for review and input. The plan will include the schools, offices, activities, functions, and programs proposed for audit during the year. The Audit

Committee will review, consider modifications, and approve the annual audit plan. The Audit Committee will then make a recommendation to the Board of Education which will provide final authorization.

2. In consultation with the Audit Committee, staff, and all Board members, the Auditor will select topics based on risk, potential cost savings and service improvements; achievement of educational outcomes; potential for disparate outcomes; level of public and School Board interest; evidence of problems or wrongdoing; risk of loss or abuse; and availability of audit staff.
3. Auditor will communicate to the Audit Committee the impact of resource limitations on the audit plan.
4. Auditor will review and adjust the audit plan, as necessary, in response to changes in PPS's business, risks, operations, programs, systems, and controls.
5. Auditor will communicate to the Audit Committee any significant proposed interim changes to the audit plan.
6. Auditor will follow up on engagement findings and corrective actions, and report periodically to the Audit Committee any corrective actions not effectively implemented.
7. Auditor will ensure trends and emerging issues that could impact PPS are considered and communicated to senior management and the Audit Committee as appropriate.
8. The Audit Committee will review all performance audits done by external auditors and make recommendations to the full Board and management about reporting, monitoring, and corrective action plans.
9. The Audit Committee will report a summary of its activities at regular, public meetings of the Board of Education.

Student and other confidential records

The Auditor shall ensure that any records considered confidential under the Family Educational Rights and Privacy Act (FERPA) are protected. Similarly, any communications by individuals to the auditor provided under Oregon Whistleblower laws will be protected in accordance with those laws.

Report of Irregularities

If during an audit, the Auditor becomes aware of abuse or illegal acts or indications of such acts that could affect the District, the auditor shall report the irregularities verbally to the Audit Committee and the Superintendent. If the Superintendent is believed to be a party to abuse or illegal acts, the Auditor shall report the acts directly to the Audit Committee chair who will share with all members of the Board of Education.

Scope of Performance Audit Activities

The Auditor shall have authority to conduct performance or other audits of all schools, offices, activities, and programs – including contracted programs - to independently determine whether:

1. Activities and programs being implemented have been authorized – if applicable -- by District policy, state law, or applicable federal law or regulations;

2. Activities or programs are conducted efficiently and effectively to accomplish the objective intended by District policy, state law, or applicable federal law or regulations;

3. Activities and programs are being conducted and funds expended in compliance with applicable laws and authorized allocations;

4. Revenues are being properly collected, deposited, and accounted for;

5. Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, and that is necessary to establish a proper basis for evaluating the programs and activities;

6. Significant key risks are appropriately identified and managed by management;

7. There are adequate operating and administrative procedures and practices, systems or accounting internal control systems, and internal management controls which have been established by management;

8. Internal controls are working efficiently and effectively;

9. Indications of fraud, abuse, or illegal acts are identified for further investigation;

10. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;

11. School district resources are acquired economically, used efficiently, and protected adequately;

12. Programs, plans, and objectives are achieved through analysis of departmental performance data, performance measures, and self-assessment systems;

13. Quality and continuous improvement are fostered in the PPS's control process;

14. Significant legislative or regulatory issues impacting the PPS are recognized and addressed properly;

15. Best practices are identified and promoted to help PPS achieve desired results.

Views of Responsible Officials and Management Responsibility

A final draft of each audit report, whether performed in-house or contracted out, shall be delivered to the manager responsible for the department or function being audited and the Superintendent for review and comment before it is released. The responsible manager must respond in writing specifying agreement with audit findings and/or recommendations or reasons for disagreement with findings and/or recommendations, the management corrective action plan which implements solutions to issues identified, and a timetable to complete such activities. The Auditor must receive the response within 15 working days. The Auditor may revise its report based on the substantive input of the responsible manager. The Auditor will report the responsible manager's response to the Auditor's findings, conclusions, and recommendations, as well as the responsible manager's planned corrective actions. If no response is received within the specific timeframe, the Auditor will note that fact in the audit report and will release the report. In the case of contracted audits, audits may be released without inclusion of a response. If no response is received to the contract audit within the established timelines, audit will note that fact in the audit report.

Responsible managers should provide quarterly reports about the implementation of any corrective action plans resulting from an audit. Management will be responsible for reporting quarterly updates to the Audit Committee until recommendations are implemented.

The Auditor may request periodic status reports from audited entities regarding actions taken to address reported deficiencies, audit recommendations, and completed action plans.

Quality Control and Peer Review

Government auditing standards require an external peer review every three years to determine whether an audit organization's system of quality control ensures compliance with professional auditing standards.

Follow-up Reports

The Auditor shall submit follow-up reports to the Board at an appropriate time after an audit's completion indicating major findings, corrective actions taken by administrative managers, and significant findings which have not been fully addressed by management.

Council of the Great City Schools

THE NATION'S VOICE FOR URBAN EDUCATION

INTERNAL AUDITING
IN THE GREAT CITY SCHOOLS



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About the Council of the Great City Schools

The Council of the Great City Schools is the only national organization exclusively representing the needs of urban public schools. Composed of 81 large city school districts, its mission is to promote the cause of urban schools and to advocate for inner-city students through legislation, research, and media relations. The organization also provides a network for school districts sharing common problems to exchange information and collectively address new challenges as they emerge in order to deliver the best possible education for urban youth.

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INTRODUCTION

Internal auditing is critical in enhancing an organization's ability to serve the public interest. Internal audit adds value by assessing and improving the effectiveness of risk management, control, and governance processes.

An internal audit function provides school boards and senior management with an independent and objective source of information to help them identify key financial, operational, compliance, and technology risks that may hinder the achievement of organizational goals and student outcomes.

This white paper is intended to describe leading practices in internal auditing and demonstrate the value an internal audit function brings to a school district.

The Council of the Great City Schools and the school internal audit experts who assembled this document suggest that strategically deploying internal audit resources helps districts effectively address high-risk areas affecting urban school districts. This white paper provides important information about the Internal Audit Function, and it describes leading practices for school district internal audit functions and the value of each in the following sections:

- Internal Audit Reporting Structure
- Audit Committee Roles, Responsibilities, and Membership
- Risk Assessment and Audit Plan
- Auditing Standards
- Data Analytics and Continuous Monitoring
- Fraud
- What Internal Auditors Do Not Do
- Non-audit Services
- Follow-up Activities
- Quality Assurance

The U.S. Government Accountability Office (GAO) and The Institute of Internal Auditors (IIA) offer additional resources on internal auditing.



THE INTERNAL AUDIT FUNCTION

According to The IIA, internal audit is "an independent, objective assurance and advisory service 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 governance, risk management, and control processes."

The role and objectives of internal audit functions vary across the nation's large urban school districts. This variation predominantly occurs because districts have different needs. Some school district internal audit functions primarily focus on traditional accounting and compliance audits. However, a forward-looking internal audit function aligned with updated auditing standards emphasizes adding value and improving operations. While internal audit functions are sometimes confused with external audit functions, the scope of internal auditing is broader. External auditors typically focus on financial statements, whereas internal auditors assess governance structures, risk management procedures, operations, and internal controls. Internal auditors issue recommendations aimed at continuous improvement opportunities, operational effectiveness and efficiency, and improved educational outcomes.

The focus is on building relationships and working collaboratively with district leadership, departments, and staff to identify opportunities for improvement. Internal auditors may also act as on-staff consultants, advising on a range of issues at management's request, provided that their independence and objectivity are not compromised. In addition to identifying noncompliance and errors, the internal audit function helps the district navigate challenges, mitigate risks, and optimize its operations to better serve students and the community.

The IIA Global Internal Audit Standards state that appropriate governance arrangements are essential to make the internal audit function effective. They provide guidance that outlines the requirements for the chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. While the chief audit executive is responsible for these requirements, the board and senior management activities are essential to the internal audit function's ability to fulfill the purpose of internal auditing. These activities are identified as "essential conditions" and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function. The essential conditions for board and senior management support include "ensuring the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate."[1]

[1] The Institute of Internal Auditors Global Internal Audit Standards published January 9, 2024.

INTERNAL AUDIT REPORTING STRUCTURE

The IIA's International Professional Practices Framework (IPPF) recommends that a Chief Audit Executive (CAE), that is, the internal audit function's executive leader or Director of Internal Audit, report functionally to the organization's board (or through an audit committee) and administratively to the organization's Chief Executive Officer or other appropriate executive.[2] These reporting lines ensure an auditor's work is independent, impartial, and objective so decision-makers can trust the auditor's findings and recommendations.

To report functionally to an organization's board, the CAE should submit the Internal Audit Charter and Annual Risk Assessment and Audit Plans to the board or audit committee for approval. The CAE should also communicate all results of the internal audit function activity to the board or audit committee. The board or audit committee should appoint and/or remove the CAE, and the board should determine the CAE's salary.

Conversely, administrative reporting entails the relationship within the organization's management structure that facilitates the internal audit department's day-to-day operations.

Following Generally Accepted Government Auditing Standards (GAGAS), internal auditors who report functionally to an entity's management are considered independent for the purposes of reporting internally if the head of the internal audit organization meets the following criteria:[3]

- Is accountable to the head or deputy head of the government entity or to those charged with governance who are responsible for overseeing the strategic direction and accountability of the entity;
- Reports engagement results both to the head or deputy head of the government entity and to those charged with governance;
- Is located organizationally outside the staff or line-management function of the unit under audit (i.e., a manager or employee is not auditing their own team's work);
- Has access to those charged with governance; and
- Is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

Leading Practices

The Council recommends that the Chief Audit Executive and the internal audit function report functionally to the school board, ideally through an audit committee. If functional reporting to the school board is not possible, a less preferable but acceptable reporting structure entails having the Chief Audit Executive report to the Superintendent or Deputy Superintendent, with access to those charged with governance (school board). In either case, the Council recommends school districts maintain an independent internal audit function.

Value

A reporting structure that preserves the internal audit function's independence adds value to a school district by ensuring the auditor's work is impartial and objective so decision-makers and other key stakeholders can trust internal audit findings and recommendations.

[2] Examples of major urban school districts where the internal auditor reports functionally to the school board include Orange County (Orlando), Columbus, Broward County, Miami-Dade County, Seattle, and others. (The Council conducted a survey of its members to determine which ones have internal auditors and to whom they reported. See appendix).

[3] Government Auditing Standards, 2024 Revision, Section 3.56.

AUDIT COMMITTEE ROLES, RESPONSIBILITIES, AND MEMBERSHIP

The primary role of an audit committee is to provide independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors (both internal and external). Audit committees also provide a forum, separate from management, in which auditors and other interested parties can candidly discuss concerns and act as a liaison between the school board and the Chief Audit Executive. Examples of roles and responsibilities of a school district audit committee are included below:

- Reviewing and approving an Internal Audit Charter;
- Providing expertise on risks affecting the school district and approving an internal audit work plan;
- Ensuring that internal auditors have adequate resources and unrestricted access to school district personnel, facilities, vendors, data, and documents;
- Assisting in preventing management from restricting the scope of internal audits, investigations,[4] or risk assessments;
- Receiving internal audit reports, investigations, and other communications deemed necessary by the Chief Audit Executive;
- Monitoring management's corrective actions to address reported internal audit findings;
- Engaging and overseeing the work of external auditors;
- Reviewing audit findings by state, federal, and other external agencies and monitoring the school district's actions to address those findings;
- Reviewing the effectiveness of systems for monitoring compliance with laws, board policies, and regulations;
- Reviewing and making recommendations to the school board on matters affecting the adequacy of internal controls, accounting procedures, technology systems, and financial reporting in accordance with laws and regulations;
- Approving all decisions regarding the appointment or removal of the Chief Audit Executive;
- Providing input on the Chief Audit Executive's evaluation;
- Approving the annual salary and compensation adjustments of the Chief Audit Executive;
- Serving on behalf of the school board to oversee the internal audit function;
- In conjunction with the Chief Audit Executive, providing an annual report to the school board;
- Performing other oversight responsibilities as assigned by the school board; and
- Reporting on the audit committee's activities to the entire school board.

An audit committee can significantly strengthen the independence, integrity, and effectiveness of a school district's audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resources needs, and moderating the auditors' relationship with the school district. Audit committees also ensure audit results are aired and any recommended improvements or corrective actions are addressed.

To accommodate the varying needs and circumstances among school districts, membership of the audit committee can be structured in various ways. Examples of audit committee structures include:

- A committee comprised of individuals who are independent of the school district and possess experience in auditing, finance, information technology, risk management, and governance;
- A committee comprised of select school board members;
- A committee of the whole school board; and
- A combination of board members and community experts.

[4] It is critical to distinguish the specialized functions of auditing and investigation. An audit is a collaborative process with district leadership, focused on evaluating systems and processes to ensure compliance with established standards. In contrast, an investigation is an independent, often short-term inquiry into a specific incident to determine facts and assign responsibility. Although internal auditors may initiate investigations in response to fiscal irregularities if appropriately trained and, preferably, certified in investigative practices, tasking an audit team with an investigative mandate is a common organizational misalignment, as the required skill sets and approaches are fundamentally different. For this reason, while the internal audit function is essential for financial oversight, it should not be used, for example, to investigate employee misconduct.

Leading Practices

To promote the success of an internal audit function, the Council recommends that school districts establish an audit committee. The committee should ensure that individual school board members, the superintendent, and other school district staff do not impede, prevent, or prohibit internal audit from initiating, carrying out, or completing independent and objective audits, investigations, and risk assessments. To accomplish this, an audit committee should ensure that the internal audit function is free of political pressure and other impediments to independence.

To effectively oversee the internal audit function, the Council recommends that a school district's audit committee be comprised of individuals independent of the school district and collectively have auditing, finance, information technology, risk management, and governance experience. An audit committee of experienced professionals with no authority over the school district's operations or decision-making processes can shield the internal audit staff from actual or perceived pressure that would compromise their objectivity and independence. The IIA also supports this structure.

Value

An audit committee structured with appropriately qualified members will help ensure internal auditors can conduct their work without fear of retaliation, retribution, or political pressure. Thus, the internal audit function will be effective, independent, and objective. Consequently, audit results will be fair and impartial and can be relied upon by the school board, school district management, and the public.





RISK ASSESSMENT AND AUDIT PLAN

The International Professional Practices Framework (IPPF) requires an organization, such as a school district, to "create an internal audit plan that supports the achievement of the organization's objectives." It further states that "the chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks." District internal auditors, following The IIA Standards, must conduct this assessment annually.

Leading Practices

Risk assessments are a collaborative process with district leadership to identify and prioritize potential risks, determine risk-tolerance levels, and align mitigation strategies with strategic goals. Depending on the size and structure of a school district, its internal audit function, and the standards it follows, the Council recommends a comprehensive risk assessment be performed at a minimum of every three years. Regardless of how often an internal audit office conducts it, the risk assessment and audit plan should be modified or updated to reflect new or changing risks affecting the school district.

The risk assessment process should identify risks that prevent achieving district goals and/or objectives. Once risks are identified, they should be ranked on a low-to-high risk scale. The annual plan should focus the internal audit function's resources on the highest-risk areas.

The risk assessment should cover all district departments and processes. This list of auditable items is usually referred to as the audit universe. The audit plan should reference the risk assessment and audit universe and should detail the method by which the planned audit activities were decided upon. Risk ratings are typically based on the likelihood that a risk event will occur and the impact the risk event would have if it did occur. Other factors used to determine an auditable item's risk level include:

- Risks to the district's reputation;
- Time since the last audit;
- Results of the last audit and whether any findings from that audit are still open;
- Results of compliance or monitoring activities performed by other internal departments or external parties;
- Perceived qualities of internal controls;
- Information system changes;
- Process complexity; and
- Requests and expectations of the senior management and the governing board.

The audit plan should describe the audit and non-audit activities (described below) that will be performed, the scope of work, and the resources required to complete the job. An audit plan should be flexible enough to accommodate minor mid-plan adjustments. If a substantial adjustment is needed (e.g., based on a senior management request), the school board and/or audit committee should approve the changes.

Common and emerging areas for audit and non-audit services that might be included in the plan include:

- Performance audits (to assess cost-beneficial internal controls, efficiency, effectiveness, contract oversight, and compliance);
- School internal fund and school-based audits (including, but not limited to, student counts and classifications);
- Charter school audits and fiscal oversight (the IA function is uniquely qualified to add value in this significant and growing sector);
- Audits of third-party relationships;
- Facilities construction and maintenance audits and oversight;
- Contract audits;
- Information technology audits, including cybersecurity and emerging technologies;
- Forensic accounting and investigative audits;
- Acting as a liaison for external audit entities (if all high-risk areas are covered and sufficient resources are available);
- Identifying emerging risks (adding value by alerting the school board and management of audit findings and trends occurring at similar entities); and
- Recurring work such as promoting awareness of fraud policies and internal controls and following up on open findings from previous audits.

Value

An objective risk assessment by an internal audit function provides value to the school board and senior management in focusing audit efforts on higher risks associated with the school district's various business and operational functions. An audit plan based upon a comprehensive risk assessment ensures that internal audit resources are strategically allocated to address the most significant and likely risks affecting the school district. Audit results will provide management with actionable recommendations to meet its goals and objectives, and the school board will be provided with valuable information to assist in its governance.



AUDITING STANDARDS

Auditing standards are guidelines auditors must follow to ensure accuracy, consistency, and reliability. They provide a framework for conducting audits and help ensure they are performed objectively, thoroughly, and in a manner that meets regulatory and professional requirements.

The U.S. Government Accountability Office (GAO) and The IIA are two reputable organizations recognized for issuing professional auditing standards that provide a framework for conducting audit work with integrity, competence, and consistency.

Key principles across auditing standards include:

- **Independence and Objectivity:** Auditors must maintain an impartial and unbiased attitude when performing internal audit services and make judgments based on balanced assessments of all relevant circumstances. Auditors must avoid conflicts of interest and must not be unduly influenced by their interests or the interests of others, including senior management and others in positions of authority, or by the political environment or other aspects of their surroundings.
- **Professional Competence and Due Care:** Auditors are expected to have the necessary qualifications and exercise diligence in performing their work. Auditors should also stay updated with changes in auditing standards, regulatory requirements, and industry trends through continuing education and certifications. Specialization and skill enhancement in cybersecurity, data analytics, and forensic accounting are increasingly important in today's audit environment.
- **Planning and Supervision:** Proper planning and supervision are crucial for effective audits.
- **Sufficient Evidence:** Auditors must gather and document adequate evidence to support their findings and conclusions.
- **Clear and Accurate Reporting:** Findings should be reported clearly, and auditors should communicate whether the information aligns with applicable standards.
- **Serve Stakeholders and the Public Interest:** Public interest is the collective well-being of the community of people and entities the auditors serve. The principle of public interest is fundamental to auditors' responsibilities and critical in governmental environments.

Standards generally require that the auditor must:

- Perform the internal audit services in conformance with the auditing standards;
- Maintain independence in both fact and appearance;
- Demonstrate integrity in their work and behavior;
- Exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided;
- Maintain professional skepticism when planning the audit, performing the audit, and reporting the audit results;
- Be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services; and
- Provide adequate quality control.



Leading Practices

The Generally Accepted Government Auditing Standards (GAGAS), issued by the GAO and commonly referred to as the "Yellow Book," articulates requirements for financial audits, performance audits, and attestation engagements in government, including school districts, which receive federal funds.

The IIA has also issued standards in its International Professional Practices Framework (IPPF), commonly referred to as the "Red Book," which are sometimes implemented along with GAGAS's performance audit requirements.

The Council does not promote one set of standards over another, but recommends that each school district follow a recognized set of professional auditing standards.

Value

By following recognized auditing standards, an internal audit function adds value to its district by ensuring financial integrity, promoting compliance, increasing accountability, enhancing governance, and improving resource management. Senior management and the school board will greatly appreciate an internal audit function that follows prescribed auditing standards.

DATA ANALYTICS AND CONTINUOUS MONITORING

Internal audits can leverage data analytics to mitigate risks more efficiently and complete tasks more confidently. The Association of Certified Fraud Examiners (ACFE), The IIA, and the American Institute of Certified Public Accountants (AICPA) advocate data monitoring and analysis to guide risk assessment. Additionally, data analytics can be employed to complete audit tasks faster and with greater confidence.

Depending on the maturity of the internal audit function, data analytics can also be used as a risk monitoring tool. In this instance, characteristics of high-risk transactions are built and deployed in the client's Enterprise Resource Plan (ERP). An effective continuous monitoring process and a dynamic risk assessment model can position the internal audit function to produce more timely referrals for suspected fraud, waste, or abuse and more impactful audit products addressing contract performance and controls.

Leading Practices

While the degree to which internal audit utilizes data analytics varies among audit organizations, the Council recommends that high-performing units consider and evaluate this technology frequently.

Value

Performing data analysis is an effective way to help auditors be more proactive in detecting transactions that may need review and for reducing fraud, waste, and abuse. Data analytics can also guide a school district's risk assessment and audit planning processes to ensure the internal audit function resources are directed toward areas with the most significant materiality and risk to the district. With appropriate planning and consultation, school districts can employ technology tools that help their audit staff provide more efficient audit coverage.

FRAUD

The fundamental nature of fraud comes from the specific facts of intent, overt acts, materiality, collusion, willful blindness, and pattern of conduct. On the fraud spectrum, behavior can range from a suspicious mistake to criminal conduct. How a suspected fraud is identified, remediated, and presented is of legal concern. There is a risk of suspecting fraud without reasonable basis, failing to identify a fraud, and mishandling a suspected fraud.

The IIA defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Its role includes detecting, preventing, and monitoring fraud risks and addressing those risks in audits and investigations.

Leading Practices

The Council recommends that fraud risk be considered in the organization's risk assessment and individual audits. Auditors are advised to consider continuing professional education (CPE) that includes fraud identification and analysis. This will arm the auditor with the tools to identify fraud risk and address their organization's effectiveness in mitigating risk during audit work.

While the types and variations of fraud schemes are many, school districts may be more susceptible to these techniques that their auditors may wish to pay particular attention to:

- Benefits fraud;
- Overtime fraud;
- Bid-rigging;
- Falsified invoices;
- Kickback schemes;
- Business email compromise;
- Sale of surplus or untracked assets; and
- Overbilling.

Value

Evaluating fraud risks during annual risk assessments and individual audit engagements will provide greater assurance to school districts that the risk of fraudulent activity is effectively mitigated.

WHAT INTERNAL AUDITORS DO NOT DO

A common theme throughout this white paper is that maintaining independence is imperative for an effective and credible internal audit function. Internal audit functions must avoid even the appearance of a lack of independence by refraining from performing certain functions. Internal Auditors cannot be a part of the management of any function they audit, which means they should not:

- Set policy and strategic direction for the school district;
- Direct or accept responsibility for the actions of school district employees;
- Accept responsibility for designing, implementing, or maintaining internal controls, including the performance of ongoing monitoring activities as part of the control process;
- Take responsibility for the district's financial statements;
- Authorize or execute transactions on behalf of any department other than their own;
- Approve district budgets;
- Prepare or make changes to source documents;
- Assume custody of district assets, including maintenance of bank accounts;
- Supervise employees other than their own in the performance of normal recurring activities;
- Report to the school board on behalf of management;
- Serve as a general counsel;
- Sign payroll tax returns on behalf of their district;
- Approve vendor invoices for payment other than those for their department;
- Design a district's financial management system or make modifications to the source code underlying that system; and
- Hire or terminate employees other than for their department.

This list is not all-inclusive. In short, internal auditors may not assume the role and duties of management or implement anything they will ultimately audit.

In addition, the school district should not expect the internal audit function to:

- Analyze or reconcile accounts;
- "Close the books";
- Locate invoices, etc., for testing;
- Prepare confirmations for mailing;
- Select accounting policies or procedures;
- Prepare financial statements or footnote disclosures;
- Determine estimates included in financial statements;
- Determine restrictions on assets;
- Establish the value of assets and liabilities;
- Maintain permanent records, such as loan documents, leases, contracts, and other legal documents;
- Prepare or maintain minutes of school board meetings;
- Establish account coding or classifications;
- Determine retirement plan contributions; and
- Implement corrective action plans.

Leading Practices

To ensure internal audit functions avoid even the appearance of a lack of independence, the Council recommends that they not engage in activities that are considered management roles and responsibilities or activities they may ultimately audit.

Value

By ensuring that the internal audit function is independent of school district operations, the school board, school district management, and the public can ensure that internal audit results can be relied upon as fair and objective.



NON-AUDIT SERVICES

Non-audit services are advisory and generally performed at the client's request, which could include the school board, the audit committee, senior management, or the management of a particular unit or function within the district. The Chief Audit Executive should consider accepting non-audit service requests based on the activity's potential to improve the management of risks, add value, or improve the district's operations. The IIA International Professional Practices Framework (Red Book) and the Government Accountability Office's Government Auditing Standards (Yellow Book) recommend that an internal audit function maintain its independence and objectivity and not assume management responsibilities when it provides non-audit advisory services. Both groups also recommend that advisory services be performed free of political pressure or perceived conflicts of interest.

Leading Practices

The Council recommends that the Internal Audit Charter include the nature and extent of non-audit services to be performed by the internal audit function. Accepted non-audit engagements should be included in the annual audit plan. The school board safeguards and protects the objectivity and independence of the internal audit function, in conjunction with the Chief Audit Executive, to ensure requests are suited to and appropriate for the internal audit function. Examples of advisory services that the internal audit function can provide include counsel, advice, facilitation, and training.

For instance, internal auditors can lend their expertise in analyzing risks and internal controls to advise management on better-informed decision-making. Facilitating benchmarking and identifying leading practices as a non-audit service could enhance operational performance. Internal auditors can also support the school district in promoting ethical behavior and employee awareness of and commitment to internal controls.

Value

Performing non-audit services allows an internal audit function to provide just-in-time advice to school district management in cost-effective ways and improve the district's governance, risk management, and control processes. Non-audit services can also improve relations with other district departments and provide internal auditors with greater exposure and enriched career opportunities.

FOLLOW-UP ACTIVITIES

Government Auditing Standards (Yellow Book) and The IIA International Professional Practices Framework (Red Book) set standards for monitoring and determining whether management takes corrective action to address audit issues and findings or accepts the risk of not acting. The standards also set requirements for reporting the results of follow-up activities. Specifically, auditors should:

- Establish a follow-up process to monitor and ensure management actions have been effectively implemented, or senior management has accepted the risk of not acting; and
- Communicate the status of corrective actions taken in response to prior findings. This includes reporting whether the audited entity has taken appropriate steps to address the findings and recommendations or whether management has accepted the risk of not taking corrective action.

Leading Practices

The Council recommends that the Chief Audit Executive collaborate with senior management to determine the timing and nature of corrective actions to address issues and items identified in the audit findings. Regardless of the methods used to monitor and assess the status of these corrective actions, leading internal audit practices use dashboards to indicate the nature of audit findings and/or prepare reports highlighting management's progress toward resolving past audit findings and recommendations. Additional leading practices include the following:

- **Develop a Formal Follow-Up Policy:** Establish a clear policy that defines responsibilities, timelines, and procedures for follow-up activities to ensure consistent and effective monitoring of corrective actions.
- **Create a Tracking System:** Implement a centralized tracking system to document audit findings, management responses, corrective actions, deadlines, and status updates. This system should be accessible to relevant stakeholders to enhance transparency.
- **Engage Stakeholders:** Involve key stakeholders, such as school administrators, finance officers, and board members, in the follow-up process to ensure a comprehensive approach to addressing audit findings.
- **Assign Accountability:** Designate specific individuals or departments responsible for implementing corrective actions and reporting progress. This accountability helps ensure timely and effective resolution of audit findings.
- **Regularly Communicate Progress:** Schedule regular updates to senior management and the school board on the status of corrective actions. This ensures stakeholders are informed of delays, challenges, or risk acceptance decisions.
- **Integrate Follow-Up with Risk Management:** Align follow-up activities with the district's overall risk management framework to prioritize and address high-risk areas identified in audits.
- **Conduct Periodic Reviews:** Periodically review and evaluate the follow-up process's effectiveness to identify improvement areas and ensure that the process remains aligned with best practices and changing organizational needs.



Value

Follow-up activities assure senior management, the school board, and other stakeholders that audit findings are taken seriously, and corrective actions are implemented. Follow-up activities also provide a measure of accountability to the community, ensuring any noted weaknesses are addressed and the district is committed to operating and using public funds efficiently and effectively. The audit follow-up process adds value to a school district in several ways, listed below:

- **Improved Accountability:** Ensures management is held accountable for implementing corrective actions, which can help address issues such as financial mismanagement, operational inefficiencies, or non-compliance with policies and regulations.
- **Enhanced Governance:** Provides school boards and senior leadership with timely and accurate information on the status of corrective actions, enabling informed decision-making and better governance oversight.
- **Risk Mitigation:** Helps the district manage risks effectively by ensuring significant risks identified in audits are either mitigated through corrective actions or consciously accepted by senior management.
- **Continuous Improvement:** Fosters a culture of continuous improvement by ensuring lessons learned from past audits are applied to enhance processes, controls, and overall performance.
- **Resource Optimization:** Helps ensure district resources are used efficiently and effectively by addressing any identified weaknesses in internal controls or operational processes, thereby supporting the district's mission to provide quality education.

QUALITY ASSURANCE

Internal auditing is a value-added proposition providing high-quality deliverables to its stakeholders through assurances, advisory services, and analyses. With so many parties invested in the outcome of this important work, it must be performed with the utmost quality. Accordingly, successful internal audit departments establish strategies and maintain quality assurance and improvement processes. The most effective quality assurance and improvement practices include well-understood procedures for performing and supervising internal audit work with fidelity, periodic self-assessments, and periodic external peer reviews. A key feature of department procedures involves developing performance indicators to measure and monitor performance against department objectives. The value-added proposition can be calculated from a quantitative and qualitative perspective.

Leading Practices

The Council recommends that internal audit departments use balanced scorecards to track key performance indicators (KPIs), measure performance, and provide information to stakeholders. Examples of KPIs may include:

- School district dollars saved or recouped as a result of internal audits;
- Customer (Board, Management, Auditees) satisfaction survey results;
- Adherence to auditing standards;
- Peer review results;
- Number and quality of reports over time;
- Percentage of recommendations accepted by management;
- Percentage of recommendations implemented by management;
- Budgeted hours vs. actual hours;
- Cycle time from fieldwork to report;
- Completion of mandated coverage;
- Timely disclosure of audit issues;
- Percentage of the audit plan completed;
- Risk coverage;
- Percentage of staff with professional certifications; and
- Training hours.

Value

KPIs for an internal audit function can provide the school board, senior management, and the public with information to evaluate whether the internal audit function is meeting its objectives and helping the school district accomplish its mission.

APPENDIX

Task Force Members

The Council of the Great City Schools greatly appreciates the work of the Task Force which produced this report. Contributing members included:

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- Janise Hansen, CIA
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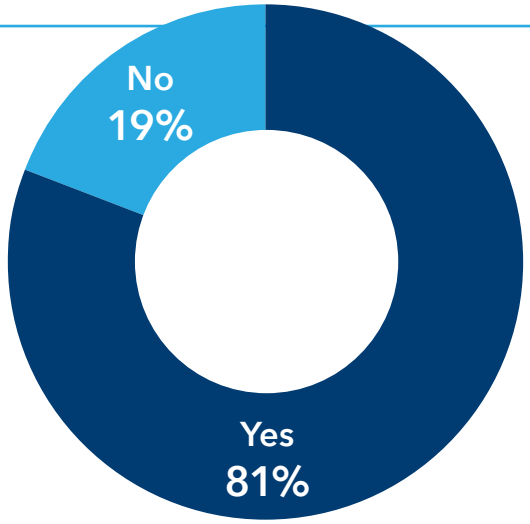
Staff Lead

Willie Burroughs, Director of Management Services
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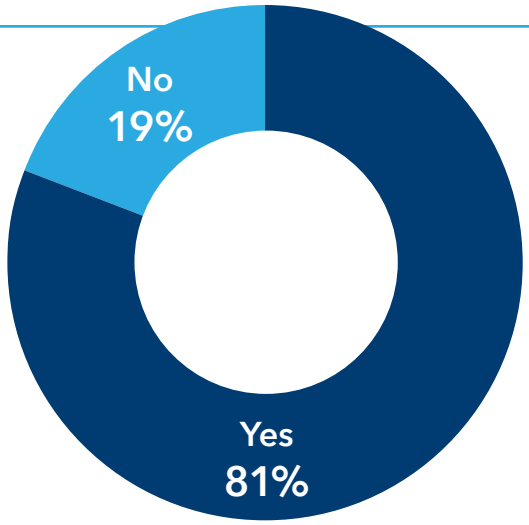
Benchmarking Data

The following charts illustrate support for the leading practices identified in this white paper. The information is based on self-reported data from 31 school districts as of January 2025 and has not been audited.

Percentage of Internal Audit Departments that Report to the School Board

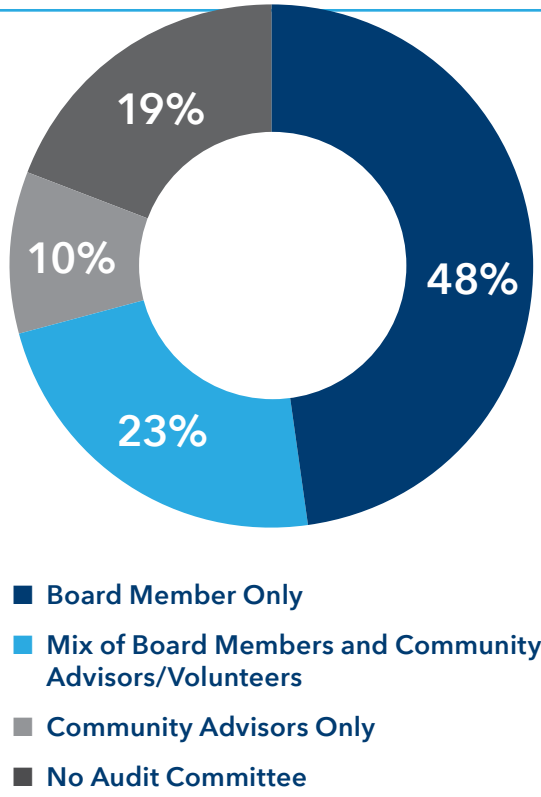


Percentage of Districts with an Audit Committee

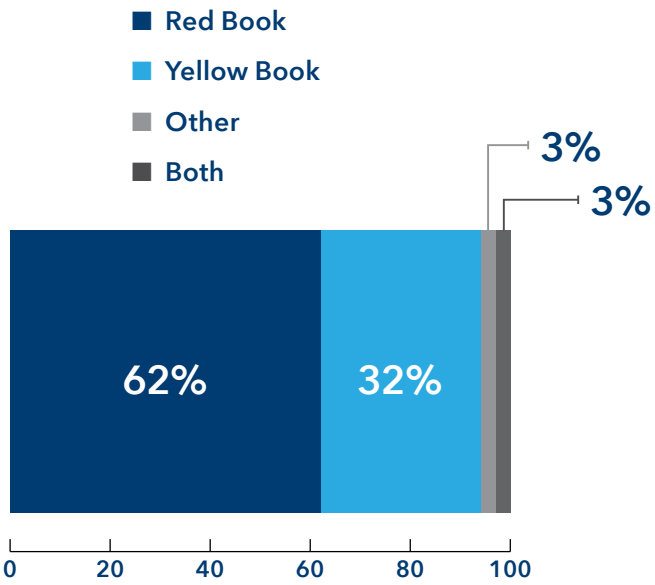


Data has been reported by individual school districts and has not been audited.

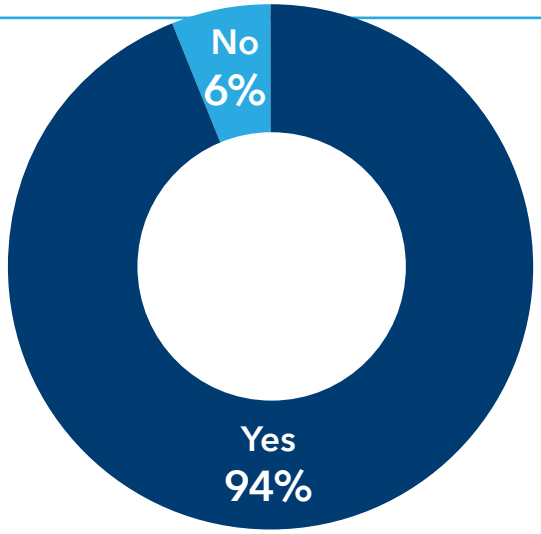
Audit Committee Composition



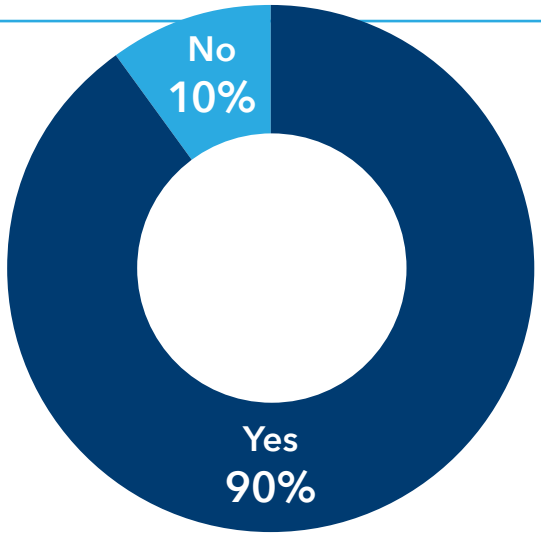
Professional Auditing Standards Followed



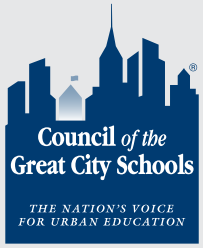
Percentage of Districts Completing a Risk Assessment



Percentage of Districts Monitoring and Validating Recommendation Implementation



Data has been reported by individual school districts and has not been audited.



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Essential Conditions listed were pulled from The Institute of Internal Auditors, Global Internal Audit Standards, Domain III: Governing the Internal Audit Function, pages 39-59.

Standard 6.1 Internal Audit Mandate

Requirements

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or par ally in laws or regulations, the internal audit charter must include the legal requirements of the mandate. (See also Standard 6.2 Internal Audit Charter and "Applying the Global Internal Audit Standards in the Public Sector.")

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities. (See also Standard 9.5 Coordination and Reliance.)

The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board. (See also Standard 6.2 Internal Audit Charter.)

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.

- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

Senior Management

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

Standard 6.2 Internal Audit Charter

Requirements

The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of Internal Audi ng.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

Essential Conditions listed were pulled from The Institute of Internal Auditors, Global Internal Audit Standards, Domain III: Governing the Internal Audit Function, pages 39-59.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.
- Approve the internal audit charter.
- Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.

Senior Management

- Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter.

Standard 6.3 Board and Senior Management Support

Requirements

The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfill its requirements.

Essential Conditions

Board

- Champion the internal audit function to enable it to fulfill the Purpose of Internal Audi ng and pursue its strategy and objectives.

- Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical proper es necessary to fulfill the internal audit mandate.
- Support the chief audit executive through regular, direct communications.
- Demonstrate support by:
  - Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
  - Approving the internal audit charter, internal audit plan, budget, and resource plan.
  - Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
  - Meeting periodically with the chief audit executive in sessions without senior management present.

Senior Management

- Support recognition of the internal audit function throughout the organization.
- Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Standard 7.1 Organizational Independence

Requirements

The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also Standard 6.2 Internal Audit Charter.)

The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.

When the chief audit executive's nonaudit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.

If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.

Essential Conditions

Board

- Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.

- Authorize the appointment and removal of the chief audit executive.
- Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.
- Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.
- Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.
- Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.
- Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management

- Posi on the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board.
- Recognize the chief audit executive's direct reporting relationship with the board.
- Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by nonaudit roles or other circumstances and support the

implementation of appropriate safeguards to manage such impairments.

- Provide input to the board on the appointment and removal of the chief audit executive.
- Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.

Standard 7.2 Chief Audit Executive Qualifications

Requirements

The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.

The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)

Essential Conditions

Board

- Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.
- Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
- Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.

Senior Management

- Engage with the board to determine the chief audit executive's qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the chief audit executive through the organization's human resources processes.

Standard 8.1 Board Interaction

Requirements

The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.

The chief audit executive must report to the board and senior management:

- The internal audit plan and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)
- Changes potentially affecting the mandate or charter. (See also Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter.)
- Potential impairments to independence. (See also Standard 7.1 Organizational Independence.)
- Results of internal audit services, including conclusions, themes, assurance, advice, insights, and monitoring results. (See also Standards 11.3 Communicating Results, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Results from the quality assurance and improvement program. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 12.2 Performance Measurement.)

There may be instances when the chief audit executive disagrees with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the

internal audit function to execute its responsibilities. In such cases, the chief audit executive must provide the board with the facts and circumstances to allow the board to consider whether, in its oversight role, it should intervene with senior management or other stakeholders.

Essential Conditions

Board

- Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.
- Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priori es.
- Set expectations with the chief audit executive for:
  - The frequency with which the board wants to receive communications from the chief audit executive.
  - The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.
  - The process for escalating matters of importance to the board.
- Gain an understanding of the effectiveness of the organization's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.
- Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.

Senior Management

- Communicate senior management's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priori es.

- Assist the board in understanding the effectiveness of the organization's governance, risk management, and control processes.
- Work with the board and the chief audit executive on the process for escalating matters of importance to the board.

Standard 8.2 Resources

Requirements

The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Essential Conditions

Board

- Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.

Senior Management

- Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.

Essential Conditions listed were pulled from The Institute of Internal Auditors, Global Internal Audit Standards, Domain III: Governing the Internal Audit Function, pages 39-59.

Standard 8.3 Quality

Requirements

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments. (See also Standard 8.4 External Quality Assessment.)
- Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:

- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

Essential Conditions

Board

- Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function.
- Approve the internal audit function's performance objectives at least annually. (See also Standard 12.2 Performance Management.)
- Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes:

- Reviewing the internal audit function's performance objectives, including its conformance with the Standards, laws and regulations; ability to meet the internal
- audit mandate; and progress towards completion of the internal audit plan.
- Considering the results of the internal audit function's quality assurance and improvement program.
- Determining the extent to which the internal audit function's performance objectives are being met.

Senior Management

- Provide input on the internal audit function's performance objectives.
- Participate with the board in an annual assessment of the chief audit executive and internal audit function.

Standard 8.4 External Quality Assessment

Requirements

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.

Essential Conditions

Board

- Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.

- Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the chief audit executive's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
  - The scope and frequency of assessments.
  - The competencies and independence of the external assessor or assessment team.
  - The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
- Require receipt of the complete results of the external quality assessment or self- assessment with independent validation directly from the assessor.
- Review and approve the chief audit executive's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the chief audit executive's progress.

Senior Management

- Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the chief audit executive and board to agree on action plans that address identified deficiencies and opportunities for improvement, if applicable, and agree on a timeline for completion of the action plans.

PORTLAND PUBLIC SCHOOLS
Office of Internal Performance Audit
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Telephone: (503) 916-2000
Mailing Address: P. O. Box 3107 / 97208-3107

Date: October 23, 2026

To: PPS Board of Education and Audit Committee Members

CC: Dr. Kimberlee Armstrong, Superintendent
Michelle Morrison, Chief Financial Officer
Sharon Toncray, Chief Legal Officer
Liz Large, Contracted General Counsel
Andrea Schiers, Senior Legal Counsel and legal liaison to the Audit Committee

From: Janise Hansen, Sr. Internal Performance Auditor (Internal Auditor)

Subject: Communications Protocol: Communications Between PPS Board of Education members, Audit Committee Members, and the Internal Auditor

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Purpose

Audit Standards recognizes the importance of direct and open communication between individual Board of Education (Board) members, Audit Committee (Committee) members, and the Internal Auditor. Such communication supports the independence and effectiveness of the internal audit function and enables the Board and Committee members to raise questions, concerns, potential audit matters, and other issues relevant to the Board's and Committee's oversight responsibilities.

These communications will be conducted in a manner consistent with Oregon Public Meetings Law, including requirements concerning serial communications.

Direct Communication with the Internal Auditor

Individual Board and Committee members may communicate directly with the Internal Auditor outside of a Board or Committee meeting. Such communications may include:

- Requesting or receiving factual or educational information;
- Asking questions regarding audit reports, audit plans, recommendations, or follow-up activities;
- Raising concerns regarding risk, internal controls, compliance, fraud, waste, abuse, or other matters relevant to the internal audit function;

- Suggesting matters for possible future audit consideration;
- Requesting clarification of information previously presented to the Committee; and
- Discussing administrative, scheduling, or other nonsubstantive matters.

Nothing in this protocol is intended to restrict an individual Board and/or Committee member's access to the Internal Auditor or the Internal Auditor's ability to communicate directly with individual Board and/or Committee members as appropriate to the Internal Auditor's responsibilities.

Avoidance of Serial Communications

The Internal Auditor, Board, and Committee members shall not use individual communications, whether directly or through an intermediary, that create deliberation or decision-making by a quorum of the Committee outside of a meeting conducted in accordance with Oregon Public Meetings Law.

Accordingly:

- The Internal Auditor should not communicate one Board and/or Committee member's substantive position on a matter to other Board and/or Committee members on topics that the Board and/or Committee will be deliberating.
- Board and/or Committee members should not ask the Internal Auditor to poll other Board and/or Committee members regarding their positions on a matter that is or may come before the Board and/or Committee; and the Internal Auditor should not share an understanding of Board and/or Committee member positions.
- The Internal Auditor should not serve as an intermediary through which Board and/or Committee members indirectly deliberate with one another.
- Email, text messages, telephone calls, individual meetings, or other communications should not be used in sequence that effectively creates deliberation among a quorum.

Information Gathering by the Internal Auditor

The Internal Auditor may communicate separately with individual Board and/or Committee members to obtain information, understand concerns, identify potential risks, prepare materials, or otherwise perform the responsibilities of the internal audit function.

When information obtained through individual communications relates to a matter that is likely to result in Board and/or Committee deliberation or action, substantive discussion among Board and/or Committee members should occur at a properly noticed Committee meeting.

Questions or Uncertainty

When there is uncertainty as to whether a proposed communication could constitute or contribute to prohibited serial communications, the Internal Auditor, Board, and/or Committee member should consult with District legal counsel, as appropriate, before proceeding.

This protocol is intended to facilitate effective communication between the Board and/or Committee members and Internal Auditor while ensuring that Board and/or Committee deliberations and decisions occur openly and in accordance with Oregon Public Meetings Law.

PORTLAND PUBLIC SCHOOLS

Overview of the Office of Performance Audit (OIPA)

Audit Committee Meeting:
October 27, 2026

Agenda

- Internal Performance Audit Team
- Professional Association Membership
- Audit Standards
- Independence
- Professional Skepticism
- What is Internal Performance Auditing?
- Policy and Charter
- Purpose and Mission
- Ethics and Professionalism
- Governing the Internal Audit Function
- Essential Conditions
- Benchmarking

Internal Performance Audit Team

Janise Hansen, CIA

- PPS Senior Internal Performance Auditor for the last seven years - hired Sept. 2019
- Served as the Senior Internal Performance Auditor at Seattle Public Schools during the 2018-2019 school year
- Eight plus years of experience auditing local government agencies throughout western Washington, including school districts ranging in size from approximately 3,000 to 53,000 students

Mary Catherine Moore

- PPS Internal Performance Auditor for the last seven years - hired March 2019
- Served as a Compliance and Internal Auditor at Providence Health & Services for ten plus years
- Graduate of Grant High School

We plan expand the team in 2026-2027 by hiring an additional audit employee with capital delivery and bond program audit expertise

Professional Association Membership

Institute of Internal Auditors

- Local Portland Chapter

Association of Local Government Auditors

- ALGA K-12 auditors: Bi-Monthly Meeting
- ALGA 2026 Portland Training – October 6 & 7, 2026

Council of Great City Schools

- Internal Audit Bi-Monthly Job Alike Meetings
- Annual Conference: Chief Financial Officer and Directors of Procurement, Risk Management and Internal Audit - November 17-20, 2026

Audit Standards

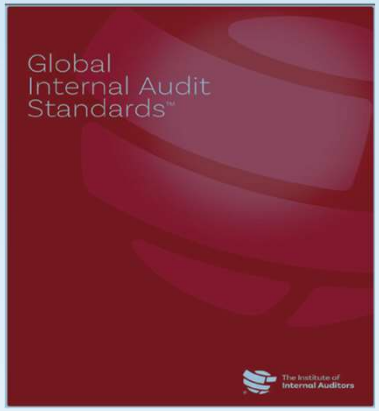
The US Government Accountability Office (GAO) issues **Generally Accepted Government Auditing Standards** (**GAGAS**) – also known as the **Yellow Book**

- 2024 Revision issued in February 2024
- The 2024 revision of Government Auditing Standards is effective for performance audits beginning on or after December 15, 2025



The Institute of Internal Auditors (IIA) issues the **Global Internal Audit Standards** - also known as the **Red Book**

- Published January 2024
- Effective as of January 2025



Independence

- OIPA is an organizationally independent function within PPS that provides objective assurance and advisory services to the Board.

- GAGAS/Yellow Book identifies specific criteria that must be met for OIPA to maintain its independence.

  - ✓ OIPA's organizational structure meets this criteria

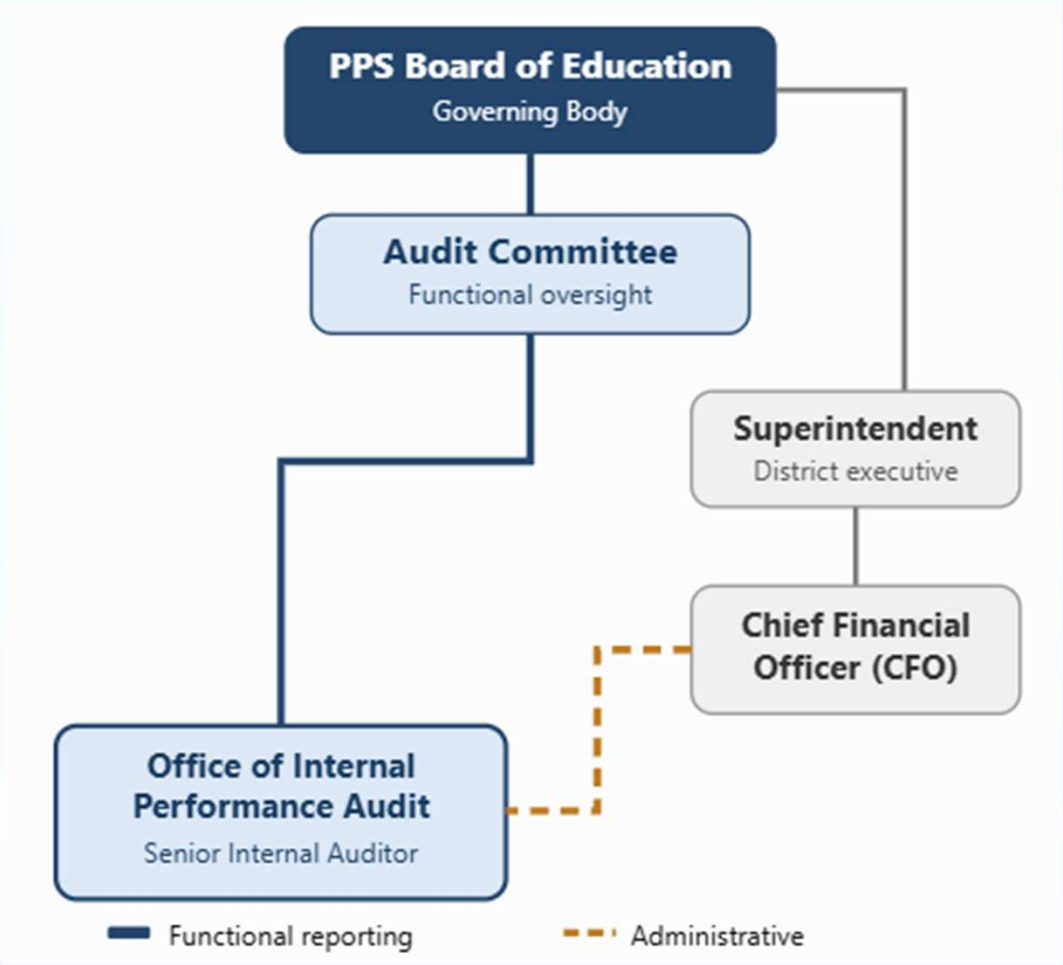
GAGAS/Yellow Book Chapter 3: Ethics, Independence, and Professional Judgement
3.56 Government internal auditors who work under the direction of the audited entity's management are considered structurally independent for the purposes of reporting internally, if the head of the audit organization meets **all** of the following criteria:

a. Is accountable to the head or deputy head of the government entity or to those charged with governance; - **Criteria met**

- ✓ OIPA's Sr. Internal Performance Auditor reports administratively to PPS' Chief Financial Officer
  - Board Policy 1.60.040-P states: The Auditor shall report to the Deputy Superintendent of Business & Operations (or comparable role) for administrative purposes such as leave approval, office space and supplies, paychecks and reimbursements.

- ✓ OIPA's Sr. Internal Performance Auditor reports functionally to the PPS Board of Education (Board)
  - Board Policy 1.60.404-P states: PPS shall maintain an Office of Performance Auditor. The office shall be staffed by a Board-approved District Performance Auditor (Auditor), who shall be hired, evaluated, and may be removed by the Board, and such other employees or contractors as the Board provides budgetary funding.
  - Board Policy 1.060.040-P states: The Auditor and their staff shall report to the Audit Committee, and the Auditor shall be annually evaluated by the Board using the school district's evaluation instrument.

Functional Reporting & Administrative Reporting



b. Reports the engagement results both to the head or deputy head of the government entity and to those charged with governance; - **Criteria met**

- ✓ Board Policy 1.60.404-P states: Each audit will result in a written report containing relevant background information, findings and recommendations and shall be delivered to the Audit Committee, Board, and the Superintendent. The report shall also ne available for public examination, except as otherwise provided in this policy or prohibited by law.

c. Is located organizationally outside the staff or line management function of the unit under audit; - **Criteria met**

- ✓ OIPA does not currently appear on PPS' Organizational Chart – demonstrating OIPA is located organizationally outside the staff or line of management function of the unit under audit
- ✓ Should OIPA be added to the PPS' Organizational Chart, the previous slide demonstrates how OIPA could appear and the difference between functional and administrative reporting.

d. Has access to those charged with governance; - **Criteria met**

- ✓ OIPA's Sr. Internal Performance Auditor maintains direct communications with the PPS' Board and Audit Committee members
- ✓ See additional details in the Communication Protocol memo

e. Is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal. - **Criteria met**

The following safeguards[1] are in place to remove any pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal:

OIPA's Senior Internal Performance Auditor:

- Reports functionally to the Board and Audit Committee
- Is annually evaluated by the Board using the school district's evaluation instrument
  - Annual evaluations of OIPA's team is conducted by the Sr. Internal Performance Auditor
  - Board policy 1.60.040-P states: Within budget limitations and consistent with District policies and procedures, the Auditor shall have the authority to employ and remove other employees of the Office of Performance Audit or contractors as deemed necessary for the efficient and effective administration of the duties of the Office.
- May only be removed by the Board
  - This extends to the full OIPA team
  - Board Policy 1.60.404-P states: PPS shall maintain an Office of Performance Auditor. The office shall be staffed by a Board-approved District Performance Auditor (Auditor), who shall be hired, evaluated, and may be removed by the Board, and such other employees or contractors as the Board provides budgetary funding.

[1]*Safeguards are defined in GAGAS/Yellow Book: Safeguards are actions or other measures, individually or in combination, that auditors and audit organization take that effectively eliminate threats to independence or reduce them to an acceptable level. Safeguards vary depending on the facts and circumstances.*

OIPA's Senior Internal Performance Auditor: *(continued from previous slide)*

- Proposes the annual budget for OIPA to the Audit Committee
  - Once approved by the Audit Committee, the committee recommends OIPA's budget to the full Board for inclusion with the Board's budget.
  - In the event the Board does not accept the Audit Committee's recommended budget for OIPA:
    - The Chair of the Board and Chair of the Audit Committee should engage in direct negotiations with the Senior Internal Performance Auditor.
    - Any changes to the Audit Committee's recommended budget should be approved by the Audit Committee and the Audit Committee should recommend the updated budget to the full Board for inclusion within the Board's budget.

Concluding points on independence:

- Changes to the organizational structure of OIPA should be carefully considered as additional or alternative safeguards may be necessary to maintain OIPA's independence.
- There are opportunities to strengthen the independence of OIPA
  - Example: Increasing the number of Community members of the Audit Committee and allowing them to be voting members of the Audit Committee.
- Professional skepticism is a required element of independence

Professional Skepticism

Professional skepticism is a required element of independence

GAGAS/Yellow Book states:

- 3.110 … Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as evidence. Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty…
- 3.21 Independence comprises the following:
  a. Independence of mind: The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
  b. b. Independence in appearance: The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.

See additional details on professional skepticism in the “Why Professional Skepticism Is Too Important to Leave to Internal Audit Alone” article.

What is Internal Performance Auditing?

Internal Audit:
An independent, objective assurance and advisory service 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 governance, risk management, and control processes.

Performance Audit:
Provides 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 actions, and contributing to public accountability.

Policy and Charter

Policy: PPS Board Policy 1.60.040-P: District Performance Auditing - last updated in Jan. 2024
Charter: PPS Internal Performance Audit Charter - approved by PPS Board on 10/15/2019

The policy and charter describe the Office of Internal Performance Audit:

- Purpose and Mission
- Audit Standards
- Authority and Access to Employees Records and Property
- Independence & Objectivity
- Responsibilities
- Scope

Purpose and Mission

State and local governments can enhance credibility with taxpayers by implementing performance audits to support accountability and guarantee that tax dollars are spent as effectively as possible.

The purpose of internal performance audit function is to help improve the accountability and performance of PPS through independent auditing and reporting.

The goal of these audits is to improve program effectiveness; improve equity of service delivery; provide useful, objective, and timely information; strengthen administrative and management systems and controls; facilitate decision-making by parties with responsibility for overseeing or initiating corrective action; and improve student achievement District-wide.

The objectives of performance audits vary, but generally address whether PPS is operating economically and efficiently, and/or whether it is achieving desired results.

Ethics and Professionalism

Principles of Ethics and Professionalism:

- Demonstrate Integrity
- Maintain Objectivity
- Demonstrate Competency
- Exercise Due Professional Care
- Maintain Confidentiality

Governing the Internal Audit Function

Required Communications: The auditor **must** discuss governing the internal audit function with the Board and Senior Management. The discussion should focus on:

- The Purpose of Internal Auditing
- Essential Conditions - Nine categories
- The potential impact on the effectiveness of the internal audit function if the Board or Senior Management does not provide the support outlined in the essential conditions

Essential Conditions Categories

1. Internal Audit Mandate
2. Internal Audit Charter
3. Board and Senior Management Support
4. Organizational Independence
5. Chief Audit Executive Qualifications
6. Board Interaction
7. Resources
8. Quality
9. External Quality Assessment

See details of each essential condition in the Essential Conditions document.

Benchmarking Data

September 2025 - The Council of Great City School issued a white paper titled Internal Auditing in the Great City Schools.

- The white paper is intended to describe leading practices in internal auditing and demonstrate the value of internal audit function brings to a school district.
- The white paper includes benchmarking data from 31 school districts (including PPS) as January 2025.
- PPS' Sr. Internal Performance Auditor was on the team of internal auditors from school district members of the CGCS who updated the white paper in September 2025.

Questions?

TKW

Your peace of mind is our passion.

September 30, 2026

Audit Committee
Portland Public Schools
501 N. Dixon Street
Portland, Oregon 97227

Attention: Patte Sullivan, Audit Committee Chair

We are writing this letter in connection with our audit of the financial statements of Portland Public Schools (the District) as of and for year the ended June 30, 2026.

We are required by our professional standards to have certain communications with you to promote effective two-way communication between us, in our role as independent auditors, and yourselves, in your role as those charged with governance of the District. In this letter, we will:

- Address our responsibilities as independent auditors and provide an overview of the planned scope and timing of the audit.
- Request that you provide any additional information you may have that could be relevant to our audit.

Responsibilities

The respective responsibilities of ourselves and of management in relation to the audit of the financial statements are set out in our engagement letter dated April 27, 2026.

Our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States. We are responsible for performing the audit in accordance with generally accepted auditing standards (GAAS) and *Government Auditing Standards.* The matters that GAAS and *Government Auditing Standards* require to be communicated, therefore, include significant matters arising during the audit of the financial statements that are relevant to you in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate with you.

As part of our audit, we will consider the internal control of the District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

In accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the District's compliance with those provisions.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Independence

We have determined that it is appropriate to communicate to you any circumstances or relationships that, in our professional judgement, may reasonably be thought to bear on independence. We are not aware of any circumstances or relationships that would impair our independence.

Planned Scope and Timing of Our Audit

In developing our audit plan, we will work with management to understand the nature of the district and to identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error. Our audit plan has been designed to focus on those identified areas of risk.

The concept of materiality recognizes that some matters, both quantitative and qualitative, are important for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, either individually or in the aggregate, whether caused by errors or fraud, are detected.

Our audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over reporting.

The proposed timing of our audit (as discussed with management) is as follows:

Action	**Planned Date**
Start of preliminary fieldwork	May 4, 2026
Start of audit fieldwork	October 5, 2026

We communicate significant risks of material misstatement and areas of higher assessed risk of material misstatement that we identify to help you understand those matters and why they were determined to be significant risks. This communication may assist you in fulfilling your responsibility to oversee the financial reporting process. In planning our audit, we have preliminarily identified the following areas and plan to address them as follows:

Area	**Type**	**Why Significant and Plans on how to address**
Management Override of Controls	Significant Risk	Management could override controls in order to commit fraudulent financial reporting, misappropriate assets, and/or manipulate earnings. TKW will perform procedures over journal entries
Fraudulent Revenue Recognition	Significant Risk	Management could override controls in order to commit fraudulent financial reporting, misappropriate assets, and/or manipulate earnings. TKW will perform procedures over significant revenue balances.

If there are significant changes within the applicable financial reporting framework or in the District's environment, financial condition, or activities, we will modify our planned approach to address these implications. If there are other specific areas that warrant our particular attention during the audit or where you would like us to undertake additional procedures, please let us know.

We anticipate using specialized skills or knowledge to perform the planned audit procedures or to evaluate the audit results for the following areas:

- Valuation of liabilities and related balances associated with employee benefit and other post-employment benefit plans.

Communications

We did not discuss any significant issues with management in connection with our retention as auditors regarding the application of accounting principles and auditing standards.

Please communicate to us your views on the following matters, as appropriate:

- The allocation of responsibilities between those charged with governance and management.
- The District's objectives and strategies and the related business risks that may result in material misstatements.
- The important performance measures and how management measures and reviews the District's financial performance.
- The District's internal control and its importance, including how you oversee its effectiveness.
- The detection or the possibility of fraud at the District.
- Significant communications between the District and regulators.
- The District's response to developments in law, accounting standards, corporate governance practices, and other related matters; and the effect of such developments on the overall presentation, structure, and content of the financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements;
  - Whether all required information has been included in the financial statements and whether such information has been appropriately classified, aggregated or disaggregated, and presented.
- Your actions in response to previous communications with us.
- Other matters you believe are relevant to the audit of the financial statements.

The persons with which we plan to communicate with, as those charged with governance, have been identified as the Audit Committee.

Internal Control Over Financial Reporting

In planning and performing our audit, we are considering the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Guide, we will examine, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the Guide applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the District's compliance with those provisions.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction of Use

This letter is intended solely for the information and use of those charged with governance of Portland Public Schools and, if appropriate, management and is not intended to be, and should not be, used by anyone other than these specified parties.

Talbot, Korvola & Warwick, LLP