# State of Hawaii
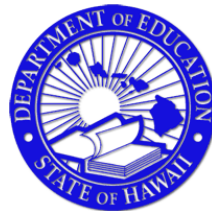## Department of Education

# INTERNAL AUDIT PLAN UPDATE THROUGH SEPTEMBER 20, 2012



# FOR AUDIT COMMITTEE MEETING
## October 2, 2012

# TABLE OF CONTENTS

# Executive Summary

## Assurance Projects:

### *Casual Hire Recruitment & Hiring Review*

- Currently in the fieldwork stage of review.
- The objectives of this review are to:
  - Review, evaluate and test the design and operating effectiveness of the Department's recruiting and hiring process for Casual Hires and the Casual Payroll process based on leading practices.
  - Ensure that the Department's Casual Hire (and Casual Payroll) policies and procedures have been updated and communicated to the field.
  - Ensure that the schools/offices are in compliance with the Department's Casual Hire policies and procedures:
    - ➢ Necessary paperwork has been collected from the employee
    - ➢ 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
  - Ensure that schools/offices are in compliance with the Department's Casual Payroll policies and procedures:
    - ➢ Timesheets were completed
    - ➢ Employee's hours and pay rate were correctly stated in the Casual Payroll system
    - ➢ Employees did not exceed the maximum number of hours for a casual employee

# Executive Summary (continued)

## School Food Services Review

- Currently in the planning stage of review.

- The primary objectives of this review are to determine if the policies, procedures, and operational and business processes governing the planning, ordering, meal preparation, and inventory of food items are adequately designed and monitored by the Department.

## Consulting, Investigation and Other Projects:

### Ethics and Code of Conduct

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

### Confidential Reporting Mechanism

- A selection committee has selected a vendor for the fraud and ethics hotline. The contract details are in the negotiation phase and will be finalized shortly. IA will be administering the hotline once the contract is officially awarded.

### Investigations

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

# Executive Summary (continued)

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

- ▪ IA performed Local School Fund Audits, Special Project – Cancelled Check and Deposit Validating Reviews, and administered the Annual Checklist monitoring tool. IA also provided internal control consultation to various schools/offices during the Quarter.

*Proposed Changes to the Audit Plan with Brief Descriptions*

- ▪ No Proposed Changes to the Audit Plan.

# Summary of Changes to the Audit Plan

| Project | Proposed Change | Budget Impact | Date Approved by Audit Committee |
|---|---|---|---|
| Community Schools for Adults "Audits" | Addition to Q2 2012. | 500 | 9/4/2012 |
| School Monitoring Program - Phase I | Phase I move to Watchlist. | <700> | 9/4/2012 |
| Casual Hire Recruitment & Hiring Review | Increase budgeted hours from 550 to 800. | 250 | 9/4/2012 |

Note:   No changes for this quarter.

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

| DESCRIPTION | 2012 Gantt (Jan–Dec) | Budget | Budget as Amended | Actual | ETC | Variance |
|---|---|---|---|---|---|---|
| **Assurance Projects** | | | | | | |
| Procurement & Contracting Process | | 600 | 600 | 798 | - | 198 |
| Casual Hire Recruitment & Hiring Review | | 550 | 800 | 276 | 524 | - |
| School Food Services Review | | 450 | 450 | 104 | 346 | - |
| Data Integrity Review - Student | | 400 | 400 | - | 400 | - |
| School Monitoring Program - Phase I | | 700 | - | 66 | - | 66 |
| **IA Consulting, Investigations & Other** | | | | | | |
| Ethics & Code of Conduct - Confidential Reporting Mechanism | | 300 | 300 | 137 | 163 | - |
| ACL Audit Tool Development | | 200 | 200 | 103 | 97 | - |
| Internal Control & Operational Efficiency Consultation | | 200 | 700 | 499 | 201 | - |
| Investigations | | 2,500 | 2,500 | 1,139 | 1,361 | - |
| Baseline Monitoring Projects | | 700 | 700 | 1,447 | 250 | 997 |
| Reporting & Communication | | 200 | 200 | 97 | 103 | - |
| External, State, Legislative & Consultant Audit/Review Coordination | | 300 | 300 | 104 | 196 | - |
| Other Administration including budget preparation, meetings and other | | 200 | 200 | 367 | 50 | 217 |
| Risk Assessment RE-evaluation & Audit Plan for 2013 (Update) | | 250 | 250 | - | 250 | - |
| **Total Hours** | | 7,550 | 7,600 | 5,135 | 3,941 | 1,476 |

Legend:
- ▬▬ In Process
- ▬▬ Completed - Final Report Issued
- ◆-----◆ Estimated Date of Completion
- ▬▬ Original Internal Audit Plan Schedule

Key:
Budget - Original Approved Budget
Budget as Amended – Revised Budget after Audit Committee Approval
Actual - Actual Hours Incurred Through September 20, 2012
ETC – Estimated Time to Complete
Variance - [(Actual + ETC) – Budget as Amended] = over / (under) budget as amended

# Summary Results of Reports Issued

- No reports issued this quarter.

# 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 | | | | No. of Findings Ranked "High" Requiring Immediate Management Attention | Completion Status[2] | | | Contact |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Operational Findings | Financial Findings | Compliance Findings | Total Findings | | Completed | Partially Completed | Outstanding | |
| Procurement & Contracting Process Review | Marginal | 4 | 0 | 3 | 7 | 4 | 0 | 7 | 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 | | 12 | 0 | 10 | 22 | 11 | 13 | 9 | 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] 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 |
|---|---|---|---|---|---|
| Procurement & Contracting Process Review (Issued July 2012) | 7 | 4 | 0 | 7 | 0 |

**Objectives:**
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:
   - Ensure that purchases and contracts are being processed in a timely manner, and
   - 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:**

1. Evaluate the design of the internal controls in place surrounding the leave data and timekeeping processes to ensure that the processes:
   - are efficient,
   - comply with applicable codes, policies, regulations and contract requirements,
   - adequately maintain the integrity of data, and
   - 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:**
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:**

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 ✔ |
|---|---|---|---|---|
| **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 | Partially 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 | 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 | 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. **Observation: 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 | 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 | Partially 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 | Partially Completed | |
| 7. **Procedures requiring the completion of forms serving similar purposes between offices/branches result in duplicated efforts.** PCB should training schools/offices on the proper use of completing Form 10-B and Purchasing Worksheet and clarifying 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 |
|---|---|---|

# **I**nternal **A**udit **R**ecommendation **S**tatus (continued)

| OBSERVATION RATING SCALE (RATG) | |
|---|---|
| **High (1)** | 1 - The impact of the finding is _material_[1] and the likelihood of loss is probable in one of the following ways:<br>  - A material misstatement of the DOE's financial statements could occur;<br>  - The DOE's business objectives, processes, financial results or image could be materially impaired;<br>  - 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.<br><br>_Immediate action is recommended to mitigate the DOE's exposure_ |
| **Moderate (2)** | 2 - The impact of the finding is _significant_[1] and the likelihood of loss is possible in one of the following ways:<br>  - A significant misstatement of the DOE's financial statements could occur;<br>  - The DOE's business objectives, processes, financial performance or image could be notably impaired;<br>  - 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.<br><br>_Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure._ |
| **Low (3)** | 3 – The impact of the finding is moderate and the probability of an event resulting in loss is possible.<br><br>_Action is recommended to limit further deterioration of controls._ |

[1]_The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors_

# Management Action Plan Completion Status



## Completion Status
## As of September 20, 2012