

San Jacinto Community College District

Annual Internal Audit Report

Summary of FY20 Internal Audit Work &
Proposed FY21 Audit Plan

Internal Audit Department

Report Date: August 31, 2020



INTERNAL AUDIT DEPARTMENT

To: Board Finance Committee

cc: Dr. Brenda Hellyer, Chancellor
Teri Zamora, Vice Chancellor of Fiscal Affairs

From: Linda Torres, Director of Internal Audit

Date: August 31, 2020

Subject: Annual Internal Audit Report – Summary of FY20 Internal Audit work & Proposed FY21 Audit Plan

We are pleased to present the San Jacinto Community College District's (SJCCD) *Annual Internal Audit Report* for 2019/20. This report will provide information on audits and projects performed during the past audit year. We are a small department consisting of three auditors; however, we strive to add value to the College through each of our audits and projects.

The various audits and projects performed during the 2019/20 audit year (September 1, 2019 to August 31, 2020) resulted in specific recommendations made by the Internal Audit Department. These recommendations were made to enhance accountability, improve efficiency, reduce the opportunities for fraud, protect the college's assets and improve service delivery to SJCCD personnel.

The proposed audit plan for the 2020/21 audit year (September 1, 2020 to August 31, 2021) was based on a risk assessment update performed during July 2020, as well as management's requests. The Internal Audit Department updated the annual risk assessment to identify the major areas within SJCCD that require audit attention. Audit projects are scheduled based on the results of the college-wide risk assessment and the available internal audit resources. By carrying out this plan for the upcoming year, we hope to continue our commitment to serve the College, the Chancellor and the Board Finance Committee.

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INTRODUCTION

Based on our audits, examinations and reviews completed over the past audit year, we have found that in many cases, management's internal control objectives are being met. We have, however, noted areas in which internal controls could be strengthened. This document summarizes the work performed by the internal audit department and the reports issued to management.

Attachment A provides a listing of Audit Department personnel as of August 31, 2020.

SUMMARY OF AUDIT ACTIVITY

Audits/Review/Follow-ups/Projects

In September 2019 the Internal Audit Manager was reassigned to work as the Interim Auxiliary Services Director, which left the Internal Audit staff short one individual for six months. Additionally, the work from home order due to COVID-19 slightly altered the FY20 audit plan. There were audits planned for FY20 that could not be completed, and additional audits/reviews were added. As of the end of the FY20 audit year, six initial audits, eight follow-up audits and eight cash counts were completed. Additionally, six initial audits were in-progress at the end of the year. Internal Audit was involved in several unscheduled projects that arose during the year and served on four different committees and/or councils. Finally, the Internal Audit Department updated the ethics training, completed the annual risk assessment project and managed the collection of Conflict of Interest disclosure statements.

Attachment B further describes the cash counts/initial audits performed along with the completion status and ultimate disposition, *Attachment C* details the follow-up audits performed, *Attachment D* details consulting, and other activities performed during the year, *Attachment E* details the ethics reports received during FY20 and *Attachment F* details audit observations identified in the six audits completed during the year.

Attachment G details the time reported for all Internal Audit work during the past year. To date, 87% of available time has been expended on internal audits and projects. The remainder of our time has been expended on administrative duties, research and training.

CONCLUSION

Attachment H summarizes the risk assessment process, while *Attachment I* details the upcoming year (2020/21) audit plan which is awaiting Board Finance Committee approval.

PERSONNEL ROSTER
ATTACHMENT “A”

Director of Internal Audit

Linda Torres is the Director of Internal Audit and has worked for the College since June 2008. Linda is a Certified Public Accountant, Certified Internal Auditor and Certified Fraud Examiner. She graduated with a BBA in Accountancy from the University of Houston and also earned an Associate degree from San Jacinto College, Central campus. She has extensive internal as well as external audit experience over the past 23 years. In addition to the College, Linda has worked in organizations such as the Fort Bend Independent School District, American General Corporation and Arthur Andersen, LLP.

Manager of Internal Audit

Bret Boudreaux has worked for the College since January 2009 and was promoted to the Manager of Internal Audit in November 2015. Bret is a Certified Internal Auditor and possesses a Certification in Risk Management Assurance. Bret graduated from Louisiana State University with a B.S. in Finance in May 2005 and obtained his MBA from Texas A&M University–Commerce in May 2010. Bret has attained over 15 years of experience in accounting and auditing, has worked in organizations such as Ernst & Young, LLP and BG Group, PLC and during this past fiscal year he worked as the Interim Auxiliary Services Director at SJC for six months. Bret currently holds the position of District representative for the college’s staff organization.

Internal Auditor

Travis Leopulos has worked for the College since February 2016. Travis graduated from Stephen F. Austin State University with a BBA and also earned an Associate degree from San Jacinto College, Central campus. He has over 6 years of internal auditing experience with Galveston County and has over 10 years of management experience with Academy Sports and Outdoors.

**INITIAL AUDITS/CASH COUNTS
ATTACHMENT “B”**

INITIAL AUDITS

Initial audits are the original audits that are performed of a particular department or process. The following are the initial audits performed during FY20, along with the current status and disposition.

Audits	Status	Disposition
Grants Compliance	Complete	Report Date: September 5, 2019
Pipefitting Program (North)	Complete	Report Date: December 12, 2019
Accounts Receivable	Complete	Report Date: January 9, 2020
Pharmacy Technician Program (North)	Complete	Report Date: June 2, 2020
Pharmacy Technician Program (South)	Complete	Report Date: June 2, 2020
ITS Asset	Complete	Report Date: August 28, 2020
Grants Subrecipient – DOL - Alamo Colleges District	In Progress	N/A
Grants Subrecipient – DOL - Dallas College	In Progress	N/A
Grants Subrecipient – DOL - Austin Community College District	In Progress	N/A
Grants Subrecipient – DOL - IBM	In Progress	N/A
Grants Subrecipient – DOL - Cerner	In Progress	N/A
Grants Subrecipient – NSF – Houston Community College	In Progress	N/A
<p>➤ <i>Complete:</i> Complete and results have been issued to SJCD senior management.</p> <p>➤ <i>In Progress:</i> Audit in progress at the end of the year.</p> <p>DOL – Department of Labor NSF – National Science Foundation</p>		

CASH COUNTS

Surprise cash counts are performed throughout the year at college locations that collect cash during normal operations. The following are the cash counts completed during FY20.

Cash Counts		
Campus	Location	Month
Central	Business Office	November 2019
Central	Café	November 2019
North	Business Office	November 2019, February 2020
North	Café	November 2019
South	Business Office	September 2019, February 2020
South	Café	September 2019

**FOLLOW-UP AUDITS
ATTACHMENT “C”**

Follow-up audits verify the completion of the corrective action plans (CAPs) provided by management during the initial audit. The number of follow-ups performed for each initial audit depends on whether or not all CAPs are completed. As of the end of FY20, a total of 12 corrective action plans require a follow-up.

Follow-ups conducted during FY20.

Audit	Original Audit Date	Original CAPs	Remaining CAPs	Disposition
Fixed Assets	July 2018	8	5	Mgmt indicated that these will be addressed w/ alternate methods. No further follow-ups
Auto Collision Repair	April 2019	5	1	Mgmt indicated that these will be addressed w/ alternate methods. No further follow-ups
Admissions Process (prior to registration)	August 2018	3	0	No Further Follow-ups
Campus Business Offices	December 2018	3	0	No Further Follow-ups
Pipefitting	December 2019	2	0	No Further Follow-ups
Surplus Property	June 2019	3	0	No Further Follow-ups
Student Organizations	January 2019	5	2	Follow-up in FY21
Financial Aid	July 2019	4	1	Follow-up in FY21

The following audits received no follow-up review during FY20 but have outstanding CAPs at year-end.

Audit	Original Audit Date	Original CAPs	Remaining CAPs	Reason No Follow-up Performed
Accounts Payable	October 2016	4	1	Mgmt requires more time needed to complete the CAPs.
HR Employee Records	August 2017	5	2	Mgmt requires more time needed to complete the CAPs.
Contract Compliance	May 2018	3	3	Mgmt indicated that these will be addressed and IA will perform a full audit in FY22.
Accounts Receivable	January 2020	6	6	Follow-up in FY21

**CONSULTING AND OTHER ACTIVITIES
ATTACHMENT “D”**

The Director and Manager of Internal Audit were members of the four committees/councils during FY20. As a member of these groups, the Internal Audit Department is not performing typical assurance (i.e. audit) activities but is either providing consulting services or is a member in a leadership role. In addition, Internal Audit worked on several projects that did not result in a report, but rather allowed the Internal Audit Department to work with college employees to develop solutions and control framework from the ground up.

Activity	Purpose
COVID-19 Related Reviews	COVID-19 has prompted the need for several unplanned reviews such as compliance with CARES Act spending requirements, verifying the completion of pre-screening forms for employees working on-site, completion of <i>Protect Yourself: SJC Your Safe Return to Work</i> training, SJC CARES call-outs, etc.
State Auditor’s Office Complaint	Review, investigate and prepare responses for SAO hotline complaints that are received during the year.
Student Club Accounts Committee	Develop a one-college approach regarding student club accounts.
Campus Based Scholarship Committee	Increase the awareness of campus based scholarship opportunities and gather data on campus based scholarships for budget development.
Strategic Leadership Communication Council	Ensure that all levels of leadership have a clear understanding and provide support for the one-college vision, the strategic plan, and annual priorities.
Staff Organization	The Internal Audit Manager is a District representative on the College’s Staff Organization. The Staff Organization involves collaborating with college employees to develop methods for improving the organization and working environment for staff members
Ethical Conduct and Conflict of Interest Training	Updated training to detail ethical conduct and fraudulent issues, as well as highlight related policies and procedures and the proper reporting method when issues are identified.

**ETHICS REPORTING SYSTEM
ATTACHMENT “E”**

On February 18, 2019 the Internal Audit Department also introduced an ethics reporting system, EthicsPoint. If a college employee observes behavior that they believe violates college policies and/or procedures, ideally, they should bring any concerns forward to their direct supervisor, Strategic Leadership Team (SLT) member or other member of management. However, the college recognizes that there may be circumstances when the employee is not comfortable reporting issues in this manner. It is for such circumstances that the college has partnered with EthicsPoint, to allow an employee to report concerns and remain anonymous.

During FY20 the college received six reports. None of these reports rose to the level of fraud; however, the appropriate SLT member has reviewed each of these cases and the appropriate action has been taken to resolve each report.

**AUDIT OBSERVATIONS
ATTACHMENT “F”**

Each reported observation is followed by a letter indicating the relative importance or issue risk (risk score) as follows:

- (A) Item represents a highly significant finding.
- (B) Item represents an important concern.
- (C) Item represents a minor discrepancy or is included for informational purposes.

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
Grants Compliance	September 5, 2019	No reportable observations were noted during the scope period.	N/A	N/A	N/A
Pipefitting Program – North Campus	December 12, 2019	<u>Tools and Supplies Inventory:</u> Currently, no inventory of small tools and supplies within the Pipefitting program exists.	B	Pipefitting program will begin the practice of performing an inventory of tools and supplies to be conducted at least annually.	Immediately Internal Audit verified this CAP was complete prior to the end of the audit.
Pipefitting Program – North Campus	December 12, 2019	<u>Internal Training Requirements:</u> Two Pipefitting employees have not completed required internal training.	B	All employees will review and complete all San Jacinto College required training topics. Leaders in Pipefitting will ensure that employees complete all recurring trainings in a timely manner.	Immediately Internal Audit verified this CAP was complete prior to the end of the audit.

**AUDIT OBSERVATIONS
ATTACHMENT “F” (continued)**

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
Accounts Receivables	January 9, 2020	<u>Segregation of Duties</u> : There is a segregation of duties issue surrounding the same individual performing both invoicing and payment application functions.	A	The Accounts Receivable process for entering payments in Banner has been updated. The Accounting Assistant responsible for invoicing will no longer enter payment information into Banner. If payment corrections are required the payments will be posted by the Accounting Supervisor or the Accounting Assistant responsible for entering payments in Banner. Cashier sessions with payments require a supervisor to finalize the session. This supervisor review of cashier sessions will prevent the Accounting Assistant from entering payments.	Immediately
Accounts Receivables	January 9, 2020	<u>Banner Form Security</u> : There is a lack of access control for key Banner forms surrounding the Accounts Receivable process.	A	Management has requested a list of employees with access to TSAAREV from IT. The list will be reviewed to determine individuals that don't need access. The access will be updated by IT.	February 2020* * The est. completion date to implement a review will be determined when IT completes the report.

**AUDIT OBSERVATIONS
ATTACHMENT “F” (continued)**

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
Accounts Receivables	January 9, 2020	<u>Account Credits</u> : There is no documented review of credit entries to student account charges in the Banner Account Detail Review Form (TSAAREV).	A	Management will work with IT to create a report that will provide information needed for review of credit charges in Banner.	February 2020* <small>* The est. completion date to implement a review will be determined when IT completes the report.</small>
Accounts Receivables	January 9, 2020	<u>Reconciliation Review</u> : Accounts Receivable reconciliations are not reviewed in a timely manner. Additionally, there is an unreconciled balance between Banner accounts receivable and the general ledger that has been carried forward throughout the year of approximately \$8,000 related to scholarships.	A	The Comptroller will review Accounts Receivable reconciliations and recommend corrections for any unreconciled balances (which includes reconciling the \$8,000 associated with scholarships). Once this is complete, the Account Receivable reconciliations will be reviewed and approved by the Assistant Comptroller monthly.	February 2020
Accounts Receivables	January 9, 2020	<u>Refund Processing</u> : Some refunds to vendors and students are not processed in a timely manner.	B	The Asst Comptroller will complete a monthly review of TGRAGES the Banner Aging Analysis Report to identify accounts with credit balances that have not been refunded.	February 2020

**AUDIT OBSERVATIONS
ATTACHMENT “F” (continued)**

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
Accounts Receivables	January 9, 2020	<u>Past-Due Account Holds:</u> Several students did not have holds placed on their accounts despite a past-due balance to the College.	B	Management will work with IT to create a report that will provide a list of accounts with a balance due without a hold on the account.	February 2020* * The est. completion date to implement a review will be determined when IT completes the report.
Pharmacy Technician Program – North Campus	June 2, 2020	No reportable observations were noted during the scope period.	N/A	N/A	N/A
Pharmacy Technician Program – South Campus	June 2, 2020	No reportable observations were noted during the scope period.	N/A	N/A	N/A
ITS Asset	August 28, 2020	<u>Disposal/Recycling of ITS Assets:</u> The college’s electronics recycling vendor, CompuCycle, conducts business with the college without a signed contract in force, resulting in a lack of oversight regarding what this vendor is paying and charging the college. We determined CompuCycle owed the college \$24,540.90 since August 2017.	A	On behalf of ITS, the College entered into a contract with CompuCycle dated 07/15/20. Staff will be assigned to monitor billings and collections.	Complete

AUDIT OBSERVATIONS
ATTACHMENT “F” (continued)

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
ITS Asset	August 28, 2020	<u>Physical Asset Verification:</u> Although the xAssets software system is designed to verify the continued existence of college ITS assets in lieu of a physical inventory, a lack of a timely follow-up for undiscovered assets does not adequately replace a periodic inventory.	A	The drafted “IT Resources Tracking and Accounting Practice” document defines the various categories of IT Resources, their tracking methodologies, and custodian responsibilities. ITS is reviewing and upgrading its inventory system.	August 2021
ITS Asset	August 28, 2020	<u>Asset Records:</u> Issues were noted surrounding the completeness and accuracy of inventory data in the xAssets system. Including (1) no responsible party listed, (2) lack of complete location information, (3) no asset tag number recorded, (4) no purchase order information, and (5) incorrect responsible party listed.	B	The drafted “IT Resources Tracking and Accounting Practice” document includes proposed guidelines for the financial reporting and capitalizing equipment. ITS is also reviewing and upgrading its asset inventory system.	August 2021

AUDIT OBSERVATIONS
ATTACHMENT “F” (continued)

Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
ITS Asset	August 28, 2020	<u>Segregation of Duties</u> : There is inadequate segregation of duties surrounding access to modify records in the xAssets asset management software. Currently all members of the ITS Inventory and Procurement team along with two individuals outside of the team have full, unrestricted access to modify any record within the database.	B	Part of the review and upgrade to the inventory system will include a review of segregation of duties.	August 2021
ITS Asset	August 28, 2020	<u>Departmental Procedures</u> : An extensive list of procedures surrounding computing assets exists however, these procedures have been pulled together from a variety of locations and are not compiled into one cohesive procedure document.	C	ITS has drafted a “IT Resources Tracking and Accounting Practice” document for consideration in response to this audit. This document will require further discussion and review.	August 2021

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Audit	Report Issue Date	Observation	Risk Score	Corrective Action Plan	Estimated Completion Date
ITS Asset	August 28, 2020	<u>Unlocked Computer Labs:</u> During Internal Audit’s physical inventories at the campuses, we found two computer labs unlocked and unoccupied.	C	The drafted “IT Resources Tracking and Accounting Practice” document includes expanding custodian agreements directly with campus departments. The custodian agreements include expected responsibilities to secure facilities.	August 2021

**TIME REPORTED
2019-2020 AUDITS
ATTACHMENT “G”**

Description	Hours	% of Total Hours
Audit/Consulting Hours:		
Accounts Receivable (started during FY19)	65	1%
ITS Asset	403	9%
Pharmacy Technician Program (North & South)	323	7%
Pipefitting (North)	277	6%
Grants Subrecipient Monitoring	348	8%
COVID-19 Related Reviews	362	8%
Various Follow-ups (see attachment “C”)	589	13%
Cash Counts	79	2%
Pcards - Continuous Auditing	595	13%
Conflict of Interest	32	1%
Risk Assessment/Annual Audit Plan & Report	201	4%
Ethical Conduct and COI Training Update	136	3%
Miscellaneous Projects & Unplanned ^A	191	4%
Management Review ^B	378	8%
Total Audit/Consulting 2019-2020	3979	87%
Administrative:		
Administrative Tasks	259	6%
Training/CPE/Meetings/Research	333	7%
Total Administrative 2019-2020	592	13%
Total Hours	4571	100%

Note: In September 2019 the Internal Audit Manager was reassigned to work as the Interim Auxiliary Director, which left the Internal Audit staff short one individual for six months.

^A – **Misc. Projects & Unplanned** includes participation on committees and councils, financial reviews for RFPs, as well as reviews and investigations that came up during the course of the year. While some unplanned items arise to a level of a project, not all do. Some are merely meetings and other consulting type activities. Unplanned time includes time associated with ethics reports, SAO reports, conflict of interest questions, etc.

^B – **Management Review** includes review of internal audit staff workpapers and audit reports.

**RISK ASSESSMENT PROCESS
ATTACHMENT “H”**

The Internal Audit Department performed the annual risk assessment and developed the FY20 proposed audit plan as required by the San Jacinto Community College District’s (SJCCD) Internal Audit Charter and the Institute of Internal Auditors’ (IIA) *Standards for the Professional Practice of Internal Auditing*. The FY21 audit plan focuses on the high-risk areas that can be covered with the existing/proposed Internal Audit resources.

Audits that cannot be completed with current audit capacity result in an assumption of risk by the College.

Risk Assessment Process

The Internal Audit Department employs a risk-based methodology to assess the level of potential exposure that each of the functions and departments present to the organization from financial, operational and technological perspectives. A risk assessment is an effective tool to aid the Internal Audit Department in identifying and prioritizing high-risk areas within the College.

The first step in the risk assessment process is to identify all auditable units within the college and categorizing the units into logical functional areas. Internal Audit has identified over 200 auditable areas within SJCCD. Each auditable unit’s appropriate “owner” or responsible individual is identified, and input is solicited from key management personnel via a risk assessment questionnaire. Based on experience with the auditable unit and the questionnaire filled out by the owner, we are able to gain a better understanding of college operations. Internal Audit then identifies significant risk variables (e.g., financial impact, prior audit activities, personnel and management conditions, etc.) in order to assess the level of risk for each auditable unit.

Based on the individual risk rating for each area, required follow-up reviews, recurring reviews and consulting activities the Internal Audit Department is proposing the audit plan on *Attachment I* for submission and approval by the Board Finance Committee. Once approved, audits will be scheduled and performed by the Internal Audit Department. The annual audit plan is an active document that may need to be adjusted during the year. Audits may not take as much time as planned and/or situations may arise in an area which changes the need for an audit, for this reason alternate audits have been included in this audit plan.

**PROPOSED 2020-21 AUDIT PLAN
ATTACHMENT “T”**

Audit/ Project Description
<i>Finalize Audits In Progress at the end of FY20</i>
Fiscal Affairs: Grants Subrecipient – DOL - Alamo Colleges District
Fiscal Affairs: Grants Subrecipient – DOL - Dallas College
Fiscal Affairs: Grants Subrecipient – DOL - Austin Community College District
Fiscal Affairs: Grants Subrecipient – DOL - IBM
Fiscal Affairs: Grants Subrecipient – DOL - Cerner
Fiscal Affairs: Grants Subrecipient – NSF – Houston Community College
<i>Audits Based on Risk Assessment</i>
Deputy Chancellor: Veterans Affairs (credit balances)
Deputy Chancellor: Tuition Waivers and Exemptions
Fiscal Affairs: Pcard Continuous Auditing
Fiscal Affairs: Cash Counts
Fiscal Affairs: Barnes and Noble Billings
Fiscal Affairs/Human Resources: TRS 19.5 hr Reporting
Human Resources: Benefits Processing
<i>Consulting and Other Activities</i>
College-wide: Ethics Educational Campaign
College-wide: Electronic Signature Implementation
College-wide: Conflict of Interest
College-wide: Risk Assessment/Annual Audit Plan & Report
College-wide: Staff Organization (Internal Audit Mgr. is the District rep.)
College-wide: Internal Audit Committee Involvement
College-wide: Required Trainings Compliance (per regulations)
College-wide: 2019 Legislative Session Implementation Follow-up
Deputy Chancellor: Cosmetology Payment Process
Deputy Chancellor: CARES Act Distributions
Fiscal Affairs: Pcard approvals vs Banner approvals
Fiscal Affairs: Pcard Non-Compliance Process
ITS: Equipment Loaner Process
<i>Follow-up Audits</i>
Deputy Chancellor: Student Organizations
Deputy Chancellor: Financial Aid
Fiscal Affairs: Accounts Payable
Fiscal Affairs: Accounts Receivable
Human Resources: Employee Records
ITS: ITS Assets

Note: Due to the uncertainty surrounding COVID-19, this plan includes several alternate audits/projects and not all will be started and/or completed in FY21. The projects that can be completed will be affected by any future work from home orders or other changes the college might have to make during the year.