

Community College
Audit and Fiscal Compliance Workshop

ACBO 2017 SPRING CONFERENCE

VAVRINEK, TRINE, DAY & CO., LLP
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Vavrinek, Trine, Day & Company
Certified Public Accountants

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 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*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
 - *Clarified 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-C Section 316 (formerly SAS 99)
 - Open, honest discussion at all levels of the organization to enable the auditors to focus audit procedures on the 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 and illegal acts.

Gathering of Audit Evidence

- Effective internal control 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 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 custody, recording, and 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 – **No changes**
- State General Apportionment funding System – **No changes, (additional information later)**
- Residency Determination for Credit Classes – **No Changes**
- Students Actively Enrolled – **No Changes**

CDAM-State Compliance Update

- ◎ Dual Enrollment (CCAP and Non- CCAP) formally Concurrent Enrollment of K-12 Students – **New Compliance Requirements**
- ◎ Student Equity – **New Compliance Requirements**
- ◎ Student Success and Support Program (SSSP) Funds – **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 – **Removed**
- ◎ Proposition 39 Clean Energy – **Updated procedures**
- ◎ 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*

Student Equity

- ◎ **Suggested Audit Procedures (CDAM):**
 - a) Verify that the District has submitted their “Board approved” Student Equity Plan and Budget to the Chancellor’s Office
 - c) Verify that college submitted other program required forms to the CCCCCO (mid-year reports, and annual year-end expenditure reports).
 - a) Test expenditures based on supporting the District’s Board approved Student Equity Plan

Dual Enrollment

- ◉ Also known as College Career Access Pathways (CCAP) or AB 288
- ◉ Dual enrollment allows high school students to enroll in up to four courses (15 credits)
- ◉ No fees are assessed to CCAP students
 - No material fees! This is prohibited by Ed Code
- ◉ In addition to student testing, we will be testing the CCAP agreements for compliance with AB 288
- College may offer closed courses on high school campuses
 - Only if the course is offered at a high school campus during the regular school day
 - A college district should only enter into partnerships with school districts within their district boundaries unless agreement with another college District

Attendance Accounting

- ◎ Communication from Chancellor's Office
 - Larger sample sizes
 - Extrapolate the error rate on the populations
 - Determine an FTES and dollar impact based on the “likely error”, not identified error
 - Chancellor's Office will follow up on findings noted in audit report
 - Findings will result in District's staff evaluating finding and determining the “actual” error rate

Attendance Accounting Cont...

⦿ Problems Encountered

- Customized college contact hour calculations
 - Incorrect parameters designed for attendance reporting
 - Banner/Datatel systems have been known to have incorrect parameters for classes that do not match the Chancellor's Office contact hour table (courses with clock time of X:40 or X:45). Systems are calculating more hours than allowed by Chancellor's Office.
- Daily classes have been a problem due to irregular scheduling of classes

Attendance Accounting Cont...

⦿ Problems Encountered

- Classes are not on the 5 minute increment timetable as required by the Chancellor's Office (ex. 8:00-9:33a)
- Non-submitting of census rosters
- Not keeping attendance documents for the required 3 year period (especially important for positive attendance classes)
- For residency determination, incorrectly defaulting to "Resident" for applications with questionable residency determination (#2 status with CCCApply)

Other Non-Compliance Examples

State Compliance

- ❖ Transferring of inappropriate expenditures to program
- ❖ Student eligibility issues with programs
- ❖ Instructional Service Agreement Contracts (missing documentation)

Federal Compliance

- ❖ Financial aid—awarding more FWS or FSEOG to individuals who do not qualify, incorrect amounts, and Return to Title IV
- ❖ No Suspension/Debarment review (evidence of review)
- ❖ Not maintaining monitoring & approval of expenditures
- ❖ Inventory of Federally funded equipment is not taken
- ❖ Support to Salaries charged to programs

Federal Update

- ❑ Uniform Guidance for Federal Awards
 - ❑ 2nd Year, some programs will be going through their first Uniform Guidance Audit
 - ❑ 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
 - ❑ Written policies and procedures
 - ❑ New this year, several US Department of Education grants have been identified on award letter as Research and Development

Resources

- ❑ Current Compliance Supplement

https://obamawhitehouse.archives.gov/omb/circulars/a133_c_compliance_supplement_2016

- ❑ 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 2016-2017

[http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalStandardsandAccountabilityUnit/FiscalAccountability/ContractedDistrictAuditManual.aspx#CDAM for Fiscal Year 2016-17](http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalStandardsandAccountabilityUnit/FiscalAccountability/ContractedDistrictAuditManual.aspx#CDAM_for_Fiscal_Year_2016-17)

- ❑ Student Equity

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

Questions?????



Thank You for Attending!

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