

Internal Controls Review 2012/13

Sheena Tran, CPA

May 19, 2014

TO: ACCCA BOARD OF DIRECTORS

This is considered to be a financial review and recommendations for the Association of California Community College Administrators (ACCCA) regarding its financial records and day to day operations. The period examined is July 1, 2012 through June 30, 2013. No deficiencies in internal controls were noted to be material weaknesses. Recommendations and suggestions were made only to better improve ACCCA's internal controls. This engagement is not intended to generate an opinion on the Association's financial statements.

To: Board of Directors, Association of California Community College Administrators
(ACCCA)

From: Sheena Tran, Certified Public Accountant

Date: May 19, 2014

Subject: **Financial Review & Recommendations** for Association of California
Community College Administrators (ACCCA)

I performed the internal audit review of the financial records and operations of the Association of California Community College Administrators (ACCCA) for the fiscal year ended **June 30, 2013**. *During the testing, I found no items that I believe are major weaknesses.* Based upon my testing, I have made recommendations and suggestions to better improve ACCCA's internal controls.

PURPOSE

The purpose of the review was to determine whether:

- controls were adequate to ensure the financial records were accurate, complete and timely
- ACCCA's assets were properly safeguarded and accountable for
- ACCCA's financial activities were in compliance with governing documents (charter, bylaws, procedures manual, meeting minutes, etc.) and regulations
- controls are in place to prevent & detect errors or fraud
- in summary - proper internal controls are in place; internal controls at the organizational level relate to the reliability of financial reporting, timely feedback on the achievement of operational goals and compliance with laws and regulations

SCOPE

The review examined internal controls and sampled transactions for fiscal year ended June 30, 2013. Specific areas reviewed included: cash and negotiables, receivables, payables, fixed assets, payrolls, net assets, disbursements and receipts, Board minutes, financial records and contracts.

As stated in the engagement letter, **this is not considered to be an audit**. Therefore, this engagement is not intended to generate an opinion or any other assurance on the Association's financial statements.

IN SUMMARY

The attached Operational Audit Report provides comments and details on significant issues, along with recommendations for improvement. All matters were discussed with the Executive Director, Susan Bray, during and after the audit. The Association has issued its responses in regards to the audit findings and they have all been incorporated into this report. Based on ACCCA's turnover in staffing for the past year, I would like to commend Ms. Bray for a job well done in diligently working with her current staff to ensure that ACCCA is adhering to proper internal control guidelines as recommended. It appears that there may be many procedural changes for the upcoming fiscal year. According to Ms. Bray, she will be making it her priority to work with the Policies & Procedures Committee to update ACCCA's policy and procedures manual to reflect best current practices. This would be an excellent goal for the Association to be able to achieve.

As always, it was my pleasure to serve the Association. The cooperation and assistance of the ACCCA staff was greatly appreciated during this review process. Please do not hesitate to contact me with any questions pertaining to this audit report.

Cc: Susan Bray, Executive Director - ACCCA

**ASSOCIATION OF CALIFORNIA COMMUNITY COLLEGE ADMINISTRATORS
OPERATIONAL AUDIT REPORT
For Fiscal Year 2012/2013**

Background

Established in 1975, the Association of California Community College Administrators (ACCCA or “the Association”) is a non-profit member-supported professional organization for administrators and managers of California’s community college system. ACCCA provides its members with insurance benefits, publications, professional development opportunities, business partnerships, advocacy, peer counseling and assistance. Its operations consist of a small office (5 Full Time Employees), with a budget of \$646,000 in revenue and \$639,000 in expenses for fiscal year 2012-2013.

Status of Previous Year Finding 2011/12 Audit:

All prior year findings have not been implemented with the exception of Finding #2 – Disbursement Supporting Documentation. One new finding regarding approval of disbursements was added, see current year Finding #2 for details.

2012/13 Audit Current Year Findings:

***Finding #1: Timeliness of Cash Deposits – Carryover finding from FY 2011/12
(C-3/2 & C-3/4)***

Six large deposits were selected for testing of cash receipts for the month of April 2013. Each deposit contained many small individual items, such as checks received and credit card payment transactions. Therefore, 102 items were tested in total and 38 of those items were not deposited in a timely manner. This constitutes a 37% error rate. Two of six deposits were not deposited promptly and intact.

Recommendations: *All monies collected should be deposited intact and in a timely manner. According to the original operating procedures, deposits in excess of \$3000 should be deposited every other week. This was not occurring for two of the six deposits tested. These particular deposits were considered 21 and 11 days in excess of the maximum bi-weekly rule.*

Association’s Response: We agree with the finding. *In the year that was examined (2012-13) we operated under an existing policy that requires staff to make cash deposits bi-weekly unless receipts exceeded \$3,000 in any given week. As revenue receipts tend to fluctuate from week to week depending on event activity, and as the level of receipts has grown since the time the policy was put into place, at times our deposits may exceed the \$3,000 rule.*

As this was a carry-over finding from a prior ICA report, in 2013-14 we investigated options for making deposits automatically. The system we selected in the 13-14 year was the “Lock Box” service through Bank of America. This service is now engaged and the majority of our receipts are now directly deposited to our General Fund account via a P.O. Box address that most district payees have already transitioned to. In addition, our internal processes have been adjusted to process daily “Lock Box” reports from Bank of America and incorporate them into what are now, generally, weekly deposits.

While there are still some receipts coming directly to our office, and the Lock Box service does not apply to ACBO or other client accounts, the volume and cumulative amounts of these deposits is greatly diminishing. Even so, physical deposits must still be made on a regular basis and in a timely manner. Given these new circumstances described above, we are proposing a modification to the existing policy which would make it current with these modified procedures:

PROPOSED POLICY STATEMENT: Cash receipts must be deposited in a timely manner. This shall be defined as depositing all receipts on a regular basis not to exceed ten days for all ACCCA and applicable affiliate clients. Any deposits which exceed the ten day rule must be accompanied by a written explanation of circumstances that prevented the scheduled deposit.

Finding #2: Disbursements Approval – New Finding for FY 2012/13
(D-4)

Auditor selected a sample of 15 cash disbursements for testing of internal controls. During the selection of samples, one disbursement lacked proper approval for payment. The coversheet was missing from the voucher package; therefore, authorization for payment was also missing.

Recommendations: *All expenses incurred by the Association should include proper supporting documentation. Approvals from a Board member and the Executive Director of Operations should be attached, as well as invoices and proof of purchases. If expenses were properly reviewed and approved prior to disbursement, documentation of such expenses should be properly maintained for audits and reviews.*

Association’s Response: **We agree with the finding.** *From a procedural standpoint we’ve reviewed with the auditor the process we use for getting approval of vouchers for payment. The auditor concurs that the process is sufficient, both for automated checks (two signatures required) and for the more infrequent manual checks (one signature required). In the course of preparing an invoice for payment, the invoice is pre-approved by the Executive Director (ED) who attaches an authorization form with appropriate explanation and designated coding. The “voucher package” is then passed to a designated staff member who enters the amount of the payment into Quick Books per the coding selected and generates a check which is attached to the voucher package and returned to the ED for review and signature. A collection of these voucher packages is then transmitted to the designated board member (usually the 2nd VP) on a regular basis for review and the required second signature. Once the completed voucher package is returned to the office, the checks are distributed and the backup documents are filed by vendor, usually intact. Unfortunately, in the sample tested, the authorization sheet had become*

separated from the back-up in the filing process. I have since reviewed processes with staff to reinforce the importance of keeping the signed authorization form attached to the voucher package (as the cover) and we have since examined all 13/14 vouchers to date and have found them to all be complete and intact.

**Finding #3: Policies & Procedures – Carryover finding from FY 2011/12
(I-1 & I-3)**

ACCCA does not currently have an up to date policies and procedures manual in place. The most current version was dated June 2010 and needs to be revised to reflect best current practices of the Association. A new organizational chart has been created and job descriptions are now on file to depict duties for key employees of the organization.

Recommendations: Every organization should have a current policies and procedures manual in place. Proper guidelines should be followed in order for the Association to run its day to day operations smoothly. Please clearly state the new deposit timelines in the revised procedures. This will be the expectation and course of action for ACCCA staff members to follow pertaining to cash receipts deposits. According to ACCCA's Executive Director of Operations, a Policy & Procedures Committee has been established to meet in June 2014 to work on revising the original policies and procedures for the Association.

Association's Response: We agree with the finding of the auditor. This is a recurring finding which we had resolved in concept in the prior audit pending the formation and action of the Policies & Procedures Committee—a standing committee of the board. Although it was officially formed in the 12/13 year, due to workload priorities the committee was not active in the 13/14 year.

In order to resolve this finding, the Executive Director who serves as chair of the committee, must make this objective a higher priority. She must work to pull together a contingent of board members to meet regularly in the 2014-15 year and review the existing structure and language of the Manual of Operations and propose appropriate revisions and policy updates to re-create it as the ACCCA Policy and Procedures Manual and make it current with existing processes.

**Finding #4: Aged Reconciling Items – Carryover finding from FY 2011/12
(B-3/2)**

There are no written procedures in place to resolve aged reconciling items. Three checks remain reconciling items on ACCCA's bank reconciliations as of the 2012/13 audit (performed in March 2014). They are the following: 1)Check #9421 made out to Fonzie Ikeda for \$37.68 dated 08/08/12, 2)Check #9468 made out to Dr. Richard Roberts for \$408 dated 10/11/12 and 3)Check #9528 made out to Hilton San Diego Resort for \$2500 dated 12/18/12. These checks should be written off as soon as possible if they are not going to be cashed by the payees.

Recommendations: ACCCA should develop operating procedures with timelines for reconciling items. Procedures for resolving outstanding checks greater than **180 days** outstanding may include:

- Document number of attempt(s) to contact the payee
- If able to contact payee, reissue check and stop payment for the outstanding item
- If unable to contact payee, issue a stop payment for the check

Association's Response: We agree with the finding. All three of the items submitted as evidence in this finding were ultimately voided checks but were not indicated so on Quick Books in the follow-up to the prior ICA. They therefore continued to show as un-reconciled. However, back up documentation in the files now show them as voided checks and they have been voided in Quick Books as well. Staff has conferred with our accountant and agreed that they will develop a quarterly reconciliation report to be submitted to the Executive Director for resolution and documentation. Additionally, the ED will develop appropriate operating procedures related to reconciling aged items which will be submitted to the Policy & Procedure committee for review per the auditor's suggestions. To that end, sample language has been identified and is attached to this response for the committee's review.

**Finding #5: Purchasing Fixed Assets – Carryover finding from FY 2011/12
(G-2/1)**

It appears that the Association is not adhering to its fixed asset guidelines. Fixed asset procedures provide guidelines for acquisition, capitalization and disposition of ACCCA's assets. ACCCA's fixed asset schedule, also referred to as the Depreciation Detail Listing, did not include all new assets purchased in 2012/13 fiscal year. Also, two items purchased in 2011/12 fiscal year were also omitted from the Depreciation Detail Listing as of this year's audit.

Recommendations: The fixed asset procedures should provide detail on asset capitalization (dollar amounts, useful life, depreciation, etc.), and disposition of obsolete equipment. Management should review the fixed asset schedule at least annually to ensure it properly reflects ACCCA's current assets. Additionally, ACCCA staff should work with Buckley & Endow, CPA to reconcile the office equipment listing of fixed assets to ensure that the capitalization policy is being followed. In this instance, not all assets were included on the depreciation schedule to properly reflect what is on the financial statements.

Association's Response: We agree with the auditor's finding. Staff is currently working with the accountant to identify an efficient way of maintaining the accountant's "Depreciation Detail Listing" on a regular basis throughout the year and incorporating the internal "Fixed Asset Listing" tracking grid that is maintained by staff to ensure they are both current and serve as a check and balance for one another.

All parties agreed that this task needs to be re-prioritized within regular accounting activities and that procedures must be developed by staff to articulate specific steps in the process of acquisition or release of furniture and equipment to document the status and history of these items. These procedures will be drafted by the Executive Director and submitted to the Policy and Procedures Committee for review.

**Finding #6: Payroll Timecard Procedures – Carryover finding from FY 2011/12
(D-1 & D-1/2)**

ACCCA's payroll is being processed by Buckley & Endow, a CPA firm. The firm uses the annual budget and relies on the Board approved payroll schedules and calculates the benefits to process each bi-monthly payroll for ACCCA staff, with the exception of the Administrative Assistant position and the Communications Coordinator position, which are both considered to be non-exempt. Timecards are submitted directly to Buckley & Endow for processing. The Executive Director of Operations is currently approving them electronically through email notifications. Hard copies were not available at time of audit. Timecards also lacked employee signature and supervisor signature.

Recommendations: *All work performed on timecards are considered positive attendance reporting. Timecards should be approved by the direct supervisor of the employee performing the tasks and employees should also sign to confirm that they have worked the time specified. Information such as date and time worked must be accurate and reviewed carefully by management before payment is allowed to prevent misuse of funds. The Association should also keep hard copies on file for all non-exempt employees.*

Association's Response: *We agree with the auditor's finding.* *Existing procedures have been amended to allow for a hard copy timecard for all non-exempt employees that must be signed by the employee upon submission. The immediate supervisor (the Executive Director) will review and countersign the approved timecard, and it will be transmitted to the accountant for processing.*

**Finding #7: Financial Statement Presentation – Carryover finding from FY 2011/12
(F-1/2 & H workpapers)**

The balance sheet of the financial statements depict two items that may be misleading to the readers: 1) "Cash in Checking" depicts a negative amount of \$3,231 for the 2012/13 fiscal year and 2) "Other Liabilities" show a balance in the scholarship account and PAC Clearing account. Cash is normally a positive balance on the financials; in this instance, no explanations were noted on the financial statements regarding the negative amount for cash in the checking account. Also, scholarship and clearing accounts would normally show on the current asset sections of the balance sheet. There should have been an explanation in the footnotes of the financial statements from Buckley & Endow, CPA for the amounts represented.

Recommendations: *To ensure that readers are clear of what current assets and liabilities are on the financial statements, explanations should be noted in the footnotes of the audit report presented by Buckley & Endow CPA, to help the reader understand the abnormal (negative) reporting of cash and scholarship accounts. It is recommended that this be done for the 2013/14 financial statements if the same occurrences are to take place in the future.*

Association's Response: **We agree with the auditors finding.** *Steps are being taken by the accountant to ensure that all 2013-14 financial reports show the suggested explanations for reporting negative cash and scholarship accounts where appropriate.*