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
  - State 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
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 State 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:
    - Individuals should report to their Department Head or Dean
    - Department Head or Dean should report to the appropriate Vice President
    - Vice Presidents should report and communicate with the Executive Cabinet and establish internal corrective action plans.
    - Communicate uncorrected deficiencies to the Auditors
Gathering of Audit Evidence

- Discussions with Board, Management and Staff
  - Required by Statement on Audit Standards No. 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
  - Owners, executives, directors, managers and/or employees of an organization may commit occupational fraud.
  - 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 2012 Report to the Nations on Occupational Fraud and Abuse conducted by the Association of Certified Fraud Examiners (ACFE)
    - Corruption schemes accounted for approximately one-third of all occupational fraud cases reported.
Gathering of Audit Evidence

- Approximately 43% of fraudsters were employees
- 34.3% were managers
- 4.2% were “others”
- 18.5% were owner/executives. Although the second lowest percentage, this group generated the largest median loss of $373,000 out of 753 cases reported in the United States.

Internal Controls

- Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts.
- Effective internal controls processes provide reasonable assurance that the District’s operations
Gathering of Audit Evidence

- 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.
- Hard controls – segregation of duties, limiting access to cash, management review and approval, and reconciliations.
Gathering of Audit Evidence

- 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, testing takes place.
  - 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
CDAM-State Compliance Update

- 50% law-no changes
- Instructional Service Agreements-no changes
- General Apportionment funding system-no changes
- Residency testing-no changes
- Students actively enrolled-no changes
- Concurrent enrolled K-12 students-minor changes
- Gann Limit-no changes
- CalWorks-removed from testing
- Open Enrollment-no changes
State Compliance Update

- Student Fees-Instructional Material-removed from testing.
- Student Health Fees-no changes
- EOPS & CARE-no changes
- DSPS-no changes
- To Be Arranged-no changes
- State Bond Funded Projects-no changes
- Reconciliation of Education Protection Act (EPA-Prop 30) to district’s accounting records
Non Compliance Examples

State compliance

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

Federal

- Financial aid—awarding more FWS or FSEOG to friends or individuals who do not qualify
- Not maintaining monitoring & approval of expenditures
Any Questions?