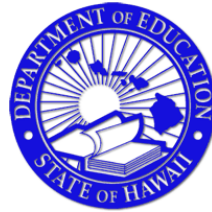

State of Hawaii
Department of Education

INTERNAL AUDIT PLAN
QUARTERLY UPDATE THROUGH DECEMBER 31, 2012



FOR AUDIT COMMITTEE MEETING
February 5, 2013

This report is prepared solely for the internal use of the Audit Committee and management of the State of Hawaii, Department of Education.



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Executive Summary

Assurance Projects:

Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review

- Review completed. Report issued November 2012.
 - Overall review rating was unacceptable. There were five (5) observations, three (3) with high risk rating and two (2) with moderate risk rating.
 - Please refer to the 'Management Action Item Dashboard Detail' on page 8 for further details.

School Food Services Review

- Review completed. Report to be issued in January 2013.
- The objectives of this review are to:
 - To review, evaluate, and test the design and operating effectiveness of the DOE's purchasing process at the school cafeterias.
 - Ensure that there is adequate oversight of purchases
 - Ensure that there is accountability of purchases
 - Ensure purchases are reasonable and proper
 - To evaluate the cafeteria's compliance with internal disbursement policies and procedures, and Federal and State laws, rules and regulations, where applicable.



Executive Summary (continued)

School Food Services Review (continued)

- To review, evaluate, and test the design and operating effectiveness of the DOE's collection process of school meal payments at the school offices.
 - Ensure that there is accountability of collections
 - Ensure that collections are properly recorded in the POS system
 - Ensure that collections are deposited timely into the School Lunch Collection Account
- To evaluate the school's compliance with internal collection policies and procedures when receiving school food payments.
- To review, evaluate, and test the design and operating effectiveness of the DOE's cafeteria staffing formula.
 - Ensure staffing recommendations are implemented
 - Ensure data used to determine staffing is representative
- Provide recommendations to enhance the efficiency and effectiveness of school food service processes.

Data Integrity Review – Student Enrollment

- Currently in the planning stage of review.
- The primary objectives of this review are to determine if there are adequate information management controls in place to ensure data is accurate, complete, and consistent.



Executive Summary (continued)

Consulting, Investigation and Other Projects:

Ethics and Code of Conduct

- Internal Audit (IA) is monitoring the development of an Ethics and Code of Conduct initiative by the Department's Office of Human Resources (OHR).

Confidential Reporting Mechanism

- A contract has been executed with The Network for the fraud and ethics hotline. Roll out of the fraud and ethics hotline is anticipated in the first half of calendar year 2013.

Community School For Adults Review

- IA performed agreed upon procedures for six Community School for Adults. IA issued the *Community School for Adults Consolidated Review Report* for the school year ending June 30, 2012. In addition, the two new administrative centers received detailed reports for each of the six Community School for Adults reviewed.

Investigations

- IA was involved in several investigations during the fourth quarter.

Baseline Monitoring Projects and Other Matters Impacting the Internal Audit Office during the Fourth Quarter

- IA performed Special Project – Cancelled Check and Deposit Validating Reviews. IA issued the *Consolidated Non-Appropriated Local School Fund Cancelled Checks and Deposits Review Report* for the period January 1, 2012 – June 30, 2012. In addition, each of the 15 complex areas received a detailed report for their respective complex area.

Risk Assessment Re-Evaluation and Audit Plan for 2013 (Update)

- IA re-evaluated the Risk Assessment and Audit Plan and is scheduled to present the updates to the Audit Committee.



Audit Plan Results Summary: January 1, 2012 through December 31, 2012

| DESCRIPTION | 2012 | | | | | | | | | | | | Hours | | | | |
|---|------|-----|-----|-----|-----|------|-----|-----|------|-----|-----|-----|--------|-------------------|--------|-----|----------|
| | Jan | Feb | Mar | Apr | May | June | Jul | Aug | Sept | Oct | Nov | Dec | Budget | Budget as Amended | Actual | ETC | Variance |
| Assurance Projects | | | | | | | | | | | | | | | | | |
| Procurement & Contracting Process Review | | | | | | | | | | | | | 600 | 600 | 798 | - | 198 |
| Casual Hire Recruitment & Hiring Review | | | | | | | | | | | | | 550 | 800 | 477 | - | (323) |
| School Food Services Review | | | | | | | | | | | | | 450 | 450 | 643 | 60 | 253 |
| Data Integrity Review - Student Enrollment | | | | | | | | | | | | | 400 | 400 | 35 | 365 | - |
| School Monitoring Program - Phase I | | | | | | | | | | | | | 700 | - | 66 | - | 66 |
| IA Consulting, Investigations & Other | | | | | | | | | | | | | | | | | |
| Ethics & Code of Conduct - Confidential Reporting Mechanism | | | | | | | | | | | | | 300 | 300 | 212 | | (88) |
| ACL Audit Tool Development | | | | | | | | | | | | | 200 | 200 | 211 | | 11 |
| Internal Control & Operational Efficiency Consultation | | | | | | | | | | | | | 200 | 700 | 796 | | 96 |
| Investigations | | | | | | | | | | | | | 2,500 | 2,500 | 1,307 | | (1,194) |
| Baseline Monitoring Projects | | | | | | | | | | | | | 700 | 700 | 1,693 | | 993 |
| Reporting & Communication | | | | | | | | | | | | | 200 | 200 | 175 | | (25) |
| External, State, Legislative & Consultant Audit/Review Coordination | | | | | | | | | | | | | 300 | 300 | 218 | | (82) |
| Other Administration including budget preparation, meetings and other | | | | | | | | | | | | | 200 | 200 | 695 | | 495 |
| Risk Assessment RE-evaluation & Audit Plan for 2013 (Update) | | | | | | | | | | | | | 250 | 250 | 115 | 135 | - |
| Total Hours | | | | | | | | | | | | | 7,550 | 7,600 | 7,439 | 560 | 399 |

In Process
 Completed - Final Report Issued
 Original Internal Audit Plan Schedule

Key:

Budget - Original Approved Budget

Budget as Amended – Revised Budget after Audit Committee Approval

Actual - Actual Hours Incurred Through December 31, 2012

ETC – Estimated Time to Complete

Variance - [(Actual + ETC) – Budget as Amended] = over / (under) budget as amended



2012 Year-to-Date Observation Analysis

Based on five reports completed over the last three years, we compiled a listing of common observations across two or more reports. Management is currently in the process of addressing these Department wide gaps.

| Reports Issued | Common Observations | | | | | |
|----------------|--|--------------------------------|-------------------------------|-----------------------|-----------------------|--------------------|
| | | Lack of Oversight & Monitoring | Lack of Policies & Procedures | Segregation of Duties | Insufficient Training | Lack of Compliance |
| | Casual Hire Recruitment, Hiring & Payroll Processes Review | X | X | X | X | X |
| | Procurement & Contracting Process Review | X | | | X | X |
| | Leave Data & Timekeeping Process Review | X | X | X | X | |
| | Consolidated Report of Audits of Cancelled P-Card | X | X | | X | X |
| | Master Vendor Table Review | X | X | X | | X |



Management Action Item Dashboard Summary

The following represents the status of IA observations and recommendations from previous issued reports as reported by management:

| Audit | Audit Rating ¹ | COSO Category ² | | | | No. of Findings Ranked "High" Requiring Immediate Management Attention | Completion Status ³ | | | Contact |
|--|---------------------------|----------------------------|-----------------------|------------------------|-------------------|---|--------------------------------|------------------------|-------------|---|
| | | Operational Findings | Financial Findings | Compliance Findings | Total Findings | | Completed | Partially Completed | Outstanding | |
| Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review | Unacceptable | 4 | 0 | 1 | 5 | 3 | 0 | 5 | 0 | Personnel Management Branch Director |
| Procurement & Contracting Process Review | Marginal | 4 | 0 | 3 | 7 | 4 | 2 | 5 | 0 | Procurement Director |
| Leave Data & Timekeeping Process Review | Unacceptable | 5 | 0 | 0 | 5 | 2 | 3 | 2 | 0 | Accounting Director |
| Consolidated Report of Audits of Cancelled P-Cards | Unacceptable | 1 | 0 | 4 | 5 | 1 | 5 | 0 | 0 | Accounting Director |
| Master Vendor Table Review | Unacceptable | 2 | 0 | 3 | 5 | 4 | 5 | 0 | 0 | Accounting Director |
| TOTAL | | 16 | 0 | 11 | 27 | 14 | 15 | 12 | 0 | |



Management Action Item Dashboard Summary (continued)

¹ Audit Rating Definitions:

- Acceptable – No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
- Marginal – Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
- Unacceptable – Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

² COSO Category Definitions:

- Operational Findings – Audit finding relates to the effective and efficient use of the entity's resources.
- Financial Findings – Audit finding relates to the preparation of reliable published financial statements.
- Compliance Findings – Audit finding relates to the entity's compliance with applicable laws and regulations.

³ Completion Status Definitions:

- Completed– Audit finding was resolved as stated by management.
- Partially Completed –Audit finding was partially resolved as stated by management.
- Outstanding – Audit finding has not been resolved.



Management Action Item Dashboard Detail

| REPORT NAME | NUMBER OF RECOMMENDATIONS | NUMBER of "High" RECOMMENDATIONS REQUIRING IMMEDIATE MANAGEMENT ATTENTION | OUTSTANDING | PARTIALLY COMPLETED | COMPLETED |
|---|---------------------------|---|-------------|---------------------|-----------|
| Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review (Issued November 2012) | 5 | 3 | 0 | 5 | 0 |
| Objectives: <ol style="list-style-type: none">1. To review, evaluate and test the design and operating effectiveness of the Department's recruiting and hiring process for casual hire personnel and the casual payroll process based on leading practices.2. To ensure that the Department's Casual Hire Personnel and Casual Payroll policies and procedures have been updated and communicated to the field.3. To ensure that the schools/offices are in compliance with the Department's Casual Hire Personnel and Casual Payroll policies and procedures:<ul style="list-style-type: none">• Necessary paperwork has been collected from the employee• Employee's information is valid and has been inputted correctly in to the Casual Hire Personnel system• Employee has had the proper background check/fingerprinting prior to start date• Employee has met minimum qualifications for position prior to start date, if applicable to position (this would ensure that the proper pay rate/title are correct) | | | | | |



Management Action Item Dashboard Detail (continued)

Objectives (continued):

4. To ensure that schools/offices are in compliance with the Department's Casual Payroll policies and procedures:
 - a. Timesheets were being completed
 - b. Employee's hours and pay rate were correctly stated in the Casual Payroll system
 - c. Employees did not exceed the maximum number of hours worked per week for a casual employee
 - d. Principal or Administrator has thoroughly reviewed the employees and hours entered in to the Casual Payroll system before approving/authorizing payment
5. To provide recommendations to improve and enhance the effectiveness and efficiency of the casual hire personnel recruitment, hiring and payroll processes.



Management Action Item Dashboard Detail (continued)

| REPORT NAME | NUMBER OF RECOMMENDATIONS | NUMBER of "High" RECOMMENDATIONS REQUIRING IMMEDIATE MANAGEMENT ATTENTION | OUTSTANDING | PARTIALLY COMPLETED | COMPLETED |
|---|---------------------------|---|-------------|---------------------|-------------------|
| Procurement & Contracting Process Review (Issued July 2012) | 7 | 4 | 0 | 5 | 2 (1 of 4 "High") |
| Objectives: <ol style="list-style-type: none">1. Understand and evaluate the policies, procedures, practices and controls related to the procurement process.2. Evaluate DOE's compliance with internal purchasing policies and procedures and Federal and State laws, rules and regulations, where applicable.3. Test the design and operating effectiveness of DOE's internal controls over procurement of goods and services:<ol style="list-style-type: none">a. Ensure that purchases and contracts are being processed in a timely manner, andb. Ensure that procurement processes are properly monitored by responsible school/office administrators.4. Provide recommendations to enhance the efficiency and effectiveness of the procurement and contracting process. | | | | | |



Management Action Item Dashboard Detail (continued)

| REPORT NAME | NUMBER OF RECOMMENDATIONS | NUMBER of "High" RECOMMENDATIONS REQUIRING IMMEDIATE MANAGEMENT ATTENTION | OUTSTANDING | PARTIALLY COMPLETED | COMPLETED |
|--|---------------------------|---|-------------|---------------------|-------------------|
| Leave Data & Timekeeping Process Review (Issued March 2010) | 5 | 2 | 0 | 2 | 3 (1 of 2 "High") |
| Objectives: <ol style="list-style-type: none">1. Evaluate the design of the internal controls in place surrounding the leave data and timekeeping processes to ensure that the processes:<ol style="list-style-type: none">a. are efficient,b. comply with applicable codes, policies, regulations and contract requirements,c. adequately maintain the integrity of data, andd. mitigate risks associated with access rights and authority limits.2. Understand and evaluate for clarity, consistency and completeness; the processes and tools in place that help to ensure personnel have the appropriate skills and training (i.e., communication channels, available resources, etc.) to properly administer employee leave and time.3. Review the timekeeping process for selected schools and offices to ensure consistency with prescribed procedures. Also, identify any practices for knowledge sharing purposes which are currently in place that may be beneficial to all departments.4. Test a sample of employees within the selected schools and offices to ensure that data entered into the KRONOS system is accurate, timely and properly supported and approved. | | | | | |



Management Action Item Dashboard Detail (continued)

| REPORT NAME | NUMBER OF RECOMMENDATIONS | NUMBER of "High" RECOMMENDATIONS REQUIRING IMMEDIATE MANAGEMENT ATTENTION | OUTSTANDING | PARTIALLY COMPLETED | COMPLETED |
|--|---------------------------|---|-------------|---------------------|-------------------|
| Consolidated Report of Audits of Cancelled Procurement Cards (P-Cards) (Issued April 2011) | 5 | 1 | 0 | 0 | 5 (1 of 1 "High") |
| Objectives: <ol style="list-style-type: none">1. Ensure that required P-Card documentation was submitted for P-Cards that were cancelled effective June 18, 2010 due to Superintendent's directive as stated in an email dated June 16, 2010.2. Review, evaluate and test the department's compliance with the P-Card procedures, policies and practices issued by the DOE OFS – School Support Section as well as the DOE Procurement and Contracting guidelines.3. Determine whether P-Card holders have an understanding of the DOE P-Card procedures, policies and practices.4. Identify opportunities to improve processes and practices for the DOE P-Card operations and share related recommendations. | | | | | |



Management Action Item Dashboard Detail (continued)

| REPORT NAME | NUMBER OF RECOMMENDATIONS | NUMBER of "High" RECOMMENDATIONS REQUIRING IMMEDIATE MANAGEMENT ATTENTION | OUTSTANDING | PARTIALLY COMPLETED | COMPLETED |
|---|---------------------------|---|-------------|---------------------|-------------------|
| Master Vendor Table Review (Issued December 2011) | 5 | 4 | 0 | 0 | 5 (4 of 4 "High") |
| Objectives: <ol style="list-style-type: none">1. Understand and evaluate the policies, procedures, practices and controls for adding, changing and deleting a vendor from the Master Vendor Table.2. Evaluate whether the current procedures for monitoring the Master Vendor Table are aligned with the Accounts Payable leading practices.3. Review the Master Vendor Table to determine if any duplicate vendors exist.4. Review the Master Vendor Table to determine if any inactive vendors exist.5. Determine whether potential conflicts of interest exist between employees and vendors based on matching addresses. Test a sample of employees and vendors with the same address to ensure that vendors submitted the proper forms and that payment to vendors were legitimate.6. Determine whether the current procedures for monitoring the Master Vendor Table are properly performed by DOE personnel. | | | | | |



Internal Audit Recommendation Status

The following represents the status of IA observations and recommendations from previous reports issued.

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--------------|---|----------------------------------|------|
| Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review, November 2012 | | Personnel Management Branch Director | | |
| 1. Lack of current and accessible casual hire personnel and casual payroll policies and procedures. Management should create new standardized policies, procedures and forms and place them in a centrally located area for schools and offices to access. Policies and procedures should be revisited and updated as necessary. Training should be given to the field. | (2) | December 2012 February 2013 | Partially Completed | |
| 2. Lack of oversight, monitoring and accountability at the school/office level. Management may consider: recentralizing the Casual Hire function and having the schools/offices only perform the Casual payroll function, requiring all casual hire employees to participate in the direct deposit program, creating standardized timesheets that require approval by supervisors. The DOE should also continue consideration of implementing the time clock project. Periodic monitoring/reviewing of the casual hiring and personnel forms by principals and CABMs. | (1) | December 2012 March 2013 | Partially Completed | |
| 3. Lack of oversight, monitoring and accountability of the casual hire process. Management should create deadlines to allow OHR time to verify a casual hire employee before first day of employment. Management should consider automation of background checks. OHR should monitor if casual hires meet their HQ paraprofessional requirements when required. Violation reports and consequences for violations should be used to encourage compliance. | (1) | January 2013 March 2013 | Partially Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| Audit Comment | | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--|--------------|---|----------------------------------|------|
| Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review (continued) | | | Personnel Management Branch Director | | |
| 4. | Insufficient controls in the casual payroll system. The Casual Payroll System should: require additional approvals for historical edits and for entering differentials, be able to combine multiple positions for an employee and block the user from entering hours greater than the maximum weekly allowance, and also be able to enforce maximum weekly hours even if the week falls between two pay periods. Management should enforce a shorter time limit for entering historical edits and consider restricting access controls to limit who can make historical edits or differentials. Violation reports and consequences for violations should be used to encourage compliance. | (2) | December 2012 February 2013 | Partially Completed | |
| 5. | Proper casual hire employee applications and supporting documents are not always submitted or retained. Management should create new standardized policies, procedures and forms and place them in a centrally located area for schools and offices to access. Policies and procedures should be revisited and updated as necessary. Training should be given to the field. Schools, offices and OHR should ensure that Form I-9 is fully completed and is dated within three (3) years from the date hired prior to the start date of a casual hire employee. | (1) | December 2012 February 2013 | Partially Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--------------|-----------------------------|----------------------------------|------|
| Procurement & Contracting Process Review, July 2012 | | | Procurement Director | |
| 1. Lack of oversight, monitoring and accountability at the school/office level. Mandatory training required for all staff handling procurement functions, implementation of a Task Force specifically to assist schools and offices with the procurement function, periodic spot checks should be conducted by someone outside the schools/offices, administrators' review and approval, and implementation of evaluations to include procurement functions were recommended. | (1) | December 2012 | Completed | |
| 2. Lack of oversight, monitoring and accountability of the P-Card Administration Office. Vendor Payment in conjunction with the Office of Human Resources (OHR) to develop a system in which OHR notifies Vendor Payment whenever an employee terminates or transfers on a timely manner. Periodic reviews should be conducted by Vendor Payment to verify active P-Card holders. | (1) | December-2012 April 2013 | Partially Completed | |
| 3. Lack of consequences and enforcement for violations of procurement procedures. Violations reports should be used as a tool to help schools/offices understand the policies and procedures that are in place. Management should consider setting guidelines that will result in the revocation of the cardholder's P-Card. Mandatory training and implementation of evaluations to include procurement functions were also recommended. | (1) | December-2012 March 2013 | Partially Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--------------|--|----------------------------------|------|
| Procurement & Contracting Process Review, July 2012 (continued) | | Procurement Director | | |
| 4. Proper forms and supporting documents are not always submitted. Procurement and Contracts Branch (PCB) may consider transferring the affidavit to the Purchasing Worksheet or combining the Form 10-B with the Purchasing Worksheet. Cardholder Agreements should be signed by the P-Card holder on an annual basis. Mandatory training, implementation of Task Force, periodic spot checks, administrators' review and approval, implementation of evaluations to include procurement functions, and guidelines set ups were also recommended. | (1) | December 2012 March 2013 | Partially Completed | |
| 5. Incorrect procurement method identified at the school/office level. Mandatory training, implementation of Task Force, periodic spot checks, administrators' review and approval, and implementation of evaluations to include procurement functions were recommended. | (2) | December 2012 | Completed | |
| 6. Procurement procedures are not always followed at the school/office level. Cardholder Agreements should be signed by the P-Card holder on an annual basis. Mandatory training, implementation of Task Force, periodic spot checks, administrators' review and approval, implementation of evaluations to include procurement functions, and guidelines set ups were also recommended. | (2) | December 2012 March 2013 | Partially Completed | |
| 7. Procedures requiring the completion of forms serving similar purposes between offices/branches result in duplicated efforts. PCB should train schools/offices on the proper use of completing Form 10-B and Purchasing Worksheet and clarify that travel forms or computer request forms may not be substituted. Alternatively, PCB may consider allowing schools/offices to submit travel forms and computer request forms in place of the Form 10-B and Purchasing Worksheet. | (3) | June 2013 | Partially Completed | |

Completed

Partially Completed

Outstanding



Internal Audit Recommendation Status (continued)

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|---|--------------|---|----------------------------------|------|
| Leave Data & Timekeeping Process Review, March 2010 | | | Accounting Director | |
| 1. Lack of current, accessible leave and administrative policies. Align leave policies and procedures with the Bargaining Unit (BU) agreements, summarize with the different leave accounting rules and describe employee responsibilities. Ensure these policies and procedures are accessible to employees and updates are notified to all employees. | (1) | Policies pending union "consult & confer" | Partially Completed | |
| 2. Lack of useful tools and processes to ensure success. Office of Fiscal Services (OFS) in conjunction with the Office of Human Resources (OHR) develop a checklist for timekeepers that summarized the necessary tasks to be completed at each pay period. | (2) | June 2012 | Completed | |
| 3. Need for mandatory and effective Timekeeper training. Develop training for timekeepers that include but not limited to technical issues, clearly articulated roles, responsibilities, accountability and reviews of complex processes. Training should be designed by representatives from OHR, Payroll, Office of Information Technology Services (OITS) and Leave Accounting to ensure methodologies are aligned. | (2) | June 2011 | Completed | |
| 4. Need for an appropriate tone at the top and greater employee accountability. Develop policies related to leave requests, overtime and compensatory time off, and alternative work schedules. These items should be included in the training for all leaders and timekeepers. | (1) | Policies pending union "consult & confer" | Completed | |
| 5. Timekeeping system (T&A) not meeting certain business objectives. Develop proper controls to prevent issues related to a lack of system controls and improper segregation of duties. | (2) | New ERP System: 2014 | Partially Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--------------|----------------------------|----------------------------------|------|
| Consolidated Report of Audits of Cancelled P-Cards, April 2011 | | Accounting Director | | |
| 1. Monthly P-Card Program Procedures are not always performed properly. Complete Standard Procedure to include monthly procedures for P-Card holders and monitoring responsibilities by Vendor Payment. Require P-Card holders to review procedures and sign the Cardholder Agreement annually. Enforce stricter rules for non-compliance, provide continuous training and continue periodic P-Card audits performed by IA. | (1) | December 2011 | Completed | |
| 2. Original invoices/receipts are not always submitted. Require P-Card holders to review procedures and sign the Cardholder Agreement annually. Develop guidelines on the number and nature of violations that will result in the revocation of the P-Card. Continue periodic P-Card audits performed by IA. | (2) | December 2011 | Completed | |
| 3. Purchases are made in excess of spending limits. Develop procedures that address when and how P-Card limits can be lifted, including how requests and approvals to exceed limits should be documented and retained. Develop rules regarding parceling, include in the procedures for the Cardholder Agreement and ensure Vendor Payment is mindful of potential parceling activities. | (2) | December 2011 | Completed | |
| 4. Restricted Purchases are made. Require P-Card holders to review procedures and sign the Cardholder Agreement annually. Develop guidelines on the number and nature of violations that will result in the revocation of the P-Card. Continue periodic P-Card audits performed by IA. | (2) | December 2011 | Completed | |
| 5. Purchases are not always made using good practice or in the best interest of the Department. Develop procedures that address issues related to shipping of items purchased and purchase of questionable items. These policies should be distributed to P-Card holders as part of their annual receipt and sign off of the Cardholder Agreement. | (3) | December 2011 | Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| Audit Comment | Audit Rating | Target Date | Status as Provided by Management | IA ✓ |
|--|--------------|----------------------------|----------------------------------|------|
| Master Vendor Table Review, December 2011 | | Accounting Director | | |
| 1. Lack of management oversight and continuous monitoring of Master Vendor Table. Cleanse the Master Vendor Table at least once a year. Deactivate vendors that have had no activity for 15 months. Establish consistent naming conventions when setting up new vendor names. Establish a written procedure manual to cover every aspect of Master Vendor Table maintenance. Include principal/administrator's approval prior to submitting the FMS-T1 and FMS-T1B forms to the Vendor Payment section. | (1) | March 2012 | Completed | |
| 2. The tracking of "false-deleted" vendors is not performed. Periodic monitoring of the master Vendor Table and develop a list of all "false-deleted" vendors. Designate one person to authorize the approval of the "deletion" of the problem vendors from the list. | (1) | March 2012 | Completed | |
| 3. Proper forms and supporting documents are not always submitted. Reject and return FMS-T1 and FMS-T1B forms to the requesting office/school as an incomplete request until required documents are submitted. Require form W-9 to be completed by each vendor prior to them being entered in to FMS. | (1) | March 2012 | Completed | |
| 4. Lack of vendor verification. Continue to follow the new policy verifying vendors for single small purchases of \$2,500 up to \$24,999 using the HCE system. Develop a detailed process on how to handle the new policy, including training to the field for the new process. | (1) | March 2012 | Completed | |
| 5. Potential conflicts of interest between employees and vendors. Include principal/administrator's approval prior to submitting the FMS-T1 and FMS-T1B forms to the Vendor Payment section. Develop and issue an Ethics Policy to address the conflicts of interest and nepotism issues. | (2) | March 2012 | Completed | |

| | | |
|-----------|---------------------|-------------|
| Completed | Partially Completed | Outstanding |
|-----------|---------------------|-------------|



Internal Audit Recommendation Status (continued)

| OBSERVATION RATING SCALE (RATG) | |
|---------------------------------|---|
| High (1) | <p>1 - The impact of the finding is <u>material</u>¹ and the likelihood of loss is probable in one of the following ways:</p> <ul style="list-style-type: none">- A material misstatement of the DOE's financial statements could occur;- The DOE's business objectives, processes, financial results or image could be materially impaired;- The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE's financial performance, operations or image. <p><i>Immediate action is recommended to mitigate the DOE's exposure</i></p> |
| Moderate (2) | <p>2 - The impact of the finding is <u>significant</u>¹ and the likelihood of loss is possible in one of the following ways:</p> <ul style="list-style-type: none">- A significant misstatement of the DOE's financial statements could occur;- The DOE's business objectives, processes, financial performance or image could be notably impaired;- The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE's financial performance, operations or image. <p><i>Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p> |
| Low (3) | <p>3 - The impact of the finding is moderate and the probability of an event resulting in loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p> |

¹The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors



Management Action Plan Completion Status

