



CPAs & BUSINESS ADVISORS

AUDIT AND COMPLIANCE WORKSHOP PRESENTATION

Santa Clarita Community College District

May 14, 2024

PRESENTERS



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AGENDA

- Audit Overview
- Responsibilities of the District
- Internal Controls/What Could Go Wrong?
- State Compliance Requirements
- Federal Compliance Requirements
- Questions



AUDIT OVERVIEW

AUDIT REQUIREMENTS

- 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: Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance* (2 CFR 200)

AUDIT OBJECTIVES

FINANCIAL STATEMENTS

- Our opinion on whether the financial statements are presented fairly

FEDERAL COMPLIANCE

- Our opinion on whether the District is in compliance with Federal guidelines over each major program.

STATE COMPLIANCE

- Our opinion on whether the District is in compliance with State guidelines over certain compliance areas.

1 **INTERNAL CONTROLS**

Interview key personnel over significant areas of the audit. Sample and test transactions to ensure there are proper controls in place. Communicate with management any deficiencies.

2 **FINANCIAL STATEMENTS**

Audit significant balances recorded in the Annual Financial & Budget Report (311).

Sample and test support to the year end balances to ensure they are reasonably stated.

3 **STATE COMPLIANCE**

There are specific areas of compliance that are noted in the CDAM. Most compliance areas affect the calculation of FTES or students served for funding from the state.

4 **FEDERAL COMPLIANCE**

A college is subject to federal regulations, 2 CFR 200 Uniform Guidance, when receiving federal grants. Each grant may have its own specific regulations and requirements.

AUDIT TIMELINE



May 14th, 2024: Audit Workshop



May 2024: Entrance Conference with Board Member



Week of May 13th: Interim Audit Visit



Week of July 15th: A&R and SFA Audit Visit



Week of October 28th: Year End Audit



December 31st: Audit Report due to State Chancellor's Office



January 2024: Presentation of Audit Report to Board of Trustees



RESPONSIBILITIES OF THE DISTRICT

RESPONSIBILITIES OF MANAGEMENT

- 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.
- Communicate with the auditors any known fraud.

RESPONSIBILITIES OF MANAGEMENT

- 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 and new concerns to the Auditors



INTERNAL CONTROLS/WHAT CAN GO WRONG?

INTERNAL CONTROL OBJECTIVES

- Provide for preparation of accurate and reliable financial reporting and information
- Safeguard and provide accountability for assets
- Ensure compliance with federal and state regulations, as well as with organizational policy
- Protect the organization *and* its employees



WHAT DO I NEED TO DO?

Follow District
overall policies
and
procedures

Ensure your
department
has written
policies and
procedures

Review and
approve all
documents
generated by
your
department

PURCHASE REQUISITIONS

When reviewing purchase requisitions, what should you do before approving?

Determine if there are sufficient funds in the budget for the purchase

Determine if the purchase is allowable per district policies and program regulations

Determine if the purchase is needed for the program/department

Determine if the purchase is being coded to the correct account (object code)



WHAT COULD GO WRONG?

- If the purchase requisition was not properly reviewed, the following could happen:
 - Purchase is unallowable or does not support the mission of the District
 - There are insufficient funds in budget to cover the cost of purchase
 - Purchase did not follow proper purchasing guidelines
 - Purchase ended up being for personal use

INVOICES

When reviewing invoices, what should you do before approving?

Determine if the goods has been received or the service has been performed

Determine if the invoice is final and not a duplicate

Determine if the invoice agrees to the purchase order or requisition



WHAT COULD GO WRONG?

- If the invoice was not properly reviewed, the following could happen:
 - Purchase is unallowable or does not support the mission of the District
 - Services were never performed or good were never received
 - Received less or too many goods than what was purchased
 - Costs ended up higher than estimated costs on purchase order/requisition
 - Duplicate invoices resulting in duplicate payment to vendor

TIMESHEETS

When reviewing timesheets, what should you do before approving?

Determine if the timesheet is submitted timely for review

Determine if there was any leave and if it was properly included



WHAT COULD GO WRONG?

- If the timesheet was not properly reviewed, the following could happen:
 - Fictitious hours reported for employee
 - Leave inaccurately reported
 - Potential penalties from over/under reporting of hours or pay

PETTY CASH



Petty cash should be used infrequently and only for small transactions.



In order to have a petty cash/change fund, you should receive pre-approval from Business Services.



You should still have purchases pre-approved when utilizing petty cash.



Petty cash must always be secured. It should be locked and stored in a safe when not used.



Cash balances must be reconciled frequently. Starting with authorized balance and adding receipts and subtracting purchases.



WHAT COULD GO WRONG?

- Theft, fraud, and embezzlement from not safeguarding cash
- Delay in depositing funds could result in delayed recording of revenue
- Lack of receipts resulting in no documentation of intended purpose of funds or who they were collected from
- Unallowable purchases

CREDIT CARDS

Credit cards should only be used when necessary

Purchases should still be in accordance with District policies and procedures

Credit cards should always be in a secured location. Never give your card to others to make purchases

Original receipts of purchases should be retained and attached to credit card statement

Timely review and reconciliation of credit card statement



WHAT COULD GO WRONG?

- Unallowable or personal purchases made
- Fraudulent charges not addressed
- Lack of receipts resulting in misunderstanding of purpose of purchase
- Lack of safeguarding credit card could result in potential theft or fraud



STATE COMPLIANCE REQUIREMENTS

CONTRACTED DISTRICT AUDIT MANUAL (CDAM)

- The Contracted District Audit Manual (CDAM) requirements apply to annual financial and compliance audits of community college districts in accordance with Education Code section 84040.5. The intent of the audits is to promote efficient and effective use of public funds for education in California by strengthening fiscal accountability at the district, county and state levels, and to encourage sound fiscal management practices among community college districts.

CDAM AUDIT AREAS

SCFF Data
Management
Control
Environment

SCFF
Supplemental
Allocation Metrics

SCFF Success
Allocation Metrics

Salaries of
Classroom
Instructors (50%
Law)

Apportionment for
Activities Funded
From Other
Sources (ISA)

Student Centered
Funding Formula
Based Allocation:
FTES

Residency
Determination for
Credit Courses

Students Actively
Enrolled

Dual Enrollment
(CCAP)

Scheduled
Maintenance
Program

GANN Limit
Calculation

Apprenticeship RSI
Funds

DSPS

Proposition 1D
and 51 State
Bond Funded
Projects

Education
Protection Account
Funds

Student
Representation
Funds

State Fiscal
Recovery Fund

COVID-19
Response Block
Grant
Expenditures

23/24 CDAM UPDATES

- **New compliance areas for 23/24:**
 - None
- **Changes to compliance areas for 23/24:**
 - Section 427 – Dual Enrollment: Added language for updates to Title 5 related to parental consent and information that cannot be required as a condition of dual enrollment.
- **Deletions of compliance areas for 23/24:**
 - None

EXAMPLES OF NONCOMPLIANCE

Unallowable
expenses
charged to
program

Misreporting
students as
residents

Inaccurately
calculating FTES

Inaccurately
calculating census
day

Not meeting the
50% Law

Misreporting
success and
supplemental
metrics



FEDERAL COMPLIANCE REQUIREMENTS

ALLOWABLE COSTS AND COST PRINCIPLES

Allowable Costs requirements govern the types of expenditures allowed and how they are accounted for.

- Be **necessary and reasonable** for the performance of the Federal award
- Be **allocable** to the federal award
- Conform to any limitations or exclusions set forth in the Uniform Guidance or by specific Federal award requirements
- **Be adequately documented**
- **Be consistent with policies and procedures** that apply uniformly to both federally financed and other activities of the non-Federal entity
- Be determined in accordance with **generally accepted accounting principles (GAAP)**
- Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program

CONTROL ACTIVITIES

- Review and approval of invoices and charges by program manager/director
- Review of journal entries and transfers for allowability
 - Don't forget about procurement and other compliance considerations
- Review of budget-to-actuals on a regular basis to identify any anomalies
- Written procedures required for determining allowability of costs



ALLOWABLE COSTS: PERSONNEL COSTS

- Personnel charges must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
 - Standard payroll and human resource controls
 - Review and approval of new hire and new position account codes
- Support the distribution of the employee's salary or wages among specific resources if the employee works on more than one Federal award, or a Federal award and non-Federal award
 - Use personnel activity reports in accordance with policies and procedures to justify employee's distribution and time spent working on federal programs



“Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.”

ALLOWABLE COSTS: PERSONNEL COSTS

Budget vs Actual

- Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards

Payroll Processes and Controls

- Based on entity's established policies and procedures
- Common Personnel Review Procedures
 - Single-funded Employees vs. Multi-funded Employees
- Timely completion of personnel review procedures by knowledgeable and appropriate personnel

Other Considerations

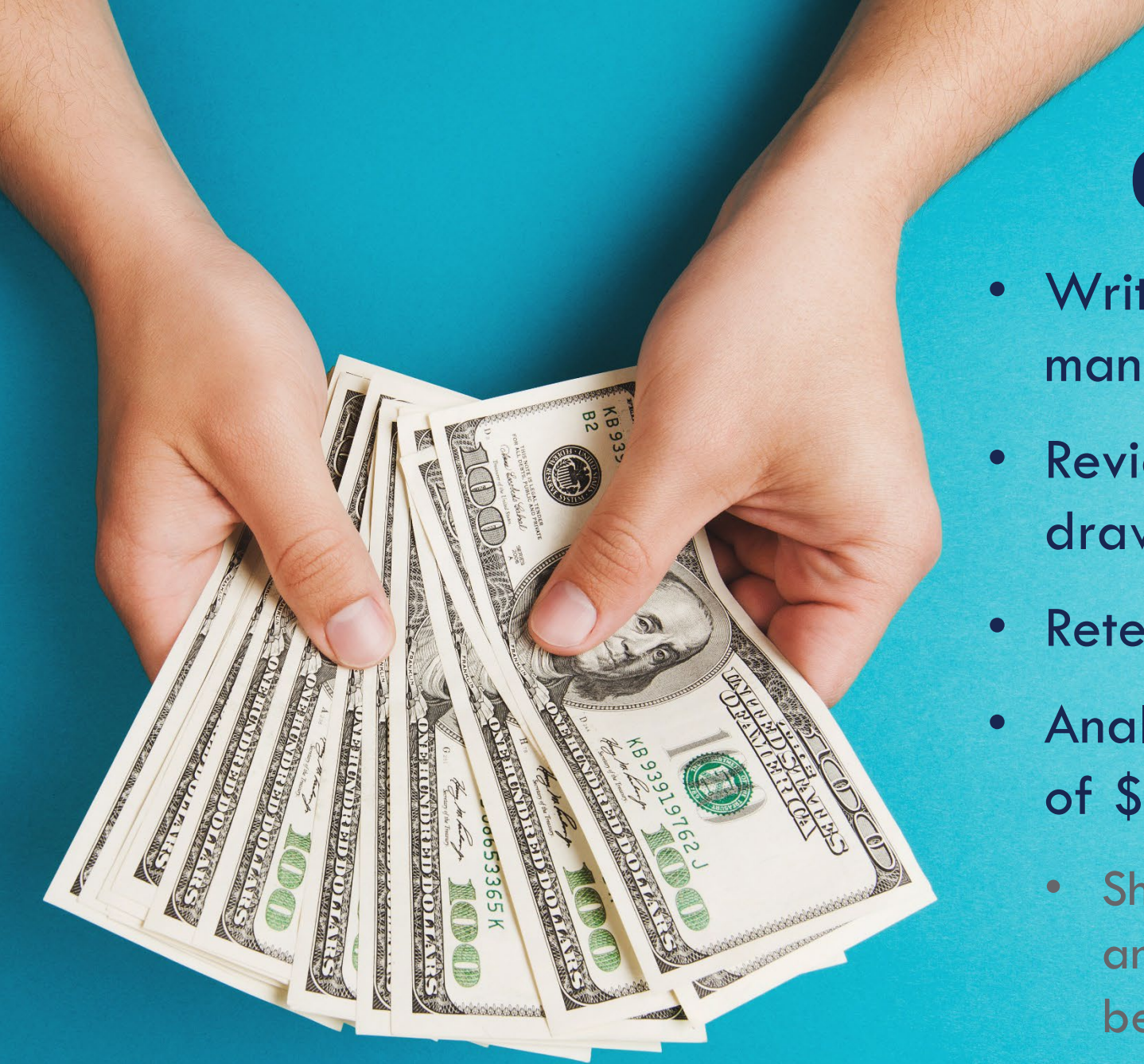
- Ensure your payroll practices are consistently applied to all resources.
- 2 CFR 200.430 and 2 CFR 200.431 for compensation related standards
- Research any unusual fringe benefits (unusual leaves, severance, etc.)

SELECTED ITEMS OF COST

- **Advertising and Public Relations – Allowable with restrictions**
 - Advertising for recruitment for award, procurement, disposal of surplus materials, and program outreach
 - Public relations for items specifically required by the award and necessary communications to the public under the performance of the award
 - Not allowed: Promotional items/memorabilia, promotion for the non-Federal entity in general
- **Alcoholic beverages – Unallowable!**
- **Conference expenses – Allowable with restrictions**
 - Conference must be necessary and reasonable under federal award performance
- **Contributions/donations – Unallowable!**
- **Student Activity Costs – Unallowable**
 - Except as specifically provided in the federal award

CASH MANAGEMENT

- Written procedures required over cash management
- Review of any cash requests, drawdowns, or reimbursement reports
- Retention of documentation
- Analysis and return of interest in excess of \$500 per year
 - Should have documentation of this analysis, even if funds aren't required to be returned



ELIGIBILITY

- Documented eligibility criteria and procedures available to appropriate staff members
- Review of input data and eligibility determinations
 - Document retention for intake forms and source data needed for eligibility decisions
- Thorough documentation of any “judgement-based” decisions for eligibility, if allowed by grant
- Review or verification process over a sample of eligibility determinations to determine controls and processes are working



Does a third-party help with making eligibility determinations? It is still the grantee’s responsibility to ensure compliance and that internal controls are in place and operating effectively.

EQUIPMENT AND REAL PROPERTY

1 EQUIPMENT PURCHASES

Equipment of \$5,000 must be tracked with data such as: description, serial number, source of funding, acquisition date, cost, and the federal participation rate.

- Review of equipment purchases for allowability
- Implementation of system capable of maintaining data
- Safeguarding of assets

2 PROPERTY INVENTORY

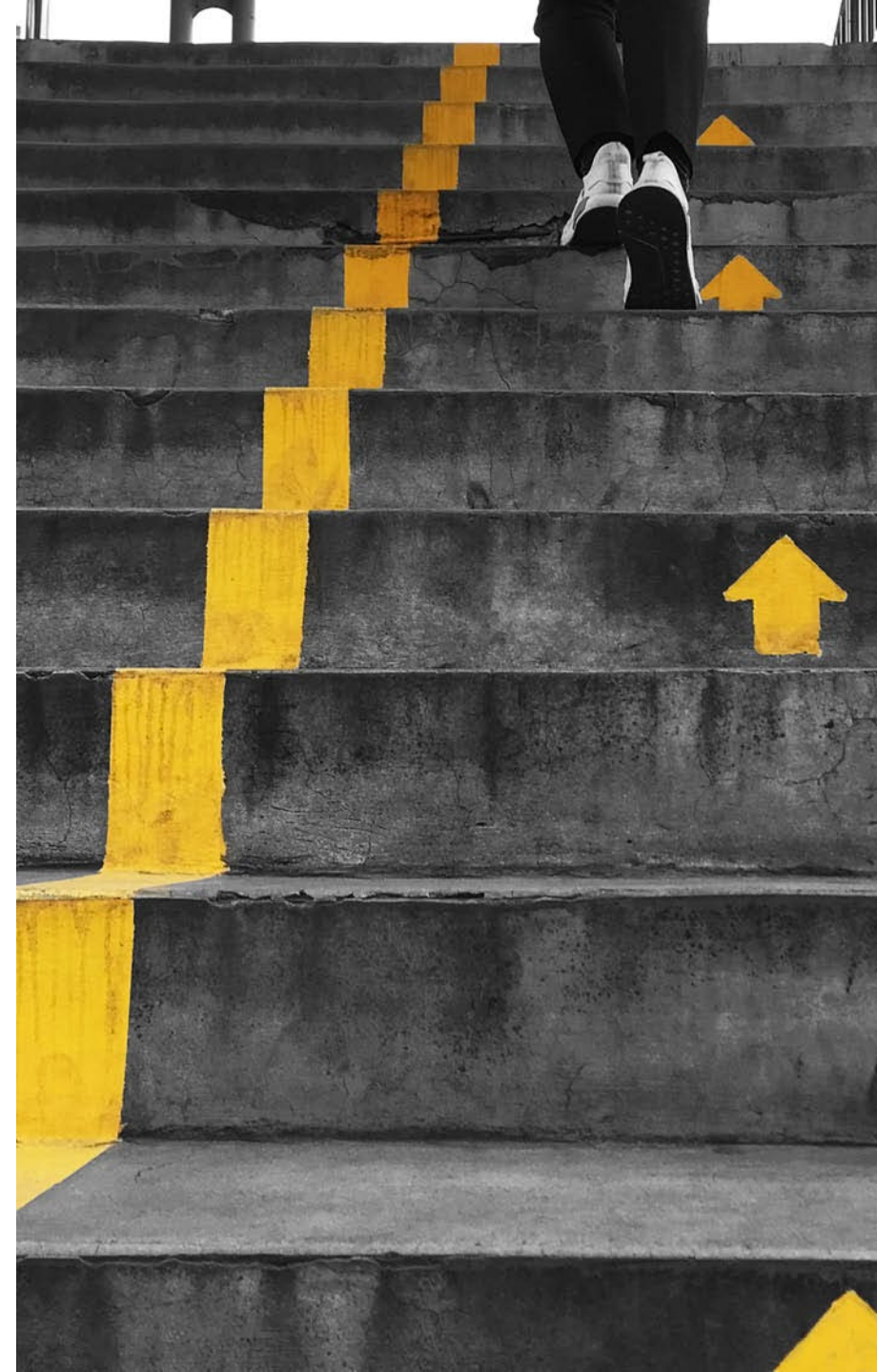
Inventory of equipment and property required every two years.

- Review of inventory results and reconciliation to underlying accounting and property records

3 PROPERTY DISPOSITIONS

Requirements for disposition of assets purchased with federal funds can vary. Inquire with granting agency when in doubt.

- Approval of any dispositions by grant manager



MATCHING, LEVEL OF EFFORT, AND EARMARKING

MATCHING

- Matching requirements are built into program budgets
- Periodic review of matching requirements throughout the grant period
- Be mindful of in-kind matches

LEVEL OF EFFORT

- Periodic review of status for maintenance of effort requirements, especially before closing
- Supplement not supplant: management should review program costs to ensure they do not supplant general fund activities

EARMARKING

- Minimum or maximum monetary amounts are budgeted annually for the program
- Earmarks for on nonmonetary, like program participants, are reviewed periodically and communicated to program staff

PROCUREMENT, SUSPENSION & DEBARMENT

- **Procurement** requirements govern the entity's purchasing and contracting procedures.
- The **suspension and debarment** process protects the federal government from fraud, waste and abuse by using a number of tools to avoid doing business with non-responsible contractors
- An auditee must establish procurement policies in accordance with federal guidelines
- Auditees cannot contract for more than \$25,000 cumulative with vendors who are suspended or debarred



FEDERAL PROCUREMENT REQUIREMENTS

- The non-Federal entity must have and use documented procurement procedures, consistent with Federal, State, local, and tribal laws and regulations.
 1. Policies and procedures must comply with Federal, State, and local laws and regulations (California Public Contract Code (PCC))
 2. Non-federal entity should follow their procurement policy. When conflicts exist, the most stringent regulation should be followed
- Procurement policy must include the following:
 - Address requirements of Uniform Guidance
 - Conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts
- Non-federal entities must conduct all procurement transactions in a manner providing full and open competition



FEDERAL PROCUREMENT THRESHOLDS

- Policy must meet federal standards.
- Procurement Thresholds:
 - Micro - < \$10,000
 - Small Acquisition - > \$10,000 and < \$250,000
 - Competitive Bidding/Proposals - > \$250,000
 - May meet requirements to raise micro level of certain conditions met
- Noncompetitive purchases:
 - Sole-source
 - Emergency
 - Competition is inadequate
 - Prior approval

NONCOMPETITIVE PROCUREMENT

- Federal regulations allow for noncompetitive procurement only in limited circumstances.
 1. **Single Source:** The item is available only from a single source.
 2. **Public Emergency:** A public emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation
 - This should factor in the type of items being purchased and who they relate to the emergency.
 3. **Preapproval** from federal or granting agency
 4. **Competition is inadequate:** After solicitation of a number of sources, competition is determined inadequate.
- Key documentation to justify sole source purchasing need to be maintained!



PCC BID EXCEPTIONS

- Computers, software, and related electronic equipment
- Textbooks, library books, and other educational materials
- Specialty services related to financial, economic, accounting, engineering, legal, insurance, or administrative matters
- These are not exempted under Uniform Guidance, be very mindful of the funding source before contracting!



SUSPENSION AND DEBARMENT

- “Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred.”
 - Contracts for goods or services that are expected equal or exceed \$25,000
 - All subrecipient pass-throughs
- The non-Federal entity must verify that the vendor or subrecipient is not suspended or debarred or otherwise excluded from participating in the transaction

SUSPENSION AND DEBARMENT

An entity can implement suspension and debarment verification in several ways:

1. Checking the Excluded Parties List System (EPLS) on the SAM website

- There needs to be documentation!
- Stamp on PO
- SAM website search results print-out
- Documentation within the vendor file

2. Collecting a certification from the vendor

3. Adding a clause or condition to the covered transaction with that entity

- Self-certification clause on the PO and contract terms
- Be careful; this route can still result in doing business with excluded parties!

BUILD AMERICA, BUY AMERICA ACT

- BABAA established a domestic content procurement preference for all federal financial assistance obligated for infrastructure projects after May 14, 2022
- Generally, non-federal entities are informed of a requirement to comply with BABAA by federal agencies through award terms and conditions
 - In some cases, waivers were provided by the federal agencies
- New audit procedure to test a sample of procurement agreements for infrastructure subject to BABAA to determine whether the non-federal entity included domestic preference provisions in the agreements or obtained a waiver

PROCUREMENT, SUSPENSION AND DEBARMENT



- Common Findings:
 - Lack of written policies (this is the #1 finding!)
 - Lack of documentation of quotes
 - Lack of competitive bidding
 - Services provided without or prior to executed contract
- Prevention:
 - Review procurement policies
 - Follow procurement policies based on funding source
 - Keep the documentation on quotes/bids

REPORTING REQUIREMENTS

- Every grant will have some form of reporting requirements, so organization is key!
- Review grant awards and program requirements and create a reporting calendar to ensure the program team meets reporting deadlines.
- Management review and approval of reports prior to submission.
- Maintain documents, supporting calculations, and other underlying source data used to prepare the reports.
 - These will be requested during audit and program review. Findings can result when supporting documentation is not maintained, and there are timing differences in real-time data.
- Maintain documentation of timely submission of reports.
- Identify where FFATA reporting is required – this is a common finding!

SUBRECIPIENT VS CONTRACTOR

Different requirements for contractors vs subrecipients

Different best practices

Different stewardship is implied

Different procurement process

DETERMINATIONS

Subrecipient	Contractor
Creates the assistance relationship	Obtains goods / provides services for the entity and creates a procurement relationship
Determines who is eligible (i.e. program participants) to receive what grant assistance	Provides goods / services within normal business operations
Has performance measured in relation to whether objectives of the grant program were met	Provides similar goods / services to many purchasers
Has responsibility for programmatic decision-making	Normally operates in a competitive environment
Must comply with program requirements specified in the grant awards	Provides goods / services ancillary to federal program
Uses funds to carry out program for public purpose specific in award / statute etc.	Not subject to compliance requirements as a result of the agreement, but may have other requirements related to local law

REQUIREMENTS FOR PASS-THROUGH ENTITIES

Requirements can generally be broken into 3 areas:

Pre-award requirements

Subaward
communication

Risk assessment

During the award
requirements

Monitoring

Findings

Management decisions

Corrective action

Post-award
(or after the fiscal year)
requirements

Single audits

Findings

Management decisions

Corrective action

DURING THE AWARD MONITORING REQUIREMENTS

- Monitor the activities of the subrecipient to ensure that the subaward is used for authorized purposes, complies with the terms and conditions, and achieves performance goals.
- Monitoring of the subrecipient **must** include:
 - Review of financial and performance reports
 - Follow-up and ensuring action on all deficiencies noted through observations or on-site reviews
 - Consider whether the results necessitate adjustments to the District's records
 - Issuing a management decision for applicable audit findings
 - Pertaining only to the Federal award provided to the subrecipient from the pass-through entity



COMMON FINDINGS – SUBRECIPIENT MONITORING

Subrecipient Monitoring Findings:

- Subawards not updated for U.G.
- No risk assessment policies or procedures
- Risk assessment policies/procedures but lack of performance
- Lack of review of subrecipient audit reports
- Lack of management decisions on findings
- Lack of suspension and debarment verification on subrecipients (or not documented)

COMMON FINDINGS – SUBRECIPIENT MONITORING

Subrecipient Monitoring Prevention:

- Training, training, training
- Documented policies
- Document retention
- Standardized forms for risk assessment and monitoring
- Calendar of monitoring
- Assignment of responsibilities
- Design and implement internal controls to monitor compliance

SPECIAL TESTS AND PROVISIONS

Carefully review grant agreements and regulations to identify any other compliance requirements specific to the program.

Review the OMB Compliance Supplement to identify special test that are subject to audit each year.

OVERALL BEST PRACTICES

- Create a program summary sheet that contains important compliance requirements, reporting deadlines, and oversight agency points of contact.
- Ensure program documentation is maintained for the required period of retention and is available to appropriate staff members.
- Periodic training for program staff on compliance and regulation changes.
- When in doubt, ask! Check with your auditors or granting agencies for unusual transactions.





QUESTIONS?

THANK YOU!

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