BUDGET AND FINANCE COMMITTEE
INTERNAL AUDIT DEPARTMENT
2014-15 Second QUARTER REPORT
APRIL 15, 2015

A. Audit Finding Matrix and Audit Report Rating Matrix
B. Audit Reports
   I. “Procurement Audits” Six Colleges and Educational Service Center
   II. Associated Student Organization Audits – Two Colleges
<table>
<thead>
<tr>
<th>Risk Rating Action Step</th>
<th>Leading Practice</th>
<th>Verbal</th>
<th>Marginal</th>
<th>Moderate</th>
<th>Considerable</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicated</td>
<td>Possible Body of Report</td>
<td>Verbal</td>
<td>Body of Report</td>
<td>Executive Summary</td>
<td>Executive Summary</td>
<td>Executive Summary</td>
</tr>
<tr>
<td>Regulatory Impact</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
<td>Incidental</td>
<td>Serious</td>
<td>High or Related</td>
</tr>
<tr>
<td>Potential Financial Impact</td>
<td>Process Improvement</td>
<td>Insignificant</td>
<td>&lt; 10% of Department or Program Budget</td>
<td>11% to 30% of Department or Program Budget</td>
<td>31% to 50% of Department or Program Budget</td>
<td>&gt;50% of Department or Program Budget</td>
</tr>
<tr>
<td>Error occurrence percentage Rating ***</td>
<td>N/A</td>
<td>1% to 15%</td>
<td>16% to 40%</td>
<td>41% to 65%</td>
<td>66% to 80%</td>
<td>81% to 100%</td>
</tr>
<tr>
<td>Corrective Action</td>
<td>N/A</td>
<td>Department or Program Discretion</td>
<td>120 days</td>
<td>90 days</td>
<td>60 days**</td>
<td>30 days**</td>
</tr>
<tr>
<td>Level of Manager Attention</td>
<td>Varies</td>
<td>Department or Program Manager</td>
<td>Deans Associate VP</td>
<td>VP Director</td>
<td>Vice Chancellor Sr. Associate Vice Chancellor President</td>
<td>Chancellor Deputy Chancellor CFO President</td>
</tr>
<tr>
<td>Audit Tracking/ Follow-up</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

** Immediate interim controls need to be established.

*** This is only applicable if there is no regulatory impact and the financial impact cannot be computed.
Leading Practice

- No control concerns; potential process improvement observation only.
- Impact improves customer service; improves process for employees; may increase revenue or lower costs.
- Attention and decision as to implementation varies from first level Line of college or district management to Directors.
- Discussed in closing meeting; possible inclusion in audit report. No response required by business unit management.

Verbal

- The most minor of control concerns; tend to be exceptions found during testing that are cleared during audit.
- Impact (or risk) is very low on customer service, employees, revenues or costs.
- Error occurrence percentage rate is between 1% and 15%
- Only first level department or program management attention and decision as to implementation required.
- Discussed in closing meeting, but not included in audit report. No response required by business unit management.

Marginal

- Minor control concerns found.
- Impact is low on customer service, employees, revenues or costs.
- Financial impact is less than 10% of department or units budget
- Error occurrence percentage rate is between 16% and 40%
- Dean/Associate VP/Associate Vice Chancellor’s attention and decision as to corrective action required.
- Included in audit report and Internal Audit follow-up required.
- Corrective action period should be within 120 days.

Moderate

- Moderate control concerns found or incidental non-compliance with regulatory requirements or, in the opinion of the Legal, the finding is deemed a moderate risk.
- Impact is moderate on customer service, employees, revenues or costs.
- Financial impact is from 11% to 30% of department or units budget
- Error occurrence percentage rate is between 41% and 65%
- VP and Director’s attention and decision as to corrective action required.
- Included in audit report and Internal Audit follow-up required.
- Corrective action period is within 90 days.

Considerable

- High control concerns found or a serious instance of non-compliance with regulatory requirements or, in the opinion of the legal, the finding is deemed a considerable risk.
- Impact is high on customer service, employees, revenues or costs.
- Financial impact is at least 31% to 50% of department or units budget
• Error occurrence percentage rate is between 66% and 80%
• Vice Chancellor, Sr. Associate Vice Chancellor and College President’s attention and decision as to corrective action required.
• Appropriate regulators may be informed of the issue and corrective action.
• Budget and Finance committee is informed.
• Included in audit report and Internal Audit follow-up/validation of corrective actions required.
• Corrective action period is within 60 days. Immediate interim controls need to be established. Long-term solution may require additional time.

High
• High control concerns found with clear regulatory implications.
• Impact is high from a regulatory standpoint.
• Financial impact is at least 51% of department or units budget
• Error occurrence percentage rate is between 81% and 100%
• Communicate to Chancellor, College President, Deputy Chancellor, General Counsel, CFO/ Treasury immediately.
• Chancellor, Deputy Chancellor, CFO, and College President’s attention and decision as to corrective action required.
• External auditor may be informed.
• Appropriate regulators may be informed of the issue and corrective action.
• Budget and Finance committee is informed.
• Included in audit report and Internal Audit follow-up/validation of corrective actions required.
• Corrective action period is within 30 days. Immediate interim controls need to be established. Long-term solution may require additional time.
## Audit Report Ratings Matrix

<table>
<thead>
<tr>
<th>Status</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective</td>
<td>The overall control environment is functioning effectively. A few “marginal” rated findings were identified. Applicable financial, regulatory and reputation exposures are addressed and managed within tolerable levels. The internal control structure is sufficient to mitigate significant risks to the District/college, including controls for the prevention or timely detection of potential exposures. The quality and quantity of management reporting allows for appropriate oversight of the activities.</td>
</tr>
<tr>
<td>Monitor</td>
<td>The control environment is relatively sound. Some “moderate” rated or numerous “marginal” rated findings were identified. There are certain weaknesses, which if not corrected, may expose the District/college to moderate financial loss, minor regulatory criticism or negative publicity. Management attention is required to ensure that controls are working effectively to mitigate risks in a timely manner.</td>
</tr>
<tr>
<td>Needs Improvement</td>
<td>Overall risk program has some notable weaknesses. A “considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently. Senior management attention is required to ensure corrective action is implemented and adhered.</td>
</tr>
<tr>
<td>Impaired</td>
<td>Overall risk program is impaired. A “high” rated or multiple “considerable” rated findings were identified. Weaknesses in internal control indicate a high probability that the District/college will incur material financial loss, significant regulatory criticism, fines, sanctions or reputation damage. Controls require extensive improvement to ensure timely detection and correction of risk exposures. Key policies are not in place or sufficiently documented, communicated and/or followed. Executive management attention is necessary to address the control weaknesses noted.</td>
</tr>
</tbody>
</table>
Audit Report Rating Guidelines

The following are guidelines to be used when assigning an overall Audit Report Rating to a completed engagement. However, the Director of Internal Audit can adjust an audit report rating for cause and other relevant factors.

<table>
<thead>
<tr>
<th>RATING</th>
<th>Marginal</th>
<th>Moderate</th>
<th>Considerable</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective</td>
<td>&gt;4 and/or</td>
<td>up to 2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Monitor</td>
<td>≥ 3 and/or</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Needs Improvement</td>
<td></td>
<td>2 or</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Impaired</td>
<td>≥ 3 or</td>
<td></td>
<td>≥ 2</td>
<td></td>
</tr>
</tbody>
</table>
### SUMMARY OF COMMON FINDINGS:

**Board Reporting:**

1. Short Term Agreements and Contracts were not reported to the board timely for approval or ratification.

**Asset Observation:**

1. Assets purchased cannot be located therefore tagging of the asset cannot be validated.
2. Equipment purchased with LACCD general funds and college specially funded program funds were not properly tagged.

**Procurement:**

1. Vendor was used for services/goods for which LACCD had a contracted vendor as required in Directive 142(services/goods). Additionally, no documentation provided to justify the use of vendors that are not part of the master vendor list.

2. Procurement policies and procedures were not adhered to as three quotes/proposals were not obtained in circumstances where required and there were no justification provided for not having the three quotes as warranted.

3. Payments for purchase order types (CO, STA, FOF, and STA’s) were not made timely.

4. Procurement policies and procedures were not adhered to as items/services procured were not properly authorized and/or approved. (Purchase order types were not signed by the authorized individual).

5. Authorization of purchases were not made timely as items were delivered and ordered prior to seeking the appropriate approvals,
Audit: Los Angeles City College – Procurement Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: September 30, 2014

Audit Period: September 1, 2013 through February 28, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High 02</td>
</tr>
<tr>
<td></td>
<td>Considerable 02</td>
</tr>
<tr>
<td></td>
<td>Moderate 02</td>
</tr>
<tr>
<td></td>
<td>Marginal 01</td>
</tr>
<tr>
<td>Total Issues</td>
<td>07</td>
</tr>
</tbody>
</table>

Needs Improvement

Overall risk program has some notable weaknesses. A “considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently. Senior management attention is required to ensure corrective action is implemented and adhered.

BACKGROUND

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Los Angeles City College (LACC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the LACC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;
- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;
- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;
- Be efficient in the time and resources expended to execute a transaction; and
Result in the timely delivery of the correct products and services to the customer.”

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00

   Procurement regions are divided in the following manner:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

Los Angeles City College (LACC) procured and paid a total of $1,213,180.42 for the audit period September 1, 2013 through February 28, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles City College fund centers.

**PURPOSE/OBJECTIVE**

The objectives of this audit were to:

- Ensure purchasing process is adequately controlled;
- Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
- Evaluate the adequacy and test internal controls within the procurement process;
- Ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department; and
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.
SCOPE
The scope of the audit included a review of processes and procedures of the procurement and accounts payable function for the audit period September 1, 2013 through February 28, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LACC and performed an examination of the records associated with the procurement operation of the LACC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

MAJOR ISSUES IDENTIFIED:

A. Board Reporting
   1. **Non-compliance with LACCD policies and procedures**: Contract Purchase Orders and Short Term Agreements (STA) were not reported to the board timely for ratification. The cumulative dollar error was $540,143.82 and the error percentage ranges from 41% to 72%. *(Impact: High)*

B. Payments
   1. **Non-compliance with LACCD policies and procedures**: There is a lack of internal control within the vendor set-up process. This equates to 100% error rate. *(Impact: High)*
      *Please note that this finding was not accounted for in the total audit rating as the control environment resides in the Educational Service Center Procurement Department.*
   2. **Non-compliance with LACCD policies and procedures**: Vendors used were not part of the established LACCD master vendor list as required in Directive 142. The cumulative dollar error was $294,489.77 and this equates to a 35% error rate. *(Impact: Considerable)*
   3. **Non-compliance with LACCD policies and procedures**: Payments for purchase orders were not made timely. This equates to a 50% error rate. *(Impact: Moderate)*

C. Asset Observation
   1. **Non-compliance with LACCD policies and procedures**: Equipment/Assets purchased were not reported in SAP. This equates to a 53% dollar rate error. *(Impact Considerable)*
   2. **Non-compliance with LACCD policies and procedures and best practices**: Assets purchased cannot be located therefore tagging of the asset cannot be validated. This equates to 10.8% error rate. *(Impact: Moderate)*

MANAGEMENT ACTION PLANS AND COMPLETION DATES:

A. Board Reporting
   1. Management has met with department chairs, deans, and other college management and provided training on the college procurement process and required deadlines. The Purchasing Supervisor issues an annual memo going over procurement requirements and deadlines, and staff answers questions as needed to assist with college compliance in this area. College will continue to provide needed training and guidance to ensure future compliance. *(12/31/14)*
B. Payments

1. This is a District finding however, college staff will work with the District to assist in implementing the changes needs to comply with this recommendation. (TBD)

2. Management has met with department chairs, deans, and other college management and provided training on Directive 142, the college procurement process, and required deadlines. The Purchasing Supervisor has issued annual memo going over procurement requirements and deadlines, including providing the approved vendor list. Purchasing staff answer questions as needed to assist with college compliance in this area. College will continue to provide needed training and guidance to ensure future compliance. (12/31/14).

3. Purchasing, Accounts Payable and Informational Technology staff will work on developing a query in SAP that can assist with determining unpaid invoices at various monthly intervals. Training has already been provided to department chairs and deans who generate purchasing documents in order to ensure that purchasing requirements, including the forwarding of payment invoices, are sent timely to Accounts Payable. (06/30/15).

C. Asset Observation

1. College staff will review and update budget checking and receiving practices to ensure that equipment is ordered under the correct GL’s codes so that it is recorded in SAP and tagged once the item is received. After review of the audit items noted, it was determined that incorrect GL supplies codes, rather than equipment codes, were used for the procurement of these items, which did not upload into SAP requiring the tagging of this equipment. Appropriate training and assistance will be provided to ensure that staff have the ability to order and process procurement transactions correctly. College inventory and equipment logs will be evaluated periodically for accuracy. (06/30/15)

2. Management is working with the Receiving Department to clarify with the District the threshold for items that require tagging, and will review our internal processes for the receiving and inventory (asset tagging) of equipment. A management memo will also be issued and training provided to staff to address the correct use of GL’s for the ordering of equipment. (06-30-15)
Signatures

Renee Martinez, President
Date: 10/10/14

John al-Amin, Vice President of Administrative Services
Date: 10/17/14

cc  Budget and Finance Committee; LACCD Board of Trustees
    Francisco Rodriguez, Chancellor
    Camille Goulet, General Counsel

Audit Team:
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
LaSchanda Johnson, MBA, Auditor
Executive Summary

Audit: Educational Service Center – Procurement Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: October 31, 2014
Audit Period: July 01, 2013 through December 31, 2013

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>05</td>
</tr>
<tr>
<td>Considerable</td>
<td>04</td>
</tr>
<tr>
<td>Moderate</td>
<td>05</td>
</tr>
<tr>
<td>Marginal</td>
<td>05</td>
</tr>
<tr>
<td>Total Issues</td>
<td>19</td>
</tr>
</tbody>
</table>

Overall risk program is impaired. A “high” rated or multiple “considerable” rated findings were identified. Weaknesses in internal indicate a high probability that the District/college will incur material financial loss, significant regulatory criticism, fines, sanctions or reputation damage. Controls require extensive improvement to ensure timely detection and correction of risk exposures. Key policies are not in place or sufficiently documented, communicated and/or followed. Executive management attention is necessary to address the control weaknesses noted.

BACKGROUND

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Educational Service Center (ESC) and Colleges with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the LACCD’s procurement process are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;

- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;
- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;
- Be efficient in the time and resources expended to execute a transaction; and
- Result in the timely delivery of the correct products and services to the customer."

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the ESC Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00

   Procurement regions are divided in the following manner:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

The ESC procured and paid a total of $68,583,961.59 for the audit period July 1, 2013 through December 31, 2013. This amount is inclusive of other related payments such as reimbursements for which was attributed to the ESC fund centers.
PURPOSE/OBJECTIVE
The objectives of this audit were to:

- To ensure purchasing process is adequately controlled
- Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
- Evaluate the adequacy and test internal controls within the procurement process;
- To ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department.
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.

SCOPE
The scope of the audit included a review of processes and procedures of the procurement and accounts payable function for the audit period July 1, 2013 through December 31, 2013. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the ESC and performed an examination of the records associated with the procurement operation of the ESC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

Major Issues Identified:

A. Bidding Process

1. Non-Compliance with LACCD policies and procedures: There were control weaknesses with the tracking, recordkeeping and maintenance of bid documents. The error percentage ranges from 33% to 100%. (Impact: High)

2. Non-compliance with LACCD policies and procedures: An error occurred in the selection process as the scoring methodology was not properly communicated to the proposer. This equates to a 25% error rate. (Impact: Considerable)

3. Non-compliance to LACCD policies and procedures: Contracts were offered without obtaining bids and there were no documentation to justify that these were specialized services. (Impact: Moderate)

B. Walkthrough

1. Non-compliance with LACCD policies and procedures: There were control weaknesses with the tracking of supplier performance evaluation data. This equates to 100% error rate. (Impact: High)

2. Non-compliance with LACCD policies and procedures: There is a lack of segregation of duties within the procurement process. (Impact: High)
3. **Non-compliance with LACCD policies and procedures**: There are internal weaknesses with the vendor set up and maintenance process. *(Impact: Moderate)*

C. Vendor Maintenance

1. **Non-compliance with LACCD policies and procedures**: The documentation requirements were not provided for review to validate accuracy of vendor set up. The error percentage ranges from 05% to 94%. *(Impact: High)*

2. **Non-compliance with LACCD policies and procedures and best practices**: Payments were made to vendors without a primary vendor account/master account. This equates to 14.29% error rate. *(Impact: Moderate)*

D. Board Reporting

1. **Non-compliance with LACCD policies and procedures**: Short Term Agreements and Contracts were not reported to the board timely for approval or ratification. The error percentage ranges from 44% to 67%. *(Impact: Considerable)*

E. Procurement Payments (Inclusive of both SAP payments processed and direct payment)

1. **Non-compliance with LACCD policies and procedures**: The ESC did not utilize LACCD’s procurement procedures to substantiate expenses over $5,000 as three quotes, a study or a survey in circumstances where required were not obtained. This equate to a 100% error rate. *(Impact: High)*

2. **Non-compliance with LACCD policies and procedures**: The ESC did not perform the required approval procedures. This equate to a 100% error rate. *(Impact: Considerable)*

3. **Non-compliance with LACCD policies and procedures**: There was no evidence to validate and/or reconcile the amounts billed by vendors prior to processing transactions for payment. The error percentage ranges from 3.5% to 91%. The amount dollar amount associated with the errors ranges from $1,926.94 to $116,102.70. *(Impact: Considerable)*

4. **Non-compliance with LACCD policies and procedures**: Payments for purchase orders were not made timely. The error percentage ranges from 2.3% to 13%. *(Impact: Moderate)*

5. **Non-compliance with LACCD and policies and procedures**: ESC did not adhere to LACCD regulations, Directive 142. This equates to 14.29% error rate. *(Impact: Moderate)*

Management Action Plans and Completion Dates:

A. Bidding Process

1. Contracts Unit concurs that a new bid acceptance form is appropriate and we have already implemented that form into our procedures. Contracts and Purchasing Department have now created a standard form, capturing time, date and signature, which will be retained for the life of...
the contract file. All bid correspondence and records shall be retained in the appropriate files. The current training program will be modified to ensure that district staff involved in making purchases is informed of tracking, recordkeeping and maintenance of any bid documents and bidding communications which is exchanged during the procurement process. (January 31, 2015)

2. Contract Unit will create an Evaluator’s Guide that makes it clear how PP04-08 applies to evaluations RFPs. A draft was begun on September 28, 2014. (Implementation Date: December 31, 2014)

3. a. The Contracts Unit concurs that a prior approval by the Board of Trustees is required for purchases from a sole source provider. All future procurements which require this approval shall be brought forth in the Board agenda. (Implementation Date: January 1, 2015)

b. For contracts of these types, the contracts manager shall review the analyst’s work before authorization is provided to proceed. The Contracts Unit will adhere to the policies outlined in 04-08 and retain all documentation. (Implementation Date: July 1, 2016)

B. Walkthrough

1. Contracts will create a short survey on 5 vendors per month. These results will be shared quarterly with the District Administrative Council which comprises of all the Vice President of Administrative Service. (Implementation Date: January 31, 2015)

2. a. Accounts Payable manager will reinforce with staff the importance of proper authorizations. (Implemented)

b. Management in AP will review SAP screen access of all AP employees and remove access to screens that create a potential audit threat. Changes in job duties within AP will be implemented to mitigate risk factors. For example, individuals with bill paying capability will no longer have the ability to perform check runs. At least two individuals in the AP office (at the level of supervisor or higher) will be designated to do check runs. A third individual will be designated as a backup in the event that the two check-run designees are both absent at the same time. The backup will not have normal access to check printing. Instead, that individual will have to be granted special access from Accounting and IT in the event that he/she is needed to run checks. (Implementation Date: April 30, 2015)

c. Accounts Payable will cease its practice of setting up type “3” vendors for purposes of making direct payments. Type “3” vendors will only be created for payment remittance reasons and Payroll garnishments/deductions and will be attached to existing type “1” vendors set up through Purchasing. AP will continue to set up employee vendors under their employee number for the sole purposes of reimbursements and emergency payroll checks. (Implemented)

d. AP will continue to offer staff training in order to address the concerns in this finding. Pertinent policies and procedures will also be reviewed in the training sessions.

Contract Unit Responses

e. Contracts Department has begun reviewing the list of people who can create vendors and those who can create contracts. We have begun discussing with IT how to create (where possible) segregation of duties and to reduce to the number of people who have access. Due to limitations of staff, there will be rare times when a Contracts Analyst or Purchasing Agent would have to create, approve and print procurement documents. In those instances the need
would be documented. We will discuss with IT a possible alert system when a sole person does all 3 tasks. (Implementation Date: March 31, 2015)

3. a. Account Payable (AP) Manager will work with IT to help implement potential controls that could be setup in SAP to systematically identify policy breaches. AP Manager will work with Procurement and IT to design an exception report that can be used as validation that only permissible transactions are allowed. AP Manager will provide input to Procurement and IT in revising the current procedure for purging the vendor database for duplicate entries. (Implementation Date: December 20, 2014)

**Contract Unit Responses**

b. The contracts unit added transaction code (PA20) to vendor maintenance role. (Implementation Date: October 8, 2014)

c. The process to deactivate vendors will be done annually by the Purchasing Unit. (Implementation Date: May 31, 2014)

d. Vendor creation limited presently to two staff in Contracts, two staff in Build LACCD. Review of the roles in SAP will be undertaken. (Implementation Date: October 31, 2014)

e. Documentation on these processes will be written. (Implementation Date: June 30, 2015)

**C. Vendor Maintenance**

1. a. AP will no longer set up type “5” vendor numbers for employees who receive taxable legal settlement awards with the District. Instead these employees will be entered manually onto the 1099 list. Accounting and Accounts Payable will meet to explore the pros and cons of setting up a Single Payment Vendor series to process one-time payments. (Implementation Date: December 4, 2014)

**Contract Unit Response**

b. Contracts will require the W-9 for all supplier and service vendors. For “customer vendors” who pay us, there is no need for a W-9. (Implementation Date: August 31, 2014)

2. a. AP will refrain from setting up type “3” vendors except when it is for a separate remittance address of an existing “1” vendor. All other vendor set ups will be processed through the Procurement Department. (In order to process employee reimbursements, the AP Department will continue to set up AP vendor accounts for employees using the employee’s ID number as the vendor number). (Implemented)

b. AP will meet with Procurement and GL Accounting about the pros and cons of setting up another Single Payment Vendor policy similar to the vendor 7000000 series used to pay student stipends and athletic officials. AP will work with IT to create a block in SAP when an attempt is made to create a type “3” vendor that is not affiliated with an existing “1” vendor. Procurement, AP, and IT will design a report that flags “3” vendor set ups that are not attached to a “1.” (Implementation Date: November 20, 2014)

**D. Board Reporting**
1. Contracts will send out to the Senior Staff and Vice Presidents of Administrative the agenda prep schedule and remind them of the Ed Code Requirement. (Implementation Date: November 1, 2014)

E. Procurement Payments

1. Contracts Unit will adhere to all procedures in P04-05. Recent SAP upgrades requested by Contracts and Purchasing Manager now allow SAP users to attach documents. Contracts will send out instructions to Sr. Staff and VPs of Administration on how to do this so that Purchasing Aides, CPS, Purchasing Agent and Contracts Analysts will receive documents will quotes attached. (Implementation Date: December 1, 2014)

2. Purchasing Agent will delete any PO’s created above the $5000 threshold that did not start as a purchase requisition and have three quotes attached. Contracts will update its annual training document with an emphasis on the requirement associated with purchase requisition. (Implementation Date: December 1, 2014)

3. a. The accounts payable manager will conduct training to reinforce to staff that all documentation must be in place for a disbursement to be made. Procedures will be reviewed (and revised if necessary) on all direct payments to ensure compliance with Board rules and procurement policies and procedures. AP staff will be required to sign an acknowledgement form that they received the training.

AP is now being diligent in obtaining the final food receipts from the Financial Aid department’s training sessions within 5 days. AP is also doing a review of the documentation on invoices pertaining to Benefits, and will be working with Benefits to obtain more detailed backup. AP will also explore the feasibility of either scanning these larger documents for its files or obtaining electronic copies of the detailed backup from the department requesting payment. Accounting will require that vendors provide full billing detail or they will no longer be used as a vendor. AP management will begin requiring more detailed backup documentation on payment requests related to ADP as well as other Benefits vendors. A written accounting policy will be developed that specifies the type of detail required to justify direct payments to Benefits vendors. (Implementation Date: October 21, 2014)

Contract Unit Responses

b. Contracts Unit will keep mileage logs on the vans and pool car. Safeguard dental plan will be reconciled using workbench and the corrections requested in SAP by the billing staff to be completed by the Health Benefits Unit will be documented. Administrative fees per participant will be validated. Plan to hire an additional accounting analyst staff which will help and improve reconciliation process.

4. a. Accounts Payable will conduct training for District and campus personnel that reviews the District’s procurement guidelines and suggests ways to streamline payments and avoid pitfalls that cause delayed payments. (Implementation Date: December 20, 2014)
b. An AP aging report will be utilized to identify delayed payments so that action can be taken to hasten their resolution. AP management will also reinforce to staff the importance of accurate and consistent date stamping of incoming documents so that they can be tracked properly for better efficiency. (Implementation Date: September 21, 2014)

c. AP management will have discussions with Contracts, Receiving, Accounting, IT, and certain campus personnel to identify best practices that could lead to greater payment efficiency. Vendors will also be queried, especially those that have expressed an interest in receiving payments electronically, which is just one idea to improve the disbursement process. (Implementation Date: December 20, 2014)

5. Contracts Unit will send out quarterly updates on all the master contract agreements to the VPs of Administrative Services and remind them about Directive 142. Contracts will work with IT and Build-LACCD to develop some central repository where the most current master agreements will be made available for staff to search. (Implementation Date: January 31, 2015)
Los Angeles Community College Educational Center Procurement Audit Report
October 31, 2014

Signatures:

Adriana Barrera, Deputy Chancellor
Date: Nov. 24, 2014

Jeanette Gordon, Chief Financial Officer/Treasurer
Date: 11-24-14

cc: Budget and Finance Committee; LACCD Board of Trustees
Camille Goulet, General Counsel

Audit Team:
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
Marioan Carranza, MBA/CIA/CFE, Auditor
LaSchanda Johnson, MBA, Auditor
Tiffany Britt, CFE, Auditor
**Audit:** East Los Angeles College – Procurement Audit

**From:** Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

**Audit Report Date:** November 30, 2014

**Audit Period:** September 1, 2013 through February 28, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High 00</td>
</tr>
<tr>
<td></td>
<td>Considerable 01</td>
</tr>
<tr>
<td></td>
<td>Moderate 05</td>
</tr>
<tr>
<td></td>
<td>Marginal 00</td>
</tr>
<tr>
<td></td>
<td><strong>Total Issues 06</strong></td>
</tr>
</tbody>
</table>

The control environment is relatively sound. Some “moderate” rated or numerous “marginal” rated findings were identified. There are certain weaknesses, which if not corrected, may expose the District/college to moderate financial loss, minor regulatory criticism or negative publicity. Management attention is required to ensure that controls are working effectively to mitigate risks in a timely manner.

**BACKGROUND**

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the East Los Angeles City College (ELAC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the ELAC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;
- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;
- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;
• Be efficient in the time and resources expended to execute a transaction; and
• Result in the timely delivery of the correct products and services to the customer.”

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00. There are three college procurement specialist and each is assigned to a procurement region that comprises of three college. The regions are:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College.

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

ELAC procured and paid a total of $5,118,555.67 for the audit period September 1, 2013 through February 28, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the East Los Angeles College fund centers.

**PURPOSE/OBJECTIVE**

The objectives of this audit were to:
• Ensure purchasing process is adequately controlled;
• Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
• Evaluate the adequacy and test internal controls within the procurement process;
• Ensure proper segregation of duties in the purchasing process;
• Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department; and
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.

**SCOPE**

The scope of the audit included a review of processes and procedures of the procurement and accounts payable function for the audit period September 1, 2013 through February 28, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the ELAC and performed an examination of the records associated with the procurement operation of the ELAC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

**MAJOR ISSUES IDENTIFIED:**

**A. Board Reporting**

1. **Non-compliance with LACCD policies and procedures and best practices:** Contract and Short Term Agreements were not reported to the board timely for ratification. This equates to an error range of 16% to 74%. *(Impact: Considerable)*

**B. Walkthrough**

1. **Non-Compliance with LACCD policies and procedures:** Vendors used were not part of the established LACCD master vendor list as required in Directive 142. This equates to a 38% error rate. *(Impact: Moderate)*

**C. Payments**

1. **Non-compliance with LACCD policies and procedures:** Purchase orders were not signed by the authorized individual and/or not provided. This equates to a 16% error rate and the dollar error amount to $96,907.57. *(Impact: Moderate)*

2. **Non-compliance with LACCD policies and procedures:** Items were purchased prior to requisition being properly approved for the procurement of the items. This equates to an error rate of 24% and a dollar error amount of $61,823.42. *(Impact: Moderate)*

3. **Non-compliance to LACCD policies and procedures:** Quotes for purchases were not retained in circumstances where required. This equates to a 26% error rate and a dollar error amount of $68,701.70. *(Impact: Moderate)*

**D. Asset Observation**

1. **Non-compliance with LACCD policies and procedures and best practices:** Assets purchased could not be located during the inventory examination and therefore tagging of the assets cannot be validated. This equates to a 7% error rate. *(Impact: Moderate)*

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

**A. Board Reporting**
1. Notification sent to all East Los Angeles College Administrators, Managers, Chairs and Supervisor’s regarding Purchasing and Facilities Requests and that ratification items must be submitted 8 weeks in advance. (November, 2014)

B. Walkthrough

1. Training will be provided on Directive 142 and notification will be sent to all East Los Angeles College Administrators, Managers, Chairs and Supervisor’s regarding the Directive 142. (February, 2015)

C. Payments

1. Only the President and Vice President of Administrative Services will have authority to sign any purchase orders, contract agreements and notifications were sent to all East Los Angeles College Administrators, Managers, Chairs and Supervisor’s regarding Signature Authority. (August, 2014)

2. Personnel action taken to ensure that proper general and facilities procurement requests (February, 2015)

3. Quotes for purchases will be retained and notification will be sent to all East Los Angeles College Administrators, Managers, Chairs and Supervisor’s regarding Purchasing and Facilities Requests. (February, 2015)

D. Asset Observation

1. Paperwork for assets purchased will be processed within 1-2 weeks. Notification sent to all East Los Angeles College Administrators, Managers, Chairs and Supervisor’s regarding Purchasing and Facilities Requests and the tagging of equipment being relocated, disposed or returned. (November, 2014)
Signatures:

Marvin Martinez - President  
Date: 1/20/15

Ann Tomlinson, Vice President of Administrative Services  
Date: 1-20-15

cc  Budget and Finance Committee; LACCD Board of Trustees  
  Francisco Rodriguez, Chancellor  
  Adriana Barrera, Deputy Chancellor  
  Jeanette Gordon, CFO/Treasurer  
  Camille Goulet, General Counsel

Audit Team:  
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit  
Keyna Crenshaw, Senior Auditor  
Tiffany Britt, CFE, Auditor
Audit: Los Angeles Harbor College – Procurement Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: January 31, 2015

Audit Period: January 1, 2014 through June 30, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>01</td>
</tr>
<tr>
<td>Considerable</td>
<td>01</td>
</tr>
<tr>
<td>Moderate</td>
<td>07</td>
</tr>
<tr>
<td>Marginal</td>
<td>01</td>
</tr>
<tr>
<td><strong>Total Issues</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

Overall risk program has some notable weaknesses. A “high and considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently.

**BACKGROUND**

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Los Angeles Harbor College (LAHC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the LAHC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;

- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;

- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;

- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;

- Be efficient in the time and resources expended to execute a transaction; and

- Result in the timely delivery of the correct products and services to the customer.”
Los Angeles Harbor College Procurement Audit Report
January 31, 2015

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. College Purchasing Office: Procures up to $5,000 except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. College Procurement Specialist: Procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00
   Procurement regions are divided in the following manner:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College

3. Contracts and Purchasing Section at the ESC – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

Los Angeles Harbor College (LAHC) procured and paid a total of $3,331,771.32 for the audit period January 1, 2014 through June 30, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Harbor College fund centers.

PURPOSE/OBJECTIVE

The objectives of this audit were to:

- Ensure purchasing process is adequately controlled;
- Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
- Evaluate the adequacy and test internal controls within the procurement process;
- Ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department.; and
Ascertain the existence and effectiveness of current policies and procedures and
determine whether current practices are in accordance with Los Angeles Community
College District (LACCD) policies and procedures, and federal and state laws and
regulations.

SCOPE
The scope of the audit included a review of processes and procedures of the procurement and
accounts payable function for the audit period January 01, 2014 through June 30, 2014. The
Internal Audit Department (IAD) interviewed key employees charged with the responsibility of
executing the objectives of the LAHC and performed an examination of the records associated
with the procurement operation of the LAHC. IAD scoped out direct payments that were related
to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

MAJOR ISSUES IDENTIFIED:

A. Procurement Payments
   1. Non-compliance with LACCD policies and procedures: Procurement policies and
      procedures were not adhered to as three quotes/proposals were not obtained in
      circumstances where required and there were no justification provided for not having
      the three quotes as warranted. This equates to a 93% error rate and the dollar error is
      $109,416.18. (Impact: High)
   2. Non-compliance with LACCD policies and procedures: Procurement policies and
      procedures were not adhered to as invoices for contract services were not properly
      authorized/approved before payment. This equates to a 64% error rate and the dollar
      error is $255,314.40. (Impact: Considerable)
   3. Non-compliance to LACCD policies and procedures: Vendor was used for
      services/goods for which LACCD had a contracted vendor as required in Directive
      142/services/goods). Additionally, no documentation provided to justify the use of
      vendors that are not part of the master vendor list. This equates to a 31% error rate.
      (Impact: Moderate)
   4. Non-compliance with LACCD policies and procedures: Approval signatures were
      not denoted on purchase requisitions. This equates to a 7% error rate and the dollar
      error is $50,821.34. (Impact: Moderate)

B. Walkthrough
   1. Non-compliance with LACCD policies and procedures: Equipment/Asset logs
      assigned to staff were not maintained. This equates to a 100% error rate. (Impact: Moderate)

C. Board Reporting
   1. Non-compliance with LACCD policies and procedures: Contract Purchase
      Orders and Short Term Agreements (STA) were not reported to the board timely for
      ratification and/or sent to the Board for approval. This equated to a 48% error rate
      and the dollar error is $97,459.62. (Impact: Moderate)
D. Asset Observation

1. **Non-Compliance with LACCD policies and procedures:** Equipment/assets purchased were not charged to the appropriate asset account. This equates to a 2% error rate and the dollar error is $1,763.02. *(Impact: Moderate)*

2. **Non-Compliance with LACCD policies and procedures:** Equipment/assets purchased could not be located during the asset examination therefore tagging of the asset cannot be validated. This equates to a 2% error rate and the error amount is $1,079.97. *(Impact: Moderate)*

3. **Non-Compliance with LACCD policies and procedures:** Assets purchased were not tagged. This equates to a 30% error and the error amount is $20,393.86. *(Impact: Moderate)*

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

A. Procurement Payments

1. Procurement staff to obtain all hard copies of the price quotes from initiator before releasing the purchase orders or contracts. *(Implementation date: January 2015.)*

2. A/P and Administrative Services staff will be informed and required that all STAs and COs must be signed for approval prior processing the payments. *(Implementation date: February 2015.)*

3. Procurement staff to obtain all hard copies of the price quotes from initiator before releasing the purchase orders or contracts if the price is lower than contracted vendors. Ask District auditing/accounting group to send LAHC the list of contracted vendors to be disseminated to all initiators and managers. *(Implementation date: January 2015.)*

4. The VP of Administrative Services will enforce the procedure that all PR/RFC must have an approved form submitted to the procurement office prior to the release of the order/contract in the SAP system. *(Implementation date: March 2015.)*

B. Walkthrough

1. IT Director will be informed of the need procedure when IT delivers the items ordered. The department manager or his/her designee must acknowledge receipt of the merchandise by signing the receipt or the log sheet. *(Implementation date: January 2015.)*

C. Board Reporting

1. LAHC Procurement office to inform all Department chairs and managers that contract must be processed first before any job can start. *(Implementation date: March 2015.)*

D. Asset Observation

1. Procurement initiators and approvers (Procurement specialist and others) will be informed to check that the proper GLs are used before releasing the orders. Any
errors must be corrected first before releasing any orders. (*Implementation Date: January 2015*)

2. Meet with IT Director and Receiving supervisor to set-up procedures on when and who will be in-charge of the inventories and ensure that all assets are physically located and tagged. Mandate all department chairs and managers to maintain a log in/out sheet for all portable assets assigned to employees. (*Implementation Date: January 2015*)

3. Meet with IT Director and Receiving Supervisors to set-up procedure to ensure that all assets received are properly tagged before being delivered to each individual department. (*Implementation Date: January 2015*)

4. Receiving Supervisor will be informed and be directed to be careful in creating the tags. All tags must be double checked before applying to the asset. (*Implementation Date: March 2015*)
Los Angeles Harbor College Procurement Audit Report
January 31, 2015

Signatures:

Dr. Otto W. K. Lee, President

Date: 8/10/15

Nestor Tan, Acting Vice President of Administrative Services

Date: 9/10/15

cc Budget and Finance Committee; LACCID Board of Trustees
Francisco Rodriguez, Chancellor
Adriana Barrera, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer/Treasurer

Audit Team:
Arnold Blanchard, CPA/CRMA/MBA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
Chris Musella, Auditor
Audit: Los Angeles Mission College Procurement Audit
From: Arnold Blanshard, CPA/MBA/CRMA, Director, Internal Audit
Audit Report Date: March 31, 2014
Audit Period: April 1, 2014 through September 30, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High: 00</td>
</tr>
<tr>
<td></td>
<td>Considerable: 01</td>
</tr>
<tr>
<td></td>
<td>Moderate: 07</td>
</tr>
<tr>
<td></td>
<td>Marginal: 00</td>
</tr>
<tr>
<td></td>
<td>Total Issues: 08</td>
</tr>
</tbody>
</table>

Needs Improvement

Overall risk program has some notable weaknesses. A “considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently.

BACKGROUND

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Los Angeles Mission College (LAMC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and cost-saving measures are incorporated in the purchasing of goods and services. The objectives of the LAMC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules, and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;
- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;
Los Angeles Community Colleges District

- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;
- Be efficient in the time and resources expended to execute a transaction; and
- Result in the timely delivery of the correct products and services to the customer.”

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00.

   Procurement regions are divided in the following manner:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

The LAMC procured and paid a total of $3,696,190.59 the audit period April 1, 2014 through September 30, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Mission College fund centers.
PURPOSE/OBJECTIVE

The objectives of this audit were to:

- Ensure purchasing process is adequately controlled;
- Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
- Evaluate the adequacy and test internal controls within the procurement process;
- Ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department.; and
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.

SCOPE

The scope of the audit will include a review of processes and procedures that include all procurement activities for the Audit Period April 1, 2014 through September 30, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LAMC and performed an examination of the records associated with the operation of the program.

This audit was conducted in accordance with Government Auditing Standards, General Accepted Auditing Standards and the International Standards for the Professional Practice of Internal Auditing.
Major Issues Identified:

A. Inventory

1. **Non-Compliance with LACCD policy and procedure:** Equipment purchased with LACCD general funds and LAMC College specially funded program funds were not properly tagged. This equated to an error range of 1.8% to 92.85% and the dollar error is $77,960.82. *(Impact: Considerable)*

2. **Non-compliance with LACCD policies and procedures:** Computer item purchased was not reported in SAP as an asset to be tagged. This equated to an error rate of 1.75% and the dollar error is $1,520.83. *(Impact: Moderate)*

B. Walkthrough

1. **Non-compliance with LACCD Policies and Procedures:** The College does not date stamp invoices that are received in the account payable department to ascertain payment of the invoices were made within 30 days of receipt of the invoice. This equated to an error rate of 100%. *(Impact: Moderate)*

C. Board Reporting

1. **Non-compliance with LACCD Policies and Procedures:** Contract Purchase Orders and Short Term Agreements (STA) were not reported to the board timely for ratification and/or sent to the Board for approval. This equated to an error range of 2.8% to 40% and a dollar error amount of $82,186.67. *(Impact: Moderate)*

D. Procurement Payment

1. **Non-compliance to LACCD policies and procedures:** Items/services procured were not properly authorized and/or approved. This equated to an error range of 1.8% to 62.5% and the dollar error is $402,316.14. *(Impact: Moderate)*

2. **Non-compliance with LACCD Policies and Procedures:** There was no evidence to substantiate the delivery of goods and/or the confirmation of services performed. This equated to an error range of 13.15% to 45% error rate and a dollar error of $89,746.67. *(Impact: Moderate)*

3. **Non-compliance with LACCD Policies and Procedures:** Payments for Contracts, Purchase Orders, and Short Term Agreements were not made timely. This equated to an error range of 20% to 38% error rate and a dollar error of $223,280.75. *(Impact: Moderate)*

4. **Non-compliance with LACCD Policies and Procedures:** Three quotes/proposals were not obtained in circumstances where required and there were no justification provided for not having the three quotes as warranted. This equated to an error rate of 20% and a dollar error of $15,534.19. *(Impact: Moderate)*
Action Plans and Completion Dates:

A. Inventory

1. LAMC will ensure that items are being directed to receiving to ensure that all items are tagged. The College will train employees and management on the policy and procedures for tagging of all assets and those purchased with specially funded funds. In the event that an item is not delivered to receiving, the department will immediately contact receiving for the tagging of the items.

Internal policies and procedures will be implemented to validate that equipment/assets are properly tagged when received from the receiving department. Equipment will be tagged at an area that is visible. Receipt of acknowledgement will be provided and documented to ensure that all employees have equipment/assets. An employee accountability clause will be incorporated into the policies and procedures to ensure accountability. (Implementation Date: September 30, 2015)

2. LAMC procurement staff authorized to release purchases should review purchase orders to ensure that the requirements to charged items purchased to the asset account are adhere to.

Receiving will validate that items deemed to be considered an asset is properly noted in the SAP system as an asset. In the event that it is not, the receiving should immediately contact the initiator of the purchase order regarding the error so that the necessary actions can be taken to correct the system.

LAMC will implement a second validated by which the department making the purchase validates that the asset is noted in SAP and sign off on the confirmation form. In the event that the asset is not recorded in the SAP asset list, the department should immediately contact the receiving department to record the asset SAP. Asset management training will be provided to all employees with the responsibility of identifying and reporting of assets in SAP. A surprise audit will be conducted to ensure compliance with policies and procedures.

Receipt of acknowledgement should be provided and documented to ensure that all employees have read and understand the policies and procedures for identifying and reporting assets in the SAP system. An employee accountability clause should be incorporated into the policies and procedures to ensure accountability. (Implementation Date: September 30, 2015)

B. Walkthrough

1. The College will require that all invoices be sent directly to the College Accounts Payable department for processing. The College Accounts Payable department will adhere to LACCD Policies and procedures regarding stamping invoices. The Accounts Payable department will implement an internal policy that supports District policy requiring all invoices to be date stamped.
The College Accounts Payable will perform a self-audit and select on a sample of invoices to review to ensure that the invoices are being date stamped. The College will provide employees responsible for stamping invoices training and ensure receipt of acknowledgement should be provided and documented to ensure that all employees have read and understand the policy and procedures. An employee accountability clause will be incorporated into the policies and procedures. (Implementation Date: September 30, 2015)

C. Board Reporting

1. The College’s/Procurement Office will implement an internal process that will track the commencement date of all contract and short term agreements that are authorized by the College. This tracking mechanism should be used to ensure compliance with board reporting of STA’s within the 60 days period.

The College’s/Procurement Office will implement training for employees and management on policy and procedure for Board Reporting process. A self-audit will be conducted to ensure that amount reported to the Board is accurate and staff are adhering to the policies and procedures implemented.

Receipt of acknowledgement will be provided and documented to ensure that all employees have read and understand the policy and procedures. (Implementation Date: September 30, 2015)

D. Procurement Payment

1. The College will adhere to District regulation, policy and procedure for authorized signatures. The LAMC’s purchasing department will work with President and Vice-President of Administration Services to ensure that transactions receive proper approval with delegated authority signatures. The LAMC’s purchasing department will also review the contracts to ensure that the delegated authorities has signed and approved the contract.

The College will reject purchase orders that lack the properly authorization for purchase requisitions. The LACCD (Legal Department) will create the avenue that will allow for the imprint of a signature on the purchase order is an acceptable method of signature for purchase orders.

In the event that this is acceptable, the College will work with the District Office and IT Department to develop the necessary process that will meet governmental code requirements to automate the process whereby a signature imprint is noted on the purchase order signature line after the authorized individual have approved the purchase order in the SAP system.

LAMC will implement training for employees and management on policy and procedure for procurement and payment. Receipt of acknowledgement should be provided and documented to ensure that all employees have read and understood the policy and procedures for payment and procurement. An employee accountability clause will be
incorporated into the policies and procedures. *(Implementation Date: September 30, 2015)*

2. Strengthen the controls by training employees within the various departments the procedures for accepting delivery when items are not delivered to central location. The item should be returned for proper acceptance. In the event that it is not feasible to return the item to the central location, policies and procedures should be implemented that will require the receiving department to physically validate the goods at the location where the item was delivered. Account Payable department will reject any payments for invoices that do not have the approval signature denoted on the invoice.

A self audit will be performed to ensure compliance with policies and procedures. The college implements training for employees and management on policy and procedure for procurement and payment. Receipt of acknowledgement should be provided and documented to ensure that all employees have read and understood the policy and procedures. An employee accountability clause should be incorporated into the policies and procedures. *(Implementation Date: September 30, 2015)*

3. The college will work with the College IT department to create a query in SAP at the beginning of each month that identifies all unpaid invoices. The report should be analyzed to determine the aging of the invoices. *(I.E. Payment due in 15 days, payment due in 30 days, payment past due, etc.)* The colleges purchasing department will work with the Accounts Payable Department to follow up on payment.

The College will implement training for employees and management on policy and procedure for procurement and payment. Receipt of acknowledgement will be provided and documented to ensure that all employees have read and understand the policy and procedures for payment and procurement. An employee accountability clause will be incorporated into the policies and procedures. *(Implementation Date: September 30, 2015)*

4. The College will develop a form that will require validating the three quotes when such purchases warrant three quotes. The approval must ascertain that the lowest bidder was selected by signing on the form attesting that validation was completed. If the lowest bidder was not selected a justification must be printed on the form.

The college will implement training for employees and management on policy and procedure for procurement and payment. Receipt of acknowledgement will be provided and documented to ensure that all employees have read and understood the policy and procedures. An employee accountability clause will be incorporated into the policies and procedures. *(Implementation Date: September 30, 2015)*
Signatures:
Dr. Monte E. Perez, President

Date: 4/1/15

Daniel Villanueva, Vice President Administrative Services

Date: 4/1/15

cc: Budget and Finance Committee
Francisco Rodriguez, Chancellor
Adriana Barrera, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer/Treasurer,

Audit Team:
Arnold Blanshard, CPA/MBA/CRMA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
Marioan Carranza, MBA, CIA, CFE, Auditor
Audit: Los Angeles Pierce College – Procurement Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: September 30, 2014

Audit Period: September 1, 2013 through February 28, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>01</td>
</tr>
<tr>
<td>Considerable</td>
<td>03</td>
</tr>
<tr>
<td>Moderate</td>
<td>08</td>
</tr>
<tr>
<td>Marginal</td>
<td>00</td>
</tr>
<tr>
<td>Total Issues</td>
<td>12</td>
</tr>
</tbody>
</table>

Overall risk program has some notable weaknesses. A “considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently. Senior management attention is required to ensure corrective action is implemented and adhered.

BACKGROUND

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Los Angeles Pierce College (LAPC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the LAPC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;
- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;
- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
• Provide all suppliers an equal opportunity to participate and earn LACCD’s business;

• Be efficient in the time and resources expended to execute a transaction; and

• Result in the timely delivery of the correct products and services to the customer.’’

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00

   Procurement regions are divided in the following manner:
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Valley College, Pierce College, and Mission College

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

Los Angeles Pierce College (LAPC) procured and paid a total of $5,470,029.96 for the audit period September 1, 2013 through February 28, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Pierce College fund centers.

**PURPOSE/OBJECTIVE**

The objectives of this audit were to:

• Ensure purchasing process is adequately controlled;

• Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);

• Evaluate the adequacy and test internal controls within the procurement process;

P-03-1415
Los Angeles Pierce College Procurement Audit Report
September 30, 2014

- Ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department.; and
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.

SCOPE
The scope of the audit included a review of processes and procedures of the procurement and accounts payable function for the audit period September 1, 2013 through February 28, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LAPC and performed an examination of the records associated with the procurement operation of the LAPC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

MAJOR ISSUES IDENTIFIED:

A. Walkthrough
1. Non-compliance with LACCD policies and procedures: There is no process in place to ascertain to whom the assets were assigned and the location of the assets. This equates to a 100% error rate. (Impact: High)
2. Non-compliance with LACCD policies and procedures: The College does not date stamp invoices that are received in the account payable department. This equates to a 100% error rate. (Impact: Moderate)

B. Asset Observation
1. Non-compliance with LACCD policies and procedures: Equipment/Assets purchased were reported in BW but not reported in SAP. This equated to a 1046.8% dollar error rate and the dollar amount associated with the error is $100,562.58. (Impact: Considerable)
2. Non-Compliance with LACCD policies and procedures: Equipment purchased with LAPC College general funds and specially funded program funds were not properly tagged. The error percentage ranges from .09% to 35% and a cumulative dollar error of $100,562.58 dollar error. (Impact: Moderate)
3. Non-compliance with LACCD policies and procedures: Assets purchased cannot be located therefore tagging of the asset cannot be validated. This equates to a 41.66% dollar error rate and a dollar error amount of $60,764.35. (Impact: Moderate)

C. Board Reporting
1. Non-compliance with LACCD policies and procedures: Contract Purchase Orders and Short Term Agreements (STA) were not reported to the board timely for ratification and/or sent to the Board for approval. This equates to an error rate range

P-03-1415
of 1.18% to 68% error rate and a cumulative dollar error of $116,293.02 (Impact Considerable)

D. Procurement Payments

1. **Non-compliance with LACCD policies and procedures**: Payments for Contracts, Purchase Orders, and Short Term Agreements were not made timely. This equates to an error range of 16.7% to 56% and a dollar error amount of $353,460.99. (Impact: Considerable)

2. **Non-compliance with LACCD policies and procedures**: Three quotes/proposals were not obtained in circumstances required and there were no justification provided for not having the three as warranted. This equates to a 52% error rate and a dollar error amount of $91,610.30. (Impact: Moderate)

3. **Non-compliance with LACCD policies and procedures**: Vendors used were not part of the established LACCD master vendor list as required in Directive 142. This equates to a 56% error rate and a cumulative dollar error of $84,880.08. (Impact: Moderate)

4. **Non-compliance with LACCD policies and procedures**: There was no evidence to substantiate the delivery of goods and/or the confirmation of services performed. This equates to an error range of 12% to 25% error rate and a dollar error of $94,671.89. (Impact: Moderate)

5. **Non-compliance with LACCD policies and procedures**: Purchase requisition forms were not provided for review. This equated to a 25% error rate and a dollar error amount of $122,520.08. (Impact: Moderate)

6. **Non-compliance to LACCD policies and procedures**: Procurement policies and procedures were not adhered to as items/services procured were not properly authorized and/or approved. This equates to an error range of 8% to 44%. (Impact: Moderate)

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

A. Walkthrough

1. a. College will conduct training on Asset Tracking so each department has an asset list of their equipment for tracking purposes. (Implementation Date: January 01, 2014)

2. a. Date stamp all correspondence when they arrive in the department. (Implementation Date: December 01, 2014)
b. Audit invoice files (a sample of 3 monthly) for compliance with Date Stamp Process. (Implementation Date: December 01, 2014)

c. Purchase Additional Date Stamp machine when funding becomes available. (Implementation Date: April 01, 2015)

B. Asset Observation

1.  a. College will conduct training on Asset Tracking so each department has an asset list of their equipment for tracking purposes. (Implementation date: January 01, 2015)

   b. College will conduct inventory college wide of 30 random samples annually of equipment, and reconcile this inventory to assets identified in SAP. (Implementation date: June 30, 2015)

2.  a. College will train users that equipment purchased must be tagged by the receiving department. (Implementation date: January 01, 2015)

   b. College receiving with work with College SFP directors to ensure that SFP tags are in place prior to dispatch to department users. (Implementation date: January 01, 2015)

3.  a. College will require departments to create a database of the equipment housed in their departments. For mobile equipment, a check out log will be created, to track equipment distributed. (Implementation date: April 01, 2015)

4.  a. Annual spot check of equipment inventory will be performed for a sample size (collegewide) of 30 items. (Implementation date: June 30, 2015)

C. Board Reporting

1.  a. The college will reinforce the need to timely submit STA/Contract requests to meet the 60 day period requirement of approval. (Implementation Date: January 01, 2015)

   b. College Procurement will work with Regional Procurement to audit 3 samples monthly to assess progress toward meeting the 60 day period of approval. (Implementation Date: November 01, 2014)

D. Procurement Payments

1. College provides training to all departments regarding the need to pay invoices within 30 days. The requestors’ will need to submit contract requests with more lead time to ensure contracts are executed earlier in process. Many invoices submitted by vendors are in error, requiring research or correction prior to processing, resulting in a payment in excess of 30 days. In this case, the College will document on the invoice extenuating circumstances for research of incorrect invoices. Procurement staff and AP staff will meet monthly to review open orders, and ensure payment within 30 days. (Implementation date: January 01, 2015).

2. The college will include in training workshops the 3 quotation requirement for purchases warranting three quotations. The college will note on the Contract Request/PO request form the quotes that were obtained. The College will upload the
quotes into SAP as attachments so that they can easily be retrieved. (Implementation Date: December 01, 2015).

3. The college will obtain Master Agreement Lists from District Contracts. College will update Purchase request / RFC form to insure that Master Agreements are considered prior to aware/purchase. College will train employees on process of review of Master Agreements prior to final selection of goods or services. (Implementation date: June 30, 2015) (Implementation date: June 30, 2015)

4. a. College will modify processes to require all goods delivery on campus be brought to central receiving for physical validation, and provide training to college staff on goods acceptance and invoice approval process. (Implementation date: January 01, 2015)

b. In instances when goods cannot be delivered through receiving, the college will train staff to notify receiving department of the delivery so goods could be physically verified. (Implementation date: November 1, 2014)

c. College will check 3 samples monthly to ensure that invoices are signed prior to payment. (Implementation date: January 1, 2015)

5. a. The college will require purchase requisitions for all procurement transactions. The college will provide training for campus users to review this process. (Implementation date: January 01, 2015)

b. Purchase requests that are not approved by the appropriate approving official, will be returned to the requestor. The college will provide training for campus users to review this process. (Implementation date: January 1, 2015)

c. The college will test 3 samples monthly to ensure compliance. (Implementation date: November 1, 2015)

6. a. The college will continue with training to ensure that departments do not receive services/goods prior to a Purchase Order or Contract signed by the college delegated authorized signer. (Implementation date: January 1, 2015)

b. The college will audit 3 samples monthly to ensure that all contracts/STAs/POs are signed and dated. (Implementation date: November 1, 2014)
Signatures:

Kathleen Burke, President

Date: 11/24/2014

Rolf Schleicher, Vice President of Administrative Services

Date: 11/19/14

cc  Budget and Finance Committee; LACCD Board of Trustees
Francisco Rodriguez, Chancellor
Adriana Barrera, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer/Treasurer

Audit Team:
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
Marioan Carranza, MBA CIA, CFE Auditor
Audit: Los Angeles Valley College – Procurement Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: November 30, 2014

Audit Period: January 1, 2014 through June 30, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>01</td>
</tr>
<tr>
<td>Considerable</td>
<td>02</td>
</tr>
<tr>
<td>Moderate</td>
<td>04</td>
</tr>
<tr>
<td>Marginal</td>
<td>00</td>
</tr>
<tr>
<td><strong>Total Issues</strong></td>
<td><strong>07</strong></td>
</tr>
</tbody>
</table>

Overall risk program has some notable weaknesses. A “considerable” rated or numerous “moderate” rated findings were identified. Control weaknesses were identified, which require corrective action in the near term to avoid significant financial loss, regulatory criticism or negative publicity. Risk management processes are not formalized and documented in all instances and are not clearly understood or followed consistently. Senior management attention is required to ensure corrective action is implemented and adhered.

**BACKGROUND**

The Los Angeles Community College District (LACCD) has established procurement policies and procedures to assist the Los Angeles Valley College (LAVC) with procuring goods and services. The procurement process is intended to ensure that fairness, transparency, and costs saving measures are incorporated in the purchasing of goods and services. The objectives of the LAVC procurement processes are aligned with the LACCD procurement processes which are as follows:

- “Comply with laws, regulations, rules and policies governing procurement by community college districts in California and conform to Board rules and administrative regulations within LACCD;

- Encourage competition among suppliers in order to obtain best pricing and terms, superior product quality, and good customer service;

- Prevent favoritism, fraud, waste, abuse and corruption in soliciting suppliers, awarding contracts and expending public funds;
Los Angeles Valley College Procurement Audit Report  
November 30, 2014

- Provide all suppliers an equal opportunity to participate and earn LACCD’s business;
- Be efficient in the time and resources expended to execute a transaction; and
- Result in the timely delivery of the correct products and services to the customer.”

The procurement process is decentralized allowing colleges the freedom to select vendors to fulfill their request for good and services within the established procurement guidelines. The general procurement function within the LACCD is performed at either: 1) the college purchasing offices, 2) the assigned regional location through the procurement specialist, or 3) the Educational Service Center (ESC) Contracting and Purchasing Department. The functional responsibilities are as follows:

1. **College Purchasing Office** procures up to $5,000; except procurement transactions initiated by the college Plant Facilities Offices and in some colleges specially funded programs.

2. **College Procurement Specialist** procures from $5,000 up to the formal bidding threshold. Currently the bidding threshold hold is $84,100.00
   
   Procurement regions are divided in the following manner:
   
   a) East Los Angeles College, Trade Tech College, and West Los Angeles College

   b) Southwest College, Harbor College, and City College

   c) Valley College, Pierce College, and Mission College

3. **Contracts and Purchasing Section at the ESC** – procurements requiring formal bidding or special handling due to the complexity and nature of the transactions; cooperative and piggyback purchase transactions; and other purchasing transactions not delegated by the Chancellor or Board of Trustees to the colleges set forth in Administrative Regulation B19.

The final steps in the procurement lifecycle are the invoicing from vendor and the payment by the ESC Account Payable Department. Payments are processed through LACCD’s SAP system after the receipt of invoice and confirmation of services rendered and/or good receives.

Los Angeles Valley College (LAVC) procured and paid a total of $4,012,192.13 for the audit period January 1, 2014 through June 30, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Valley College fund centers.
PURPOSE/OBJECTIVE
The objectives of this audit were to:

- Ensure purchasing process is adequately controlled;
- Determine that the accounting procedures are adequate and are reported in accordance with Generally Accepted Accounting Principles (GAAP);
- Evaluate the adequacy and test internal controls within the procurement process;
- Ensure proper segregation of duties in the purchasing process;
- Determine the economy, efficiency, and effectiveness of the, Purchasing Department, and Accounts Payable Department.; and
- Ascertain the existence and effectiveness of current policies and procedures and determine whether current practices are in accordance with Los Angeles Community College District (LACCD) policies and procedures, and federal and state laws and regulations.

SCOPE
The scope of the audit included a review of processes and procedures of the procurement and accounts payable function for the audit period January 01, 2014 through June 30, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LAVC and performed an examination of the records associated with the procurement operation of the LAVC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, bookstore purchases, and cafeteria purchases.

MAJOR ISSUES IDENTIFIED:

A. Walkthrough
   1. **Non-compliance with LACCD Policies and Procedures**: The College does not maintain any documentation to ascertain to whom the assets were assigned and the location of these assets. This equates to a 100% error rate. *(Impact: High)*
   2. **Non-compliance with LACCD Policies and Procedures**: The College does not date stamp invoices that are received in the account payable department. This equates to a 100% error rate. *(Impact: Moderate)*

B. Board Reporting
   1. **Non-compliance with LACCD Policies and Procedures**: Contract Purchase Orders and Short Term Agreements (STA) were not reported to the board timely for ratification and/or sent to the Board for approval. This equates to an error rate range of 1.9% to 41% error rate and a cumulative dollar error of $235,677.50 *(Impact Considerable)*
C. Procurement Payments

1. **Non-compliance with LACCD Policies and Procedures:** Payments for Contracts, Purchase Orders, and Short Term Agreements were not made timely. This equates to an error range of 3% to 56% and a dollar error amount of $414,471.04. *(Impact: Considerable)*

2. **Non-compliance to LACCD Policies and Procedures:** Procurement policies and procedures were not adhered to as items/services procured were not properly authorized and/or approved. This equates to an error range of 2% to 40.3%. *(Impact: Moderate)*

3. **Non-compliance with LACCD policies and procedures:** There was no evidence to substantiate the delivery of goods and/or the confirmation of services performed. This equates to an error range of 13.6% to 45% error rate and a dollar error of $180,765.81. *(Impact: Moderate)*

D. Asset Observation

1. **Non-Compliance with LACCD policy and procedure:** Equipment purchased with LAVC College specially funded program funds were not properly tagged. This equated to a 100% dollar error rate and the dollar amount associated with the error is $64,090.91. *(Impact: Moderate)*

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

A. Walkthrough

1. LAVC has designed a new form that will be using before the purchasing process takes place with the completion to be performed when the actual asset is received by the end user. Locations can then in place long before the asset arrive, enabling our Receiving Dept. to accurately note the appropriate location upon its arrival. LAVC will require the Departments to have employee sign off on the Asset Requested Form indicating that they checked out of an item.

   Training will also be conducted in regarding the asset management policies and procedures. Supervisor is to conduct self-audits to ensure that the policies and procedures that implemented. CFA will ensure that these audits are implemented by performing a surprise audit. *(Implementation date: January 2015)*

2. LAVC will require that all the invoices be sent directly to the Accounts Payable department for processing (Business Office). A new internal policy and procedures will be developed regarding stamping invoices. Supervisor is to conduct self-audits to ensure that the policies and procedures that implemented. The CFA will ensure that these audits are implemented by performing a surprise audit. *(Implementation date: January 2015)*
B. Board Reporting

1. The College’s Procurement Office will implement an internal process that will track the commencement date of all contract and short term agreements that are authorized by the College. This tracking mechanism should be used to ensure compliance with board reporting of STA’s within the 60 days period.

The College Procurement Office will generate a report of expiring STAs and contracts every three months for distribution to the concerned departments providing for a three-month lead time notification prior to expiration. The Office of Administrative Services will distribute the notifications. The AVP of Administrative Services will ensure distribution of the report to the concerned departments.

The College Procurement Office will conduct Procurement Training, to include policy and procedure for Board Reporting Process at least once a year for Administrators and employees responsible for generating Short Term Agreements and contracts.

The College’s/Procurement Office implement a self- audit to ensure that amount reported to the Board is accurate and staff are adhering to the policies and procedures implemented. Employees attending the procurement training will be issued the policy and procedures and will be required to acknowledge receipt. The acknowledgement receipt will be retained by the College Procurement Office. (Implementation date: January 2015)

C. Procurement Payments

1. LAVC will work with SAP group to generate the aging report. Accounts Payable will work with Purchasing Department to follow up payment. LAVC will conduct training for employees on policy and procedure payment. Supervisor is to conduct self-audits to ensure that the policies and procedures that implemented. CFA will ensure that these audits are implemented by performing a surprise audit. (Implementation date: January 2015)

2. Purchasing department will rejects the purchases orders without any proper authorization for purchase requisitions. Purchasing Department will review the contracts to ensure that the delegated authorities has signed and approved the contract before it goes out. LAVC will conduct training for employees and managements on policy and procedure for procurement. Supervisor is to conduct self-audits to ensure that the policies and procedures that implemented. An administrator will ensure that these audits are implemented by performing a surprise audit. (Implementation date: January 2015)

3. LAVC will strengthen the controls by training the employee the procedures for accepting delivery. A memo will also be sent out regarding delivery to central location to all college employees by VP of administrative service. Business Office (A/P) will reject any invoices without any proper approval signature on the invoice. Supervisor is to conduct self-audits to ensure that the policies and procedures that
implemented. CFA will ensure that these audits are implemented by performing a surprise audit. (Implementation date: January 2015)

D. Inventory

1. LAVC will purchase new tags for the SFP program and will train all SFP staff for this required tagging procedure. Supervisor is to conduct self-audits to ensure that the policies and procedures that implemented. CFA will ensure that these audits are implemented by performing a surprise audit. (Implementation date: January 2015)
Signatures:

Dr. Erika Endrijonas, President  
Date: 12/11/14

Mike Lee, Vice President of Administrative Services  
Date: 12/11/14

cc Budget and Finance Committee; LACCD Board of Trustees  
Francisco Rodriguez, Chancellor  
Adriana Barrera, Deputy Chancellor  
Camille Goulet, General Counsel  
Jeanette Gordon, Chief Financial Officer/Treasurer

Audit Team:  
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit  
Keyna Crenshaw, Senior Auditor  
Marioan Carranza, MBA CIA, CFE Auditor
Los Angeles Community Colleges District

Report No. S-07-1415
Executive Summary

Audit: Los Angeles Southwest College – Associated Student Organization (ASO) Audit

From: Arnold Blanshard, CPA/MBA, Director, Internal Audit

Audit Report Date: January 31, 2015

Audit Period: July 1, 2012 through June 30, 2014.

Overall Audit Rating

<table>
<thead>
<tr>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Impaired</strong></td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Considerable</td>
</tr>
<tr>
<td>Moderate</td>
</tr>
<tr>
<td>Marginal</td>
</tr>
<tr>
<td><strong>Total Issues</strong></td>
</tr>
</tbody>
</table>

Overall risk program is impaired. A “high” rated or multiple “considerable” rated findings were identified. Weaknesses in internal indicate a high probability that the District/college will incur material financial loss, significant regulatory criticism, fines, sanctions or reputation damage. Controls require extensive improvement to ensure timely detection and correction of risk exposures. Key policies are not in place or sufficiently documented, communicated and/or followed. Executive management attention is necessary to address the control weaknesses noted.

BACKGROUND
The Los Angeles Southwest College Associated Student Organization (ASO) is the representative body of students to offer opinions and to make recommendations to the College President on college policies and procedures that have or will have a significant effect on students. The ASO was established to promote the general welfare and moral of the students. The ASO is authorized by college administration and officers are elected by students that are enrolled at Los Angeles Southwest College (LASC). Currently the elected body consists of four elected students officials.

The ASO supports the growth of LASC and the overall goal is to create a better environment for academic experiences for students through student leadership. As part of the governing leadership and goal of promoting student welfare, an ASO representative is elected by students of all nine colleges within the LACCD as a student Trustee on the Los Angeles Community College District (LACCD)
Board of Trustee as a means to voice concerns and participate in matters that directly impact LACCD students.

Members of the ASO enjoy the benefits of:

- Discounted/preferred parking,
- Leadership experience
- 1st 100 students free flash drives or other item
- Free scantrons each week
- Free bluebook each week
- Free pencils, pens, and folders
- Eligibility to hold a student government office
- Ability to charter a club and use space on campus for events
- Amusement park and movie discounts
- Discounts on ASO campus sponsored events
- Eligibility for giveaway

The ASO Student Council meets on Wednesdays in which the students plan ways to support their overall goals and campus life experiences. The elected governing body is responsible for keeping account of its meetings, expenditures, authorizations and policies established. Additionally, the governing body of the Associated Student Organization is responsible for raising and expending ASO funds under the trusteeship of the college Chief Business Officer which serves as the college President’s designee. All ASO transactions are subject to review by the Chancellor and/or Board of Trustees, and must be in conformity with LACCD board and administrative policies governing the ASO program.

The ASO is governed by:

- The Education Code, Sections 76060-76067
- The Ralph M. Brown Act
- Rules of the Los Angeles Community College Board of Trustees
- LACCD Administrative Regulations
- College Rules and Regulations
- ASO Constitution and Bylaws
- Robert's Rules of Order

In accordance with LACCD, LASC, and ASO policies, all campus clubs must be formally chartered by the ASO. The ASO Executive or Administrative Vice President and the ASO Advisor are required to supervise the club chartering process. Applications are made available at the beginning of each semester in the ASO Office, SSB 118.

The funds for the ASO are generated through student membership dues, student representative fees, and fund raising events that are attributed to various college clubs. The LASC Business Office is responsible for collecting all funds associated with the ASO, ensuring that deposits are made to the ASO bank accounts, and maintaining all accounting for the ASO. The ASO revenue per the LACCD annual audited Basic Financial Statement and Supplemental Information for the FY2012-2013 and FY 2013-14 was $23,634 and 34,445 respectively.
PURPOSE/OBJECTIVE

The objectives of this audit are:

- The operations are conducted in accordance with established policies and procedures as mandated by the Los Angeles Community College Board rules, Administrative regulations and internal operational procedures.
- Assets are adequately safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management’s authorization and recorded properly.
- Internal controls within the daily operational activities of the ASO are adequate to mitigate potential risks.
- The funds are used to meet the ASO goals and objective.
- The current policies and procedures are adequate in running an effective and efficient association

SCOPE

The scope of the audit will include the review of processes and procedures that include all ASO activities for the period **July 1, 2012 through June 30, 2014**. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the Los Angeles Trade Technical ASO processes relating to the college activities and ascertained the controls currently in place are operating effectively and efficiently.

*This audit was conducted in accordance with Generally Accepted Government Auditing Standards, General Accepted Auditing Standards, and the Standards for the Professional Practice of Internal Auditing.*
Major Issues Identified:

A. Walkthrough Findings:

1. **Non-compliance to LACCD policies and procedures**: ASO does not create an approved annual budget for its operation. This equates to a 100% error rate. *(Impact: High)*

2. **Non-compliance to LACCD policies and procedures**: The Business Office does not have a process in place for maintaining, updating, and validating signatory cards associated with Funds accounts attributed to the ASO and Trust accounts. This equates to a 100% error rate. *(Impact: High)*

3. **Non-compliance to LACCD policies and procedures**: There was no record of valid signers for the LASC ASO bank accounts. *(Impact: High)*

4. **Non-compliance with LACCD policies and procedures**: Lack of segregation of duties were noted within the LASC Business office associated with the processing of transactions, disbursement request approval process and posting transactions to the general ledger. *(Impact: High)*

5. **Non-compliance to LACCD policies and procedures and best practices**: The ASO Request for Purchase Order or Check form is missing the title(s) of the approver(s). This equates to a 100% error rate. *(Impact: Moderate)*

6. **Non-compliance with LACCD policies and procedures and industry Best Practice**: The LASC business office does not maintain internal operations written policies and procedures manual for all ASO operations. *(Impact: Moderate)*

B. Payments and Transactions

1. **Non-compliance with LACCD policies and procedures**: All transactions are not posted to the Quick books accounting software. *(Impact: Considerable)*

2. **Non-compliance with LACCD policies and procedures**: The necessary supporting documentation was not provided to ascertain the validity of payment made for expenditures. This equates to a dollar error rate of 43% and a dollar error amount of $34,325.18. *(Impact: Moderate)*

3. **Non-compliance to LACCD policies and procedures**: Expenditures procured were not properly authorized and/or approved. This equates to an error rate of 23% error rate and a dollar error amount of $9,645.36. *(Impact: Moderate)*

C. Revenue

1. **Non-compliance with LACCD policies and procedures**: LASC Business Office does not make bank deposits timely. This equates to a 43% error rate. The deposit ranges from two to 15 days. *(Impact: Considerable)*
Nonrelated ASO Findings

A. Walkthrough Findings:

1. **Non-compliance to LACCD policies and procedures:** Unrelated ASO Funds are deposited into the ASO Bank account and are recorded in the ASO accounting records (Quick Book). *(Impact: High)*

2. **Non-compliance with LACCD policies and procedure:** Child Development Instructional Material Fees are not recorded on the miscellaneous report that is used to report revenue collection from the college in SAP. *(Impact: Moderate)*

3. **Non-compliance with LACCD policies and procedures:** Improper use of the Men’s Athletic Football Trust Fund as funds was used to paint the college facility. *(Impact: Moderate)*

B. Payments and Transactions

1. **Non-compliance with LACCD policies and procedures:** The necessary supporting documentation was not provided to ascertain the validity of payment made for expenditures. This equates to a dollar error rate of 64.8% and a dollar error amount of $17,275.14. *(Impact: Considerable)*

2. **Non-compliance to LACCD policies and procedures:** Expenditures procured were not properly authorized and/or approved. This equates to an error rate of 23% error rate and a dollar error amount of $9,645.36. *(Impact: Moderate)*

C. Scholarship

1. **Non-compliance to LACCD policies and procedures:** Supporting documentation for ASO Scholarship disbursement was not provided. This equated to a 19.2% error rate and transactions valued at $2,401.29. *(Impact Moderate)*

2. **Non-compliance to LACCD policies and procedures:** The ASO operation associated with Scholarship disbursements lack the necessary documentation warranted for the approval of payment. This equated to a dollar error rate 46.4% and the dollar error totaled $13,306.57. *(Impact Moderate)*

Action Plans and Completion Dates:

S-07-1415
A. **Walkthrough Findings**

1. The ASO will create an approved annual budget for its operation *(May 2015)*

2. The ASO and College Business Office will implement a budget calendar that will provide a timeline for the preparation and approval of the budget on an annual basis. *(March 2015)*

3. The LACCD Policies and Procedures will be posted on the College website and links will be provided to ASO Executive Board members. *(March 2015)*

4. The College will conduct annual trainings in policies and procedures for all owners of ASO and non-ASO accounts and Business Office staff. *(October 2015)*

5. College will separate existing account into three separate accounts to meet LACCD Administrative Regulation: S-5 to not mingle ASO accounts with non-ASO accounts. *(March 2015)*

6. The college will set up and maintain designated accounts using Quick Book Accounting software as follows *(May 2015)*:
   a. ASSOCIATED STUDENT ORGANIZATION (ASO)
   b. TRUST ACCOUNTS
   c. SCHOLARSHIPS

7. The College will create a process for ASO and non ASO accounts set-up *(August 2015)*

8. The College will develop and put in place a process for maintaining, updating, and validating signatory cards associated with Funds accounts attributed to the ASO and non-ASO accounts. *(June 2015)*

9. The ASO will provide the Business Office signatory cards as required. *(February 2015)*

10. The Business Office will maintain a record of valid signers for the LASC ASO and non ASO bank accounts. *(February 2015)*

11. The Business Office will establish a process of annual review to ensure that the valid signers’ record is current and accurate. *(February 2015)*

12. College will assess, compare and evaluate staffing levels to like size comparable capacity sister campuses and adjust resource allocation to meet segregation of duties criteria. *(June 2015)*

13. College will train, monitor and adjust staff work assignments for optimal compliance. *(December 2015)*

14. Child Development Instructional Material Fees are currently being recorded on the miscellaneous report that is used to report revenue collection from the college in SAP. *(Fall 2015)*

15. College Business Office has created a new request form that provides a title, signature and date line for requestor and approver. *(February 2015)*
16. College will distribute form to owners of ASO accounts. (April 2015)

17. College Business Office will reject requests that are submitted using non College Approved forms. (April 2015)

18. The College will develop internal policies and procedure for ASO/ Auxiliary operations. (July 2016)

19. The College will conduct annual trainings in policies and procedures for all owners of ASO and non-ASO accounts and Business Office staff. (October 2015)

20. LACCD Policies and Procedures will be posted on the College website. (March 2015)

21. The College Business Office will develop a communication campaign reminding the campus community of the type of expenditures that can be funded by non-ASO trust accounts. (July 2015)

22. The College Business Office will conduct annual trainings in procurement policies for all owners of ASO trust accounts and Business Office staff. (October 2015)

23. The College Business Office will post District policies and procedures on its website. (March 2015).

B. Payments and Transactions

1. College will assess, compare, evaluate existing resources to allocate resources to provide adequate staffing to meet requirement to post all transactions in a timely manner. (June 2015)

2. The College Business Office will post all transactions to the Quick books accounting software. (August 2015)

3. College will adhere to LACCD procurement policies and procedures and business services guidelines for fund disbursement from ASO and non ASO accounts. (March 2015)

4. College administration will actively reinforce the requirement for adherence LACCD procurement policies and procedures and business services guidelines for fund disbursement from ASO and non ASO accounts. (March 2015)

5. College Business Office will reject any request for payment that is not supported with original supporting documentation in order to ascertain the validity of the request. (March 2015)

6. College Business Office will conduct an annual informational campaign to remind the campus community of the requirement for disbursing ASO and non ASO funds. (Annually, Starting October 2015)

7. College will provide links to LACCD Policies and Procedures will be posted on the campus website. April 2015)

8. College will adhere to LACCD administrative regulations and LACCD procurement policies and procedures to that all expenditures for ASO and non-ASO accounts are properly authorized and approved. (March 2015)


10. The College will post District policies and procedures on the college website.

11. The College Business Office will reject payment for all transactions that are not properly
approved and in accord with set LACCD guidelines and administrative regulations. (March 2015)

12. The College will offer and conduct annual trainings in policies and procedures for all owners of ASO and non-ASO accounts and Business Office staff. (Annually, Starting October 2015)

C. Revenue
1. The College Business Office will make deposits timely; (March 2015)
2. The College Business Office Supervising staff will monitor deposits regularly, particularly when there is large volume of collected currency and coin. (April 2015)
3. The College will ensure there is adequate staffing to ensure timely deposits within the 24 hour district requirement. (Periodic Review)

D. Scholarship
1. College will adhere to LACCD administrative regulations policies and procedures for verifying that properly approved supporting documentation for scholarship disbursement is provided prior to release of funds and provided website links to District policies and procedures. (March 2015)
2. College will separate existing account into three separate accounts to meet LACCD Administrative Regulation: S-5 to not mingle ASO accounts with non-ASO accounts. One of the three accounts will be designated “SCHOLARSHIPS”. (March 2015)
3. The College Business Office Supervisor will monitor expense transactions for accuracy. (March 2015)
5. The College will offer and conduct annual trainings in policies and procedures for all owners of ASO and non-ASO accounts and Business Office staff. (Annually, Starting October 2015)

6. The College will adhere to LACCD administrative regulations policies and procedures for verification of all supporting documentation and approval authority for scholarship disbursement. (March 2015)
7. The College Financial Aid Office will submit only college approved forms with approved supporting documentation and that the titles of requestor and approving authority and date are denoted on requests for scholarship disbursement. (March 2015)
8. The College will provide links to LACCD policies and procedures on the college website. (March 2015)
10. The College Business Office will reject payment requests for all transactions that are not properly approved and supported with original documentation. (February 2015)
11. The College will offer and conduct annual trainings in policies and procedures for all owners of ASO and non-ASO accounts and Business Office staff. (Annually, Starting October 2015)
Signatures:

Dr. Linda D. Rose, President
Date: 3-2-2016

Perris Trimble, Vice President of Administrative Services
Date: 3-2-15

Cc:
Francisco C. Rodriguez, Chancellor
Finance and Audit Committee, LACCD Board of Trustees
Adrianna Barreza, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer / Treasurer

Audit Team:
Arnold Blanshard, CPA/MBA, Director, Internal Audit
Keyna Crenshaw, Senior Auditor
LaSchanda Johnson, MBA, Auditor
Los Angeles Community Colleges District

Report No. T-09-1415
Executive Summary

Audit: Los Angeles Trade Technical College – Associated Student Organization Audit

From: Arnold Blanshard, CPA/CRMA/MBA, Director, Internal Audit

Audit Report Date: March 31, 2015
Audit Period: July 1, 2012 through May 31, 2014

<table>
<thead>
<tr>
<th>Overall Audit Rating</th>
<th>Number of Issues by Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ASO</td>
</tr>
<tr>
<td>Impaired</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>04</td>
</tr>
<tr>
<td>Considerable</td>
<td>04</td>
</tr>
<tr>
<td>Moderate</td>
<td>05</td>
</tr>
<tr>
<td>Marginal</td>
<td>01</td>
</tr>
<tr>
<td>Total Issues</td>
<td>14</td>
</tr>
</tbody>
</table>

Overall risk program is impaired. A “high” rated or multiple “considerable” rated findings were identified. Weaknesses in internal control indicate a high probability that the District/college will incur material financial loss, significant regulatory criticism, fines, sanctions or reputation damage. Controls require extensive improvement to ensure timely detection and correction of risk exposures. Key policies are not in place or sufficiently documented, communicated and/or followed. Executive management attention is necessary to address the control weaknesses noted.

BACKGROUND

The Los Angeles Trade Technical College Associated Student Organization (ASO) is the representative body of students to offer opinions and to make recommendations to the College President on college policies and procedures that have or will have a significant effect on students. The ASO was established to promote the general welfare and moral of the students. The ASO is authorized by college administration and officers are elected by students that are enrolled at Los Angeles Trade Technical College (LATTC). Currently the elected body consists of six elected students officials.

The ASO supports the growth of LATTC and the overall goal is to create a better environment for academic experiences for students through student leadership. As part of the governing leadership and goal of promoting student welfare, an ASO representative is represented on the LACCD Board of Trustee as a means to voice concerns and participate in matters that directly impact students. Members of the ASO enjoy the benefits of receiving discounted/preferred parking, loans, and leadership experience. The ASO Student Council meets on Wednesdays in which the students plan on ways to support their overall goals and campus life experiences. The elected governing body is responsible for keeping account of its meetings, expenditures, authorizations and policies established. Additionally, the governing body of the Associated Student Organization is responsible for raising and expending ASO funds under the trusteeship of the college Chief Business Officer which serves as the college President’s
designee. All ASO transactions are subject to review by the Chancellor and/or Board of Trustees, and in conformity with Los Angeles Community College District (LACCD) board and administrative policies governing the ASO program. The ASO is governed by:

- The Education Code, Sections 76060-76067
- The Ralph M. Brown Act
- Rules of the Los Angeles Community College Board of Trustees
- LACCD Administrative Regulations
- College Rules and Regulations
- ASO Constitution and Bylaws
- Robert's Rules of Order

The funds for the ASO are generated through student membership dues, student representative fees, and fund raising events that are attributed to various college clubs. The LATTC Business Office is responsible for collecting all funds associated with the ASO, ensuring that deposits are made to the ASO bank accounts, and maintaining all accounting for the ASO. The ASO revenue per the annual audited income statements for the FY2012-2013 and FY 2013-14 was $82,081 and $59,671.26 respectively.

**PURPOSE/OBJECTIVE**

The objectives of this audit are:

- Ascertain the existence and effectiveness of current policies and procedures;
- Evaluate the adequacy and test internal controls at the business office pertaining to transactions of the ASO;
- Evaluate the adequacy and test internal controls over accounts receivable receipt processing;
- Review and evaluate internal controls over other receipts;
- Evaluate internal controls over the reporting of cash;
- Determine compliance with federal and state laws and regulations; and
- Determine whether current practices are in accordance with policies, procedures, laws and regulations.

**SCOPE**

The scope of this audit included a review of processes and procedures of the college associated student body cash controls for the period **July 1, 2012 through May 31, 2014**. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the Los Angeles Trade Technical ASO processes relating to the college activities and ascertained the controls currently in place are operating effectively and efficiently.
MAJOR ISSUES IDENTIFIED:

A. Walkthrough

1. **Non-compliance with LACCD policies and procedures:** Business Office is offsetting all ASO Credit Card & Check receipts against the cash collected for online and offline cash sales. All ASO cash collected was deposited to the bank for the 47 days examined. *(Impact: High)* *This finding was identified as a prior audit finding.*

2. **Non-compliance with LACCD Policies and Procedures:** The catering process for the food truck is not within LACCD policy with revenue posting and expired contract from 1996. A new contract was approved by the Board of Trustees on November 5, 2014. The amounts collected during the scope of the audit totaled $60,000. *(Impact: High)*

3. **Non-compliance to LACCD policies and procedures and industry best practices:** There was no record of valid signers to the LATTC ASO bank accounts. *(Impact: High)*

4. **Non-compliance with Industry Best Practice:** An updated internal operation written policies and procedures for all pertinent areas was not maintained. *(Impact: Considerable)*

5. **Non-compliance to LACCD policies and procedures and Industry Best Practices:** The ASO advances and loans are inefficiently and ineffectively managed. *(Impact: Moderate)*

6. **Non-compliance to LACCD policies and procedures and Industry Best Practices:** Cal Card was used for procuring ASO expenses/purchases. *(Impact: Moderate)*

7. **Non-compliance to LACCD policies and procedures:** Assets purchased with ASO funds could not be located. *(Impact: Moderate)*

B. Payments

1. **Non-compliance with LACCD policies and procedures:** The necessary supporting documentation was not provided to ascertain the validity of payment made for ASO expenditures. This equates to an error rate range of 56%- 100% and a dollar error amount of $100,993.36. *(Impact: Considerable)* *This finding was identified as a prior audit finding.*

2. **Non-compliance with LACCD policies and procedures:** Expenditures procured were not properly authorized and/or approved. This equates to an error rate range of 22% - 54% and the total dollar error of $138,139.01. *(Impact: Considerable)*

C. Revenue

1. **Non-compliance with LACCD policies and procedures and regulatory guidelines:** ASO-Rep fee was posted to a trust and agency account and was not posted to the ASO revenue account. This equates to a 24% error rate and a dollar error totaled $1,229.00. *(Impact: Moderate)*

2. **Non-compliance with LACCD policies and procedures:** ASO receipts transactions were not posted timely in the ASO general ledger. During the audit period 7/2012 – 12/2012, untimely conditions were improved; however, after 1/2013 conditions were abandoned. This
equates to a 14.89% error rate and posting error ranges from 32-57 days (Impact: Moderate)

D. Banking and Investments

1. **Non-compliance to LACCD policies and procedures, procedures, and best practices:**
   All transactions are not posted to the Quick books accounting software. The dollar amount associated with this error totaled $20,701.99. (Impact: Considerable)

E. Prior Audit Follow-Up

1. **Non-compliance to LACCD policies and procedures, procedures, and best practices:**
   The ASO prior audit findings identified in the LATTC Cash Control audit have not been corrected as the corrective action plans were not fully implemented. (Impact: High)

Nonrelated ASO Findings

A. Walkthrough

1. **Non-compliance to LACCD policies and procedures and Industry Best Practices:** ASO funds are commingled with college funds that are associated with non-related ASO activities. Thereby using the ASO bank account for deposit and checks payments for these transactions. (Impact: High)

B. Payments

1. **Non-compliance with LACCD policies and procedures:** The necessary supporting documentation was not provided to ascertain the validity of payment made for Non-ASO expenditures. This equates to an error rate range of 62% - 100% and a dollar error amount of $56,765.23. (Impact: Considerable) *This finding was identified as a prior audit finding.

   2. **Non-compliance with LACCD policies and procedures:** Expenditures procured were not properly authorized and/or approved. This equates to an error rate range of 85% - 100% and a dollar error amount of $50,737.50. (Impact: Considerable)

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

A. Walkthrough

1. WEB collections will now be logged on a separate report and a check will be issued to ASO the following month. On a monthly basis, the Business office will deposit a reimbursement check to ASO for WEB collections of ASO related fees. (12/2014)

   2. The College will deposit all catering contract funds to the college general funds. A new contract was approved by the Board of Trustees on November 5, 2014. (10/2014)
3. All signature cards are being updated with respective banking institutions. (12/2014)
4. ASO Policies and Procedures manual will be prepared. (1/2015).
5. College classifies Loans and Advances separately. (1/2015)
6. College has ceased the practice of utilizing Cal-Card for students (1/2015)
7. The college will include a process for tracking ASO assets in the policy and procedures. (6/2015)
8. The College will adopt an ASO budget by July 1, if the ASO student body has not done so. (7/2015)

B. Payments

1. College Administration was aware that corrective action was needed and this was implemented. Proper documentation will be required to ensure the validity of payments made for ASO expenditures (6/2014)

2. ASO Policies and Procedures will include a process for expenditures. Training will occur annually. (6/2015)

C. Revenue

1. The practice of the student representative fee being posted to a trust and agency account was ceased. (9/2014)

2. The college has assigned back-up personnel to the task of ensuring timely postings to the general ledger occur (12/2014)

D. Banking and Investments

1. A second employee verifies the accuracy of the information in Quickbooks and a process will be created which requires management to review. (6/2015)

E. Prior Audit Follow-Up

1. All prior recommendation will be implemented. (9/2014)

F. Non-ASO

1. The college ceased the practice of comingling ASO and College funds associated with activities (6/2015)

2. College Administration was aware that corrective action was needed and this was implemented. Proper documentation will be required to ensure the validity of payments made for ASO expenditures (6/2014)

3. ASO Policies and Procedures will include a process for expenditures. Training will occur annually. (6/2015)
Signatures:

Laurence B. Frank, President

Mary Gallagher, Vice President of Administrative Services

Date: 4/6/15

Date: 4/4/15

Cc Budget and Finance Committee; LACCD Board of Trustees
Dr. Francisco Rodriguez, Chancellor
Adriana Barrera, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer/ Treasurer

Audit Team:
Arnold Blanshard, CPA/CRMA/MBA, Director of Internal Audit
Keyna Crenshaw, Senior Auditor
LaSchanda Johnson, MBA, Auditor
Tiffany Britt, CFE, Auditor
Audit Memo

To: Dr. Laurence B. Frank, President,
From: Arnold Blanshard, C.P.A., M.B.A., CRMA, Director of Internal Audit
Date: April 7, 2015
Re: Los Angeles Trade-Technical College (LATTC) Associated Student Organization (ASO) Audit.

The Internal Audit Department (IAD) recently conducted the audit of LATTC ASO operations and is in the process of issuance of the audit report and Executive.

In accordance with our normal practice, we write to draw your attention to certain matters identified during the audit that were outside of the initial planned scope and review period of FY13 & FY14 (July 1, 2012 through May 31, 2014).

ACCOUNTING RECORDS

IAD noted that seventy six checks totaling $24,004.04 that cleared the LATTC ASO Bank of America checking account were not recorded in accounting reports as expenses. We have provided the college with the supporting documentation and our expectation as informed during our meeting on April 6, 2015 is to receive justification associated with the expenses within 30 days of this notification.

COLLEGE MISCELLNEOUS ACCOUNT

The process associated with ASO expenses were to use the LATTC Calcard whereby the ASO advance and or reimburse the LATTC for these expenses. As of February 26, 2015, IAD noted that ASO have an outstanding balance of $17,503.15 in this Account that is due the ASO. We have provided the college with the supporting documentation and our expectation as informed during our meeting on April 6, 2015 is to receive justification associated with the expenses within 30 days of this notification.
We appreciate your assistance and would like to thank the LATTC management and staff for their support and for their positive outlook on feedback as a resolution and improvement to operations. If any clarification is necessary on the related issues, let us know as we are always pleased to assist.

CC:
Budget and Finance Committee
Francisco Rodriguez, Chancellor
Laurence B. Frank, President
Adriana Barrera, Deputy Chancellor
Camille Goulet, General Counsel
Jeanette Gordon, Chief Financial Officer/ Treasurer
Mary Gallagher, Vice President of Administrative Services