

ACBO 2016

Spring Conference

Community College
Audit and Fiscal Compliance Workshop

VAVRINEK, TRINE, DAY & CO., LLP
May 24, 2016

Audit Responsibilities Overview

- An annual financial statement and compliance audit of California Community College Districts is required by:
 - California Education Code: *Section 84040 (b)*
 - District Board Approved Policies
 - California Community Colleges Chancellor's Office: *Contracted District Audit Manual*
 - Federal Single Audit Compliance Regulations: Office of Management and Budget Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations or Uniform Guidance (2 CFR 200)*

Audit Responsibilities Overview

- Guidance for audit procedures is provided by
 - *Government Auditing Standards* issued by the Comptroller General of the United States,
 - *Statements on Audit Standards* issued by the American Institute of Certified Public Accountants
 - *Contracted District Audit Manual* issued by the California Community Colleges Chancellor's Office

Responsibility of the District

- ▶ Establish a system of sound internal controls to ensure compliance with internal policies, fiscal standards and regulatory compliance requirements.
- ▶ Establish a system of monitoring and oversight to ensure internal controls are functioning.
- ▶ Communicate throughout the organization a tone of fiscal responsibility, compliance with laws and regulations and compliance with the established procedures.
- ▶ Communicate with the auditors any known deviations resulting in noncompliance.

Responsibility of the District

- ▶ District is responsible for compliance with established procedures whether or not the Auditors identify the procedure as subject to testing.
 - Create an open line of communication throughout the District to ensure compliance:

Gathering of Audit Evidence

- ▶ Discussions with Board, Management and Staff
 - Required by AU Section 316 (formerly SAS 99)
 - Open, honest discussion at all levels of the organization to enable the auditors to focus audit procedures on highest risk areas
 - Can you think of how people might commit fraud in the organization?
 - Is there someone else I should talk to regarding potential fraud?
 - Have you become aware of any fraudulent practices within the organization?
 - Are you able to bring your concerns to the attention of someone in management without fear of retribution?

Gathering of Audit Evidence

- Discussions of potential fraud also lead to potential compliance deficiencies as well as internal control deficiencies
- What is Fraud?
 - All fraud has common elements including the following:
 - Knowingly making an untrue representation or a false claim of a material fact:
 - Intent to deceive or concealment of the act
 - Reliance on untrue information
 - Damages or a loss of money or property

Gathering of Audit Evidence

- Occupational fraud is the most common type of fraud that occurs in government settings.
- Occupational fraud has three primary classifications:
 - Asset misappropriation frauds
 - Cash skimming, purchasing fraud, falsifying expense reports and/or forging company checks.

Gathering of Audit Evidence

- Corruption schemes
 - Involve an employee(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization. Conflicts of Interest fall into this category.
 - Conflict of Interest
 - Although there are many different types of fraud, a **conflict of interest and breach of fiduciary duty** exists when officers or employees of the District have a personal financial interest in a contract or transaction and is considered to be a form of misappropriation of assets.

Gathering of Audit Evidence

- Financial Statement Fraud
 - Includes the intentional misstatement or omission of material information in financial reports.
- Occupational fraud is one of the most difficult types of fraud and abuse to detect.
 - The most common method of detection is receiving tips from current and/or former employees.
 - According to the 2014 Report to the Nations on Occupational Fraud and Abuse conducted by the Association of Certified Fraud Examiners (ACFE)
 - Corruption schemes accounted for approximately 37% of all occupational fraud cases reported.

Gathering of Audit Evidence

- Approximately 42% of fraudsters were employees
 - 36% were managers
 - 3% were “others”
 - 19% were owner/executives. Although the second lowest percentage, this group generated the largest median loss of \$600,00 of 626 cases reported in the United States.
- Internal Controls
 - Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts.

Gathering of Audit Evidence

- Effective internal controls processes provide reasonable assurance that the District's operations are effective and efficient, that the financial information produced is reliable, and that the District is in compliance with all laws and regulations.
- A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the District achieves its objectives and goals.

Gathering of Audit Evidence

- Hard controls – segregation of duties, limiting access to cash, management review and approval, and reconciliations.
- Soft controls – management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conducts.
- Controls that have been established must be implemented and monitored to ensure their effectiveness.

Gathering of Audit Evidence

- Examples of improper internal controls include the following:
 - Failure to adequately segregate the duties and responsibilities of authorization.
 - Failure to limit access to assets or sensitive data.
 - Not recording transactions, resulting in lack of accountability and the possibility of theft.
 - Unauthorized transactions, resulting in skimming, embezzlement or larceny.
 - Lack of monitoring or implementing internal controls by the governing board and management.
 - Collusion among employees where little or no supervision exists.

Auditor's Response

- Based upon the results of discussions, audit tests are designed.
 - Other controls may be in place
 - The individual may not understand the procedure
 - The auditors are not out to 'get' any individual or program
- Reporting of the results of testing
 - Area management
 - Fiscal Services
 - President
 - Board of Trustees

State Compliance Update

As noted within the CDAM – Auditors are required to report any instance of noncompliance and are to be reported by the specific college/campus where the noncompliance is noted.

- Salaries of classroom Instructors - ***No Changes***
- Apportionment for Instructional Service Agreements/Contracts – ***Updated Procedures***
- State General Apportionment funding System – ***Updated Procedures***
- Residency Determination for Credit Classes – ***No Changes***
- Students Actively Enrolled – ***No Changes***

CDAM-State Compliance Update

- Concurrent Enrollment of K-12 Students – ***Updated Procedures***
- Scheduled Maintenance Program - ***No Changes***
- Gann Limit Calculation – ***No Changes***
- Open Enrollment – ***Updated Procedures***
- Student Fees – Health Fees and Use of Health Fee Funds – ***No Changes***
- Proposition 39 Clean Energy – ***No changes***
- Intersession Extension Program – ***No Changes***

CDAM-State Compliance Update

- Disabled Students Programs and Services (DSPS) – ***Updated Procedures***
- To Be Arranged Hours - ***No Changes***
- Proposition 1D State Bond funded Projects – ***No Changes***
- Open Enrollment – ***Updated Procedures***
- Proposition 30 Education Protection Act– ***No Changes***
- Extended Opportunity Programs and Services and Cooperative Agencies for Education (EOPS/CARE) – ***Removed from testing***
- ***Student Success and Support Program (SSSP) – New for 2015-16***

Student Success and Support Program (SSSP)

- **Suggested Audit Procedures (CDAM):**
 - a) Test student counts for the core services listed below:
 - Orientation
 - Assessment for placement
 - Counseling, advising and education planning
 - Follow-up services for at-risk student
 - Other services
 - b) Test revenues and expenditures of the Student Success and Support Program for compliance with the applicable criteria listed above.

Student Success and Support Program (SSSP)

- c) Verify that noncredit programs using SSSP funds submitted a program certification for the current year.
- d) Verify that college submitted program plans and budget plans for CCCCO approval.
- e) Verify that college submitted other program required forms to the CCCCO (certifications, mid-year reports, year-end expenditure reports).
- f) Verify that the districts have met the match requirements for the Student Success and Support Program.

Student Success and Support Program (SSSP)

- **Allowable Expenditures**

1. SSSP Program Director/Coordinator and Staff
2. Office Supplies and Postage
3. Publications and Outreach Materials
4. In-State Travel and Training
5. Computer Hardware and Software and Equipment
6. Food and Beverages
7. Counseling, Advising, and Other Student Education Planning Services
8. Follow-Up Services

Student Success and Support Program (SSSP)

- **Allowable Expenditures**

9. Orientation Services
10. Assessment for Placement Services
11. Research, Admissions and Transfer Functions Directly Related to Fundable SSSP Services

- **Expenses Not Allowed**

1. Construction
2. Gifts
3. Stipends for Students
4. Office Furniture

Student Success and Support Program (SSSP)

- **Expenses Not Allowed**

5. Other Staff Salaries and Benefits
6. Political or Professional Dues, Memberships, or Contributions
7. Rental of Off-Campus Space
8. Legal and Audit Expenses
9. Indirect Costs
10. Unrelated Travel Costs
11. Vehicles
12. Clothing

Student Success and Support Program (SSSP)

- **Expenses Not Allowed**
 13. Courses
 14. Admissions and Records Offices
 15. Research Offices

Non Compliance Examples

State Compliance

- ❖ Transferring of inappropriate expenditures to program.
- ❖ Miscalculation of FTES
- ❖ Student eligibility issues with programs

Federal Compliance

- ❖ Financial aid—awarding more FWS or FSEOG to individuals who do not qualify, or incorrect amounts
- ❖ No Suspension/Debarment review
- ❖ Not maintaining monitoring & approval of expenditures
- ❖ Inventory of Federally funded equipment is not taken

Federal Update

- ❑ Uniform Guidance for Federal Awards
- ❑ Also known as the “Super Circular”
- ❑ Replaces all previous circulars related to Federal Awards (ex. A-87, A-21, A-133, etc.)
- ❑ Moves Federal Award guidance from a rule-based approach to a principle-based approach
- ❑ Emphasizes the need for internal control, monitoring and knowledge of federal guidelines throughout the District – HR, Payroll, Purchasing

Federal Update

- ❑ Most significant areas of change: Time & Effort Reporting, Procurement, Allocating of Indirect Cost Rates, Subrecipient Monitoring, and Internal Controls
- ❑ Effective for fiscal year 2016, or for specific instances in fiscal year 2015
- ❑ Any amounts awarded after December 26, 2014, fall under the Uniform Guidance.
- ❑ Obtain an understanding of the new requirements!
- ❑ There is no getting around reading the new requirements!

Resources

- ❑ Current Compliance Supplement

https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015

- ❑ Uniform Guidance Legislation (2 CFR 200)

http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

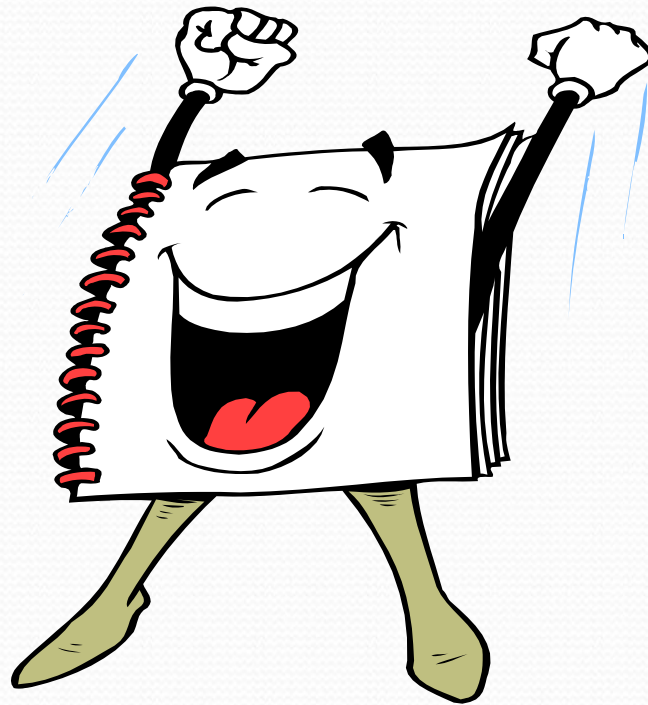
- ❑ Contracted District Audit Manual 2015-2016

http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalAccountability/ContractedDistrictAuditManual.aspx#CDAM_2016_FY_2015-16

- ❑ Student Success and Support Program Handbook

<http://extranet.cccco.edu/Divisions/StudentServices/Matriculation/Handbook.aspx>

Questions?????



Thank You for Attending!

Heidi White

Partner

hwhite@vtcdcpa.com

Bill Rauch

Partner

brauch@vtcdcpa.com

Brandon Harrison

Partner

bharrison@vtcdcpa.com

909-466-4410