



PROMOTIONAL ITEM EXPENDITURES

AUDIT # 24-02

MAY 21, 2024

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EXECUTIVE SUMMARY

AUDIT OBJECTIVE & SCOPE

The objectives of the audit were to evaluate compliance with applicable District requirements related to expenditures, determine the validity of promotional item expenses, and determine if a legitimate documented business purpose supports all costs. The audit scope covered financial activity from the fiscal year 2022 through fiscal year 2023.

AUDIT RECOMMENDATIONS

Recommendation	Risk Level	Implementation Date	Page Number
1. Develop Policy to Govern Promotional Item Expenditures.	Medium	August 2024	5

Less significant opportunities for improvement were shared with management separately.

DESIGNATED MANAGEMENT



Melissa Irby,
Chief Financial Officer

CONCLUSION

Overall, based on the audit work performed, we conclude that controls over promotional item expenditures can be improved.

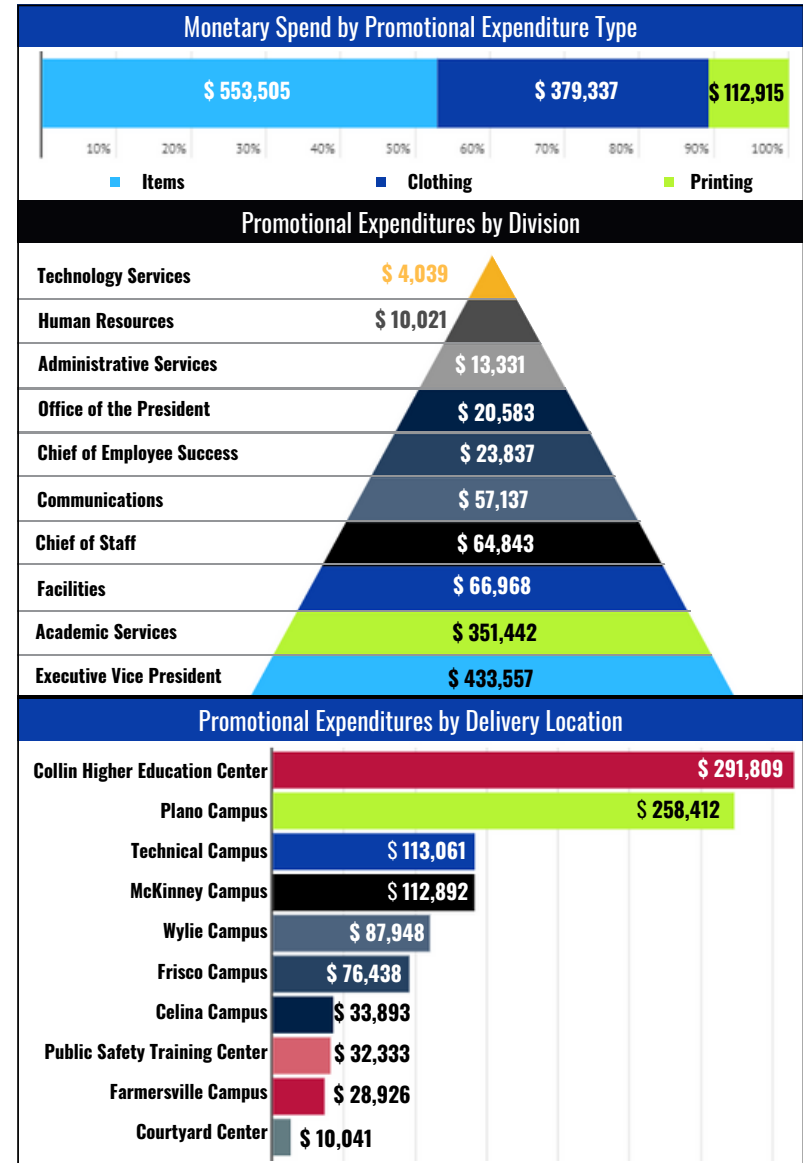
BACKGROUND

Promotional expenditures are costs incurred by the District to raise awareness of its programs and services to prospective and current students, alumni, and other stakeholders. This audit defined promotional expenditures as costs for products that were customized with a District logo and purchased in bulk. For the period September 1, 2021 through August 31, 2023, costs for promotional items across the District totaled approximately \$1,045,757. Promotional item expenditures were broadly grouped into three categories: items, clothing, and printing-related costs. Examples of promotional items within each category include products such as:

- Items - USB thumb drives, flasks, cups, headphones, etc.
- Clothing - Printed and embroidered t-shirts/polos and hats, etc.
- Printing - Banners, signs, customized table coverings, etc.

The Board of Trustees has authorized the District to award contracts to vendors that can provide promotional items. Vendors with the highest monetary spend for promotional materials are outlined below.

	Vendor Name	Monetary Spend
1.	Logotology	\$ 406,866
2.	Buffalo Specialties	\$ 208,517
3.	Ad-Wear & Specialty of Texas	\$ 198,359
4.	Big Hit Creative Group	\$ 72,774
5.	Ennis Graphics	\$ 65,930



AUDIT RESULTS

1. Develop Policy to Govern Promotional Item Expenditures.

Risk Level: Medium

The District currently does not have a policy to govern promotional item expenditures. Before Fiscal Year 2024, the cost center approver provided approval, citing the appropriateness of the promotional item expenditures. Starting with Fiscal Year 2024, the Office of Administrative Services (OAS) has improved monitoring of promotional item expenditures and requires that such expenditures are now routed through OAS. In testing a sample of 70 transactions that comprised a monetary value of \$448,085, it was noted that:

- 54 out of the 70 transactions (77%) tested did not have a business purpose documented in Workday to outline the business need for the expense.
- 42 out of the 70 transactions (60%) tested did not appear to be necessary.
- 11 out of the 70 transactions (16%) tested did not appear to promote a District initiative or strategic goal.
- 2 out of the 70 transactions (3%) tested appeared extravagant and totaled \$ 4,643. The costs were related to purchasing service awards to recognize employees with a long tenure.
- Costs for customized printed t-shirts and clothing items with a District logo appeared excessive.
- \$31,420 in costs to purchase 7,500 personalized bags with a District logo were charged to the Coronavirus Aid, Relief, and Economic Security Act (CARES) grant. The expense was incurred to distribute safety supplies to current students, which was an allowed expense category under the terms of the grant. However, promotional item expenditures are typically only allowable costs on Federal grants if written explicitly in the grant proposal/award. Federal auditors may question the need to personalize bags to help distribute safety supplies.

With a policy to govern promotional item expenditures, the District can avoid potential waste and better align expenditures to support its strategic objectives.

Recommendation:

Management should consider developing a policy to govern promotional item expenditures so that they are better aligned with the District's strategic objectives. Management should also consider transferring costs for personalized items with a District logo from the CARES grant.

ACTION PLAN

Management Response:

Management partially agrees with the recommendation and has already initiated or plans to take the steps that are detailed below.

Action Plan:

- Management will develop promotional item purchase procedures that outline items that are deemed appropriate with input from senior administration. Written procedures will be developed by July 2024.
- Management has taken steps in FY 2024 to better align promotional item purchases with the college's mission and overall strategic plan. All promotional item purchases now route to the chief financial officer for approval in Workday. All items are reviewed, and each requisition includes the purpose of the promotional item.
- The college created a committee to determine what would be considered allowable to be charged to the CARES grant. The committee included internal legal counsel, associate vice president in business administrative services, vice president – student services, and others from the campus and district leadership team. The committee evaluated grant criteria to determine if the expenses were allowable within the grant guidelines. Personalized bags were purchased from the CARES grant that were used to distribute safety supplies to students during the peak of the pandemic. Items included hand sanitizer, sanitizing wipes, and masks. All items were purchased and had the Collin logo included on them. The committee authorized the purchases and deemed them appropriate to charge the expenses to the grant.

Person Responsible for Implementation:

Melissa Irby, Chief Financial Officer

METHODOLOGY

The audit scope covered financial activity from the fiscal year 2022 through fiscal year 2023 (September 1, 2021 through August 31, 2023). The fieldwork concluded on March 19, 2024.

To satisfy the audit objectives, the following procedures were performed for the period included within the audit scope:

- Reviewed Board of Trustee agendas to develop an inventory of approved vendors to supply promotional items
- Confirmed with the purchasing staff that the vendor listing was accurate and complete
- Gathered a population of promotional item purchase orders that were processed with the approved vendors
- Summarized the costs into three broad categories of items, clothing, and print-related costs for reporting purposes
- Completed data analysis steps to compute the monetary spending by expense category, division, and campus location
- A sample of expenditures was selected to determine expense validity.

The International Standards for the Professional Practice of Internal Auditing were utilized as guidance for conducting the audit. The Standards are statements of core requirements for the professional practice of internal auditing. Those standards

require that sufficient and appropriate evidence is obtained in performing and planning the audit to provide a reasonable basis for the findings and conclusions based on the audit objectives. The evidence obtained provides a reasonable basis for the findings and conclusion based on the audit objectives. Absent any Districtwide criteria to determine if promotional item purchases were reasonable, the following criteria was utilized based on what a prudent person would consider a reasonable taxpayer expense. The following criteria was utilized to test the promotional expenditures:

- Was a business purpose documented to justify the cost?
- Did the purchased item promote a particular program or strategic objective of the District?
- Was the purchased item necessary to accomplish the business purpose?
- Did the purchased item have any effect on the success of the event?
- Was the purchased item given to employees?
- Was the purchased item extravagant for the purpose it was given? (Individual items over \$100 for were considered extravagant.)

FOLLOW-UP PROCEDURES

Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. Requests for an extension to the implementation dates may require approval from the Collin College Finance and Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

CONCLUSION

Overall, based on the audit work performed, we conclude that controls over promotional item expenditures can be improved.

The Office of Internal Audit appreciates the courtesies and considerations extended during the engagement. Please let me know if you have questions or comments regarding this audit.



Ali Subhani, CIA, CISA, GSNA, CDPSE,
Director Internal Audit

RISK MATRIX

Definitions of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact Collin College. If not addressed in a timely way, could directly impact the achievement of a strategic or important operational objective of Collin College as a whole.
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to the college's operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose the college. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to the college will be minimal.

It is important to note that considerable professional judgment is required in determining the overall ratings. Accordingly, others could evaluate the results differently and draw different conclusions. It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.