



## **Internal Controls Report: Recommendations to Strengthen and Improve Internal Controls and Processes Involving Game Official Services**

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**Audit Plan Code: 19-00.02**

This report provides recommendations to address the causes of the findings identified in the "Investigation Report: Allegation Officiating Services Paid Were Not Rendered."

Recommendations are also provided to strengthen and improve the District's internal controls and processes involving the managing, payment, and recording of game official services.



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## Abbreviations

AD	Athletics Director
CAP	Corrective Action Plan
CGR	Coaches' Game Report
IC	Internal Controls
IR	Investigation Report
TASO	Texas Association of Sports Officials
TEAMS	Total Education Administrative Management Solution
UIL	University Interscholastic League



# Internal Controls Report

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## Background

The Athletics Department received an anonymous phone call from a sports official who alleged their [sport redacted] local sports association (hereinafter referred to as the "association") billed the District for officiating services not rendered during the 2017-2018 school year.

As a result, Internal Audit performed an investigation and issued a report in August 2018 titled, "Investigation Report: Allegation Officiating Services Paid Were Not Rendered" (hereinafter referred to as the "investigation report" or "IR"). In summary, we (i) substantiated the allegation, (ii) determined there was an inflated billing scheme, and (iii) determined the District was potentially overbilled by the association for scrimmages for the same year. For context, the Board approved an estimated annual amount not to exceed \$665,000 for the use of UIL approved sports organizations for the 2017-2018 fiscal year. The District has paid \$87,015 to the [sport redacted] sports association for officiating services as of April 18, 2018. Refer to the investigation report for additional background information.

This project was approved by the Board of Trustees as part of the 2018-2019 Internal Audit Plan under the "Contingency" category.

## Objective and Scope

The objective of this report is to communicate the causes of the findings identified in the "Allegation Officiating Services Paid Were Not Rendered" investigation report and to make recommendations to strengthen and improve the District's internal controls and processes involving the managing, payment, and recording of game official services.

The recommendations in this report are based on how the processes existed and proposed plans/controls as of August 3, 2018.

## Methodology

To achieve our objective, we performed the following:

- Reviewed the investigation report and related workpapers,
- Analyzed the causes that led to the findings in the investigation report,
- Met with the District's Athletics Director to discuss possible corrective actions,
- Met with Athletics staff, Financial Services (Executive Director and Accounting Coordinator), and Treasury (Treasurer) to understand their role in the game official payment process, and
- Contacted ArbiterSports (vendor that manages the third-party software used to assign game officials to District games) to understand their processes/controls in place and possible future software enhancements.

## Inherent Limitations

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent.

Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that procedures and internal controls are followed and adhered to in accordance with the federal, state, local policies, and guidelines.

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## Acknowledgement

We would like to acknowledge and thank the District's Athletic Department staff for their cooperation and assistance during the completion of this report.

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## Conclusion

Based on our investigation and professional judgement, we identified the causes of the findings in the investigation report. In addition, we identified internal control deficiencies indirectly related to the objective of the original investigation. In summary, the deficiencies identified are across multiple departments and include:

1. Lack of enforcement in completing key [sport redacted] coaches' game reports (CGR) and not requiring them for middle school games.
2. No monitoring of transaction fees paid to keep within vendor agreement limits.
3. The absence of a payment resolution protocol with the association.
4. [Sport redacted] scrimmage games are not scheduled to maximize fees paid per 3-hour block.
5. Data discrepancies in the vendor software used by Athletics to pay officials.
6. Absence of a right-to-audit clause on contract/agreement with Arbiter.
7. No review of a journal entry used to post officiating expenses to general ledger.

To address the causes and deficiencies identified, we provided recommendations to (i) strengthen and improve the District's internal controls and processes for the managing, payment, and recording of game official services, (ii) prevent and/or detect a similar inflated billing scheme in the future, and (iii) maximize the use and protect public funds. These recommendations are not all inclusive, but provide the foundation for which management can build upon as they are the experts in their particular fields.

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## Investigation Report (IR) Findings and Causes

To provide the reader background information, we summarized the findings (Findings 1 and 2 and Ancillary Finding 4) from the investigation report along with causes of each finding that pertain to District processes. Readers should refer to the investigation report for detailed findings.

### Summary of IR Findings 1 and 2

A local sports association assigner perpetrated an inflated billing scheme against the District by creating and altering electronic records after games were played (hereinafter referred to as “after-the-fact”). Note: An association assigner is responsible for assigning the required number of officials per game based on game schedules.

The assigner in question added two officials after-the-fact to four game assignments for which they did not render officiating services.

### Cause 1

The Athletics Department does not have a comprehensive review process for the electronic officiating invoices submitted by the association. We noted:

- (i) Game officials are not required by Athletics to verify their attendance for each game they officiate with their signatures, and
- (ii) Coaches are not part of the game officials’ payment verification process (i.e. verifying officials rendered services).

### Cause 2

The assigner had access in Arbiter without proper segregation of duties, which allowed him/her to (i) make after-the-fact assignments without the proper oversight and (ii) manipulate Arbiter’s game reports submitted by game officials without the head game official, who worked the game, reviewing the changes or the justifications for the changes. S/he concealed his/her activity (regarding game reports) by taking advantage that Arbiter does not properly reflect on the screen who modifies the game report after it has been submitted for approval by the head game official. Arbiter’s billing process relies on Arbiter’s game report being complete and accurate to generate an electronic invoice.

### Summary of IR Ancillary Finding 4

The District was potentially overbilled between \$810 to \$2,610 for scrimmages by the association based on UIL... and the interpretation of the fee schedule for scrimmages by the UIL Sports Officials Department.

### Cause

The invoice received from the association for scrimmages during school year 2017-2018 did not contain enough details to substantiate which or how many games were scheduled in a 3-hour block. Also, additional costs were lumped in as travel fees.



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## Internal Controls (IC) Findings

IC Finding 1	Middle school [sport redacted] coaches are not required to complete coaches' game reports (CGR). Currently, only high school coaches are required to complete [sport redacted] CGRs. However, this requirement for high school coaches is not fully enforced by Athletics; as part of our investigation, we asked for CGRs for the scope period, but not all were found/provided. Coaches' game reports provide key game data used by them and the Athletics Department to keep track of game statistics (e.g. players' roster, final score, game location, card violations, etc.).
IC Finding 2	Athletics does not monitor the total transaction fee limit agreed upon and stated on Arbiter's vendor agreement. We noted Athletics had paid \$13,034 as of April 24, 2018 (via electronic transfers) of the \$12,000 limit stated on the agreement ending June 30, 2018. We obtained this information using Arbiter's own payment data file(s).
IC Finding 3	We noted the association directed individual officials to the AD/Athletics Department when their officials perceived they had not been paid. This practice is inefficient and redirects Athletics' resources to manage issues the association, in collaboration with Arbiter, can handle.
IC Finding 4	[Sport redacted] scrimmage games are not scheduled in a way that maximizes the \$75 fee the District pays per 3-hour block (consistent with UIL scrimmage fee guidelines).
IC Finding 5	We noted data discrepancies in Arbiter's payment module between the unpaid and paid transactions. These discrepancies give the appearance certain paid transactions have not been paid, which could lead to unnecessary actions and confusion between the AD and the association. Also, we noted there were data synchronization issues between Arbiter platforms.
IC Finding 6	The District's vendor agreement with Arbiter does not include a right-to-audit clause. A right-to-audit clause would allow the District to audit vendor information/records to test internal controls or prove compliance with contract terms.
IC Finding 7	Athletics did not properly prepare and Financial Services did not review the journal entry for officiating expenses in the amount of \$498,968.98 for the period of July 1, 2017 to March 31, 2018. If the journal entry would have been reviewed, a \$3,475 difference would have been noted between the two sources of backup documentation attached. Financial Services agreed with our finding and subsequently performed an analysis to determine if there were any differences in officiating expenses posted to the general ledger via journal entries for year-end 2017-2018. Although there were no differences noted in the aggregate, not reviewing even one journal entry elevates the risk of override of controls and fraud due to the significant risk journal entries inherently represent.

Management Response: "The Arbiter application was a new initiative during FY 2017-2018 by the Athletic Department to compensate referees in an automated and timely manner. The Financial Services Department was provided an overview of this initiative, but had limited information and no access to the application. The goal was to record the activity (issued payments to referees) on a monthly basis; however, it was not feasible to obtain financial reports from the athletic office due to the normal challenges that come with an implementation such as, unfamiliarity with the application. The journal entry in question was used to record the activity from August 2017 to March 2018. The supporting documentation utilized included a summary of the funds transferred which was generated by the Treasury Office and an Arbiter report. There was an immaterial variance detected due to a timing difference between the date of the transaction and posting to the bank. As an added control to the process, the Financial Services Department conducted a year-end reconciliation during the month of June of the Arbiter payments issued versus the cash transfers and posting to the general ledger for the entire fiscal year to ensure there were no discrepancies and timing differences identified during the year were cleared. The Financial Services Department will continue to collaborate with the Athletics Office to strengthen internal controls and record activity in the general ledger on a monthly basis."

## Recommendations and Management's Response

The purpose of our recommendations is to provide management with opportunities to (i) improve the processes around, but not limited to, the managing, payment, and recording of game official services, (ii) maximize the use of District resources, and (iii) protect public funds. If recommendations are properly implemented by management, these can help prevent and/or detect a similar inflated billing scheme in the future, while also maximizing the use and protecting public funds. Our recommendations take into account a planned web-based voucher system (using Arbiter software), which will require game officials to physically sign their names on a printed pre-filled voucher. The signed vouchers will be used by coaches to electronically verify which officials were present at the games. According to the Athletics Director, the roll-out is planned for school year 2018-2019.

A Corrective Action Plan (CAP) outlining the activities to be implemented and signed by District management and leadership was submitted to Internal Audit. All 10 recommendations made by Internal Audit were incorporated into the CAP. The CAP appears to be sufficient to address the findings outlined in this report.

1

- 1.1 We recommend the Athletics Director (hereinafter referred to as "AD") establish an effective, timely, and consistent process to review officiating invoices submitted by sports associations that includes verifying services were provided before and after they are processed for payment. The AD should outline this process in the Athletics Department's operating procedures manual. Furthermore, review results should be kept according to the District's retention schedule and be available for review purposes.
- 1.2 We recommend before payment is made (preventive control), Athletics should:
  - 1.2.1 Collaborate with Arbiter to implement a workflow process which includes the use of a voucher system, which will require officials to physically sign their names for each game they officiate. If designed properly, this control will identify and document which official rendered the officiating service for each game. It also would minimize the risk the District pays for fraudulent after-the-fact game assignments.

## 2

- 1.2.2 Require an appropriate coach (preferably the head coach) from the home team verify all the game official(s) who officiated at the game using the signed vouchers. Coaches are in the best position to verify services as they are present and receiving the officiating services at the site. The signed vouchers should be attached to the coaches' game report (CGR) and retained according to the District's retention schedule and be available for review purposes.
- 1.3 We recommend after payment is made (detective control), Athletics should:
  - 1.3.1 Determine the completeness and accuracy of the coaches' verification of officiating services on a periodic basis by (i) reviewing a suitable sample of invoices and agreeing them to the signed vouchers and (ii) reviewing a suitable sample of signed vouchers and agreeing them to invoices. Discrepancies should be reported to the AD in a timely basis to determine if they are legitimate officiating services that should have been paid.
- 1.4 The review process should also include a periodic review of unpaid invoices as officiating services rendered should be paid on a timely basis.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities one (1) to five (5).

**Person Responsible:** Athletics Director

**Implementation Dates:** October 26, 2018 and January 7, 2019

We recommend the AD collaborates with Arbiter to ensure:

- 2.1 The proper oversight controls are placed in Arbiter to require the head official to verify after-the-fact changes to assignments.
- 2.2 Assigners can't modify an official's Arbiter game report (including notes) without the head game official's approval before they are accepted as complete.
- 2.3 The system records and time stamps all activities from game assignment to invoice within the application. This history should be available in a user-friendly format to facilitate review if necessary.
- 2.4 The assigner's access role be limited according to their assigner duties and remove any approval privileges to submit electronic invoices for payment.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities six (6) to nine (9).

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

## 3

- 3.1 We recommend the AD requires the association to provide a detailed invoice when billing officiating services for scrimmage games in a 3-hour block (consistent with UIL scrimmage fee guidelines). This requirement should facilitate the Athletics Department's review of scrimmage games and make it more efficient and thorough before payments are processed.
- 3.2 This requirement shall be included in the District's contract/agreement with the association.



**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 10 and 11.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

4

- 4.1 We recommend all coaches (middle and high schools) be required to complete CGR for each of their regular [sport redacted] games.
- 4.2 Completed CGRs should be kept by the “home” team head coach in accordance with the District’s records retention schedule and for future review purposes.
- 4.3 These requirements shall be outlined in all appropriate Athletics’ handbooks and/or manuals and properly communicated to the coaches.
- 4.4 We also recommend the AD reviews the CGR form to determine if updates are needed as a result of new processes.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 12 to 15.

**Person Responsible:** Athletics Director

**Implementation Dates:** November 1, 2018 and January 7, 2019

5

- 5.1 The AD should collaborate with Arbiter to establish a method to track transaction fees to include near-limit alerts if possible. The AD should regularly monitor the transaction fee limit stated in the vendor agreement and act accordingly with all parties (external and internal). This may include updating/amending the vendor agreement as necessary.
- 5.2 The AD should also consult with the District’s Procurement Department and General Counsel to determine the appropriate course of action for the payments made above the agreed amount.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 16 and 17.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

6

6. We recommend the AD/Athletics Department direct the association to Arbiter when questions and/or concerns arise regarding payment or non-payment by the District. This directive shall be included in the District’s contract/agreement with the association to ensure compliance from both parties. According to the Arbiter vendor agreement, they “will act as an administrator to invoice, collect funds, and distribute funds to... members for officiating services.”

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity 18.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

## 7

- 7.1 We recommend the AD in collaboration with the association analyze and identify (at the beginning of the season and on a yearly basis) the most safe and systematic way to schedule as many scrimmage games as possible within a \$75 per 3-hour block. The goal is to maximize the use of public funds on an on-going and consistent basis.
- 7.2 This practice and related procedures should be outlined in the Athletics Department's operating procedures manual.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 19 and 20.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

## 8

8. We recommend the AD request Arbiter make the necessary changes to its software to increase data reliability of the District's data stored in their application. The change request is to reflect and synchronize the same payment information in Arbiter in all payment modules, platforms, screens, views, or reports in real-time or at least on a daily basis.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity 21.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

## 9

9. The AD should consult with General Counsel and Procurement Department to include a right-to-audit clause in the vendor agreement with Arbiter.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity 22.

**Person Responsible:** Athletics Director

**Implementation Date:** January 7, 2019

## 10

- 10.1 To facilitate the journal entry review by Financial Services, Athletics should properly prepare journal entries supported by the most reliable detail data available to justify the amount being posted.
- 10.2 Journal entries should be prepared by Athletics and posted by Financial Services on a monthly basis to properly reflect the expenses in the month they were incurred.
- 10.3 As part of Financial Services journal entry review process, differences in the journal entry documentation should be followed-up and resolved before posting to Total Education Administrative Management Solution (TEAMS).

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activities 23 to 25.

**Persons Responsible:** Executive Director, Financial Services and Athletics Director

**Implementation Date:** January 7, 2019



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