



**CPAs & BUSINESS ADVISORS**

# **AUDIT AND COMPLIANCE WORKSHOP PRESENTATION**

Santa Clarita Community College District

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# PRESENTERS



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# AGENDA

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



# AUDIT OVERVIEW

# AUDIT REQUIREMENTS

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- 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.





# **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?

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# PURCHASE REQUISITIONS

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

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

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

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Determine if the purchase is needed for the program/department

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

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# WHAT COULD GO WRONG?

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- 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

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When reviewing invoices, what should you do before approving?

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

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Determine if the invoice is final and not a duplicate

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Determine if the invoice agrees to the purchase order or requisition

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A close-up photograph of a person's hands, wearing a white shirt and a ring, sorting through papers in a metal filing cabinet. The papers are white and appear to be invoices or documents. The background is blurred, showing a window with light coming through.

# WHAT COULD GO WRONG?

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- 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

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When reviewing timesheets, what should you do before approving?

Determine if the timesheet is submitted timely for review

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

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A close-up photograph of a person's hands, wearing a white shirt and a ring, pulling a document from a black filing cabinet. The document is white with some text visible. The background is blurred, showing a window with light coming through.

# WHAT COULD GO WRONG?

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- 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

# CREDIT CARDS

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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?

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- 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 AND COMMON FINDINGS**

# 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  
Recovery Block  
Grant  
Expenditures

# 24/25 CDAM UPDATES

- New compliance areas for 24/25:
  - COVID-19 Recovery Block Grant Expenditures
- Deletions of compliance areas for 24/25:
  - COVID-19 Response Block Grant Expenditures

# 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 AND COMMON FINDINGS**

# FEDERAL COMPLIANCE REQUIREMENTS

- Allowable Costs
- Cash Management
- Eligibility
- Real Property and Equipment
- Matching/Level of Effort/Earmarking
- Period of Performance
- Procurement, Suspension & Debarment
- Program Income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

# 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

# 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

# COMMON FINDINGS – ALLOWABLE COSTS

## COMMON FINDINGS

- Lack of time certifications for employees charged to program
- Allocation of personnel costs do not adequately reflect actual time charged to program
- Unallowable costs charged to program
- Inadequate support to costs
- Lack of review of costs

## PREVENTION

- Training on program requirements and allowable costs that can be charged
- Personnel costs policy – to ensure consistent tracking of actual time
- Retain adequate documentation of costs charged to program
- Have a knowledgeable individual review costs to ensure they meet program requirements

# 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!



A pair of hands is shown holding a fan of US one hundred dollar bills. The bills are fanned out, showing the portrait of Benjamin Franklin and the serial number KB 93919762 J. The background is a solid teal color.

# 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!

# 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

# SUBRECIPIENT MONITORING

- Grants may be allowed to have subrecipients to help assistance with the program.
- These subrecipients must be monitored by the granting agency.
- The granting agency must perform the following:
  - Create a subaward agreement that spells out all requirements outlined in 2 CFR 200.332(a)(1)
  - Perform an assessment of subrecipient over risk of noncompliance
  - Monitor subrecipient and ensure accountability
    - Review audit report and follow up on findings over grant

# SUBRECIPIENT VS CONTRACTOR DETERMINATION

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

# 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)



**QUESTIONS?**

# THANK YOU!

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