



Corrective Action Plan Follow-up Review: Recommendations to Strengthen and Improve Internal Controls and Processes Involving Game Official Services

ASSURANCE • INSIGHT • OBJECTIVITY

Final Follow-up Report

Audit Plan Code: 21-00.02

Twenty-two of the 25 corrective action plan (CAP) activities were implemented by management to address the findings and recommendations in the original audit report.

Management accepted the risk of not implementing three activities. This report represents the close-out of the CAP.



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Abbreviations

AD	Athletics Director
CAP	Corrective Action Plan
CGR	Coaches' Game Report
IR	Investigation Report
TEAMS	Total Education Administrative Management Solution
UIL	University Interscholastic League



Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, Performance Standard 2500 - Monitoring Progress, requires we "...establish and maintain a system to monitor the disposition of results communicated to management." Internal Audit has established the Corrective Action Plan (CAP) process to meet this requirement. The process includes monitoring and reporting whether management has implemented corrective actions to address audit findings, observations, and recommendations.

Internal Audit issued the *Internal Controls Report: Recommendations to Strengthen and Improve Internal Controls and Processes Involving Game Official Services* (original internal controls report) to District management and leadership on September 26, 2018. We completed the original internal controls report as part of the Board approved 2018-2019 Internal Audit Plan under the "Contingency" category. The objective was 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.

Our original internal controls report provided recommendations to address the causes of the findings identified in the "Investigation Report: Allegation Officiating Services Paid Were Not Rendered." Recommendations were also provided to strengthen and improve the District's internal controls and processes involving the managing, payment, and recording of game official services.

For your reference, we provided a summary of the original internal controls report results as **Exhibit A**. District management and administration agreed with our recommendations and developed a CAP with 25 activities to address the original internal controls report.

Objective and Scope

The objective and scope of this follow-up review was to determine whether management implemented the 25 CAP activities or took other actions to address the findings, causes, and ten (10) recommendations outlined in the original internal controls report.

Methodology

To achieve our follow-up review objective, we:

- Held meetings and communicated with persons responsible for carrying out the CAP activities.
- Reviewed supporting documentation maintained by management as evidence of completion of the CAP activities provided to Internal Audit.

Inherent Limitations

This was a limited scope follow-up review covering only the actions taken by administration to address the original audit findings and recommendations stated in the Objective and Scope section of this report. No representations of assurance are made to other areas or periods not covered by this follow-up review.

Summary of Results

CAP Activities	Implemented	Not Implemented	Overall CAP Status
25	22	3	Closed

Our final follow-up review found that management implemented 22 of the 25 activities in the Corrective Action Plan (CAP). The three activities not implemented relied on the vendor to improve their payment processing system for officiating services for the District. According to the process owner, s/he determined the District can continue using the vendor's services and accept the risk of not implementing the three CAP activities. The decision was documented on Management's Risk Acceptance forms signed by the process owner and approved by the respective Executive Cabinet member. Risk acceptance includes accepting the responsibility for direct and indirect costs that may arise due to incidents related to the identified risks. This report represents the close-out of this CAP.

Original Recommendations and Status of CAP Activities

The recommendations in the original internal controls report, the person(s) responsible, and the status of the CAP activities are outlined below.

Original Recommendation:

- 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 that includes using 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.
 - 1.2.2 Require an appropriate coach (preferably the head coach) from the home team to 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 periodically 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 on 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 the recommendation and incorporated into the CAP as activities one (1) to five (5).

Person Responsible: Athletics Director

Status of Activities: Implemented

Original Recommendation:

We recommend the AD collaborates with Arbiter to ensure:

- 2
- 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 cannot 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 the recommendation and incorporated into the CAP as activities six (6) to nine (9).

Person Responsible: Athletics Director

Status of Activities: Activities 6 and 9 were implemented.
Activities 7 and 8 were not implemented. The process owner assumed the risk and accepted the responsibility for direct and indirect costs that may be incurred due to incidents related to the identified risks.

Original Recommendation:

- 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 the recommendation and incorporated into the CAP as activities 10 and 11.

Person Responsible: Athletics Director

Status of Activities: Implemented

4

Original Recommendation:

- 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 adequately communicated to the coaches.
- 4.4 We also recommend the AD reviews the CGR form to determine if updates are needed due to new processes.

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

Person Responsible: Athletics Director

Status of Activities: Implemented

5

Original Recommendation:

- 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 monitoring 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 the recommendation and incorporated into the CAP as activities 16 and 17.

Person Responsible: Athletics Director

Status of Activities: Implemented

6

Original Recommendation:

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 the recommendation and incorporated into the CAP as activity 18.

Person Responsible: Athletics Director

Status of Activity: Implemented

7

Original Recommendation:

- 7.1 We recommend the AD, in collaboration with the association, analyze and identify (at the beginning of the season and yearly) the safest 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 the recommendation and incorporated into the CAP as activities 19 and 20.

Person Responsible: Athletics Director

Status of Activities: Implemented

8

Original Recommendation:

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 daily.

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

Person Responsible: Athletics Director

Status of Activity: Not implemented. The process owner assumed the risk and accepted the responsibility for direct and indirect costs that may be incurred due to incidents related to the identified risks.

9

Original Recommendation:

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 the recommendation and incorporated into the CAP as activity 22.

Person Responsible: Athletics Director

Status of Activity: Implemented

10

Original Recommendation:

- 10.1 To facilitate the journal entry review by Financial Services, Athletics should properly prepare journal entries supported by the most reliable detailed data available to justify the amount being posted.
- 10.2 Journal entries should be prepared by Athletics and posted by Financial Services monthly to properly reflect the expenses in the month they were incurred.

- 10.3 As part of the 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 the recommendation and incorporated into the CAP as activities 23 to 25.

Person Responsible: Athletics Director

Status of Activities: Implemented

Exhibit A – Summary of Results in Original Report

Investigation Report (IR) Findings and Causes

Number	IR Findings and Causes
Findings 1 and 2	<p>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.</p> <p>The assigner in question added two officials after-the-fact to four game assignments for which they did not render officiating services.</p> <p>Cause 1: The Athletics Department does not have a comprehensive review process for the electronic officiating invoices submitted by the association. We noted:</p> <ul style="list-style-type: none"> (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). <p>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 appropriate 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 correctly 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.</p>
Ancillary Finding 4	<p>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.</p> <p>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.</p>

Internal Control Findings

Number	Internal Control Finding
1	<p>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.).</p>
2	<p>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).</p>

Number	Internal Control 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.
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).
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.
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.
7	<p>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 had 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 overriding controls and fraud due to the significant risk journal entries inherently represent.</p> <p>Management Response: <i>"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."</i></p>



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