BUDGET AND FINANCE COMMITTEE
INTERNAL AUDIT DEPARTMENT
2014-15 Third QUARTER REPORT
June 10, 2015

A. Audit Reports
   I. “Procurement Audits” Three Colleges

B. Corrective Action Plan Review
   II. “Procurement Audits” Six Colleges and Educational Service Center.
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 Southwest College - Procurement Audit

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

Audit Report Date: April 30, 2015

Audit Period: May 1, 2014 through October 31, 2014.

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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 Los Angeles Southwest College (LASC) 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 LASC 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 Southwest College (LASC) procured and paid a total of $1,558,804.17 for the audit period May 1, 2014 through October 31, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Southwest 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 May 1, 2014 through October 31, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LASC and performed an examination of the records associated with the procurement operation of the LASC. IAD scoped out direct payments that were related to travel expenditures, reimbursements, and bookstore purchases.

**Major Issues Identified:**

**A. Board Reporting:**

1. **Non-compliance to LACCD policies and procedures:** Short Term Agreements and Contracts were not reported to the board timely and/or sent to the board for approval. *(Impact: High)*

**B. Asset Observation**

1. **Non-compliance with LACCD policies and procedures:** Assets purchased were not tagged with LACCD tags and/or specially funded program tags where required. *(Impact: High)*

**C. Payments and Transactions**

1. **Non-compliance with LACCD policies and procedures:** Three quotes were not obtained in circumstances where required. *(Impact: High)*

2. **Non-compliance with LACCD policies and procedures:** Items/services procured were not properly authorized and/or approved. *(Impact: High)*

3. **Non-compliance with LACCD policies and procedures:** There was no evidence provided to substantiate the delivery of goods and/or the confirmation of services performed. *(Impact: High)*

4. **Non-compliance with 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 was provided to justify the use of vendors that are not part of the master vendor list. *(Impact: Considerable)*

5. **Non-compliance with LACCD policies and procedures:** Payments for Contracts (CO), Purchase Orders (PO), Facility Orders (FOF) and Short Term Agreements (STA) were not made timely. *(Impact: Considerable)*

6. **Non-compliance with LACCD policies and procedures:** Payments were made without proper documentation. *(Impact: Moderate)*

7. **Non-compliance with LACCD policies and procedures:** Payment was made for purchases that did not match information noted on purchase order and the transaction was posted to the wrong account. *(Impact: Moderate)*
D. 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. (Impact: Moderate)

**Action Plans and Completion Dates:**

A. Board Reporting

1. The College/Regional Procurement Specialist will work with College IT to generate the necessary reports that allows tracking of purchasing activity on a real-time basis. (June 2015)

2. The College has completed training of employees across the college that use the procurement process (April 2015)

B. Asset Observation

1. The college shall ensure that all assets are properly tagged prior to release to departments. (June 2015)

2. The College has completed (April 2015) the procurement training by District Staff. (April 2015)

C. Payments and Transactions

1. The college will develop the required form and place in service by June 30, 2015.

2. The college will follow the process suggested immediately. (June 2015)

3. The college has had the district procurement training since the audit was conducted. (June 2015)

4. Receipt process will be implemented at the college in June 2015 training at the college. (June 2015)

5. The accountability form will be available for all employees involved in the procurement process to sign at the June training. (June 2015)

6. The College will institute a monthly reporting process where all PO’s, STA, Contracts, and FOF’s are monitored and reported to the President/Vice President for tracking. (June 2015)

7. The College has completed (April 30, 2015) training of the College staff in all aspects of the procurement process. (April 2015)

8. The college has completed procurement training (completed April 2015) across the College for all users of the procurement process. (June 2015)

9. Tracking and reporting tools are to be developed that will allow monitoring of compliance with the District regulations, policy and procedure for authorized signatures. All items will have “wet signature” going forward. (June 2015)
10. The College has completed (April 2015) the procurement training provided by the District Staff. (April 2015)

11. Additional training will be provided in the Receiving Department to ensure that material and goods are process in accord with all district policies. (June 2015)

12. Additional controls will be implemented in the Receiving Department. Self-audits will be conducted semi-annually to ensure compliance with all policies. (June 2015)

13. The college will ensure that only vendors on the approved list are used. (June 2015)

14. The college will coordinate with the Internal Audit Department on the development and implementation of an employee accountability clause. (June 2015)

15. The College Staff has completed (April 2015) the procurement training provided by the District Procurement staff. Addition attention will be given Directive 142. (April 2015)

16. The college will Institute a monthly reporting process where all PO’s, STA, Contracts, and FOF’s are monitored and reported to the President/Vice President for tracking. (June 2015)

17. The College has completed (April 30, 2015) training of the College staff in all aspects of the procurement process. (April 2015)

18. All requests for payment shall be properly documented in writing prior to processing. A self-audit will be conducted at least semi-annually to ensure compliance with all policies and procedures. (June 2015)

19. The College Staff has completed (April 2015) the procurement training provided by the District Staff. (April 2015)

20. The College has completed (April 2015) procurement training for all College Staff. (April 2015)

21. The College is investigating the use of the Bookstore for the provision of transportation service. Detail review of account funds will be strictly adhered to. (May 2015)

D. Walkthrough

1. The College has completed (April 2015) the procurement training provided by the District Staff. (April 2015)

2. All invoices shall be sent directly to Accounts Payable and date stamped prior to processing. A semi-annual self-audit shall be performed to ensure compliance with all policies. (June 2015)
Signatures:

Dr. Linda D. Rose, President

Perris Trimble, Vice President of Administrative Services

Date: 5/21/2015

Date: MAY 21, 2015

Cc:
Francisco C. Rodriguez, Chancellor
Finance and Audit Committee, LACCD Board of Trustees
Adriana Barrera, 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
LaShanda Johnson, MBA, Internal Auditor
Los Angeles Community Colleges District

Report No. T-11-1415

Audit: Los Angeles Trade-Technical College – Procurement Audit

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

Audit Report Date: April 30, 2015

Audit Period: May 1, 2014 through October 31, 2014

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| Needs Improvement |

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 Trade-Technical College (LATTC) 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 LATTC 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 Trade-Technical College Procurement Audit Report
April 30, 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 Trade-Technical College (LATTC) procured and paid a total of $5,675,024.62 for the audit period May 1, 2014 through October 31, 2014. This amount is inclusive of other related payments such as reimbursements which were attributed to the Los Angeles Trade-Technical 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 May 01, 2014 through October 31, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LATTC and performed an examination of the records associated with the procurement operation of the LATTC. 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:** Procurement policies and procedures were not adhered to as 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 a 77% error rate and the dollar error amount is $2,381,194.87. *(Impact: High)*

B. Procurement Payments
   1. **Non-compliance with LACCD policies and procedures:** Procurement policies and procedures were not adhered to as payments for Contracts (COs), Purchase Orders (P.O.s), Facility Orders (FOs), and Short Term Agreements were not made timely. The error percentage ranges from 25% to 69% with a cumulative dollar error amount of $505,124.65. *(Impact: Considerable)*
   
   2. **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 48% error rate and the dollar error amount is $283,906.20. *(Impact: Moderate)*
   
   3. **Non-compliance to LACCD policies and procedures:** Procurement policies and procedures were not adhered to as three quotes/proposals were not obtained in circumstances where required as vendors 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 51% and the dollar error amount is $145,518.94. *(Impact: Moderate)*
   
   4. **Non-compliance with 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 51% error rate and the dollar error rate associated with these transactions is $145,518.94. *(Impact: Moderate)*

C. Asset Observation
   1. **Non-Compliance with LACCD policies and procedures:** Procurement policies and procedures were not adhered to as equipment/assets purchased were not tagged with LACCD tags and/or specially funded tags when required. The error percentage rate
ranges from 5 to 67% and the cumulative dollar error is $27,910.60. *(Impact: Considerable)*

2. **Non-Compliance with LACCD policies and procedures:** Procurement policies and procedures were not adhered to as assets purchased were not reported in SAP as assets to be tagged and these assets could not be located during asset examination. This equates to a 1% error rate and the dollar error amount is $1,399. *(Impact: Moderate)*

3. **Non-Compliance with LACCD policies and procedures:** Procurement policies and procedures were not adhered to as equipment/asset logs assigned to staff were not maintained. This equates to an 8% error rate and the dollar error amount is $6,586.96. *(Impact: Moderate)*

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

**A. Board Reporting**

1. The college has adopted a practice whereby all short term agreements and contracts are tracked and departments are notified 90 days in advance of the expiration of the agreement/contract that the agreement must be processed for renewal at least 60 days prior to the expiration of the current agreement/contract. *(Implementation Date: June 2015)*

2. Training on all aspects of procurement takes place on an annual basis. *(Implementation Date: June 2015)*

3. The College conducts a monthly self-audit to ensure the accuracy and the following of processes for purchase documents reported to the Board. *(Implementation Date: July 2015)*

4. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes. *(Implementation Date: June 2015)*

**B. Procurement Payments**

5. IT will work with the Accounts Payable Accounting Technician to identify all unpaid purchase orders/invoices at the beginning of each month (the report will indicate aging). *(Implementation Date: July 2015)*

6. The AVP will follow up monthly with the Accounts Payable Accounting Technician on payments report. *(Implementation Date: July 2015)*

7. Training on all aspects of procurement is taking place currently and will take place on an annual basis. *(Implementation Date: June 2015)*

8. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes. *(Implementation Date: June 2015)*

9. The College requires three quotes for contracts over $2,500 and/or purchase of goods over $5,000. Contracts $2,500 thru $4,999 require 3 informal quotes. Contracts $5,000 thru $85,999 require 3 formal quotes. Purchases above $86,000 LADDC
Contracts Office must obtain quotes. Contracts and/or Purchase of goods above $5,000 require Purchase Request (PR). All quotes must be attached to the PO is SAP at the time of first submission of the PR or STA. **(Implementation Date: July 2015)**

10. The approval of the Technical Reviewer in SAP is the attestation that lower bid was selected unless as indicated in SAP the reason he lowest bidder was not selected. **(Implementation Date: July 2015)**

11. The Technical Reviewer will reject orders that require 3 bids where three bids have not been obtained. **(Implementation Date: July 2015)**

12. Training on all aspects of procurement takes place on an annual basis. **(Implementation Date: June 2015)**

13. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes. **(Implementation Date: June 2015)**

14. The college conducts training on procurement annually. **(Implementation Date: June 2015)**

15. The college is following Directive 142 and purchasing from vendors on the Master Agreement listing. **(Implementation Date: July 2015)**

16. Admin Services will communicate with departments regarding purchasing form vendors not on the approved vendor list. **(Implementation Date: July 2015)**

17. Training on all aspects of procurement is taking place currently and will take place on an annual basis. **(Implementation Date: June 2015)**

18. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes. **(Implementation Date: June 2015)**

19. All short-term agreements and purchase of goods amounting to over $5,000 will require an approved purchase requisition in advance of the purchase order. **(Implementation Date: July 2015)**

20. The Technical Reviewer will reject any PR/Po that does not receive the proper approval and/or does not contain the appropriate support documentation. **(Implementation Date: July 2015)**

21. The Technical Reviewer will ensure that only the VP Admin Services approves purchase requisitions. **(Implementation Date: July 2015)**

22. Purchase orders are rejected that lack proper PR authorization. **(Implementation Date: July 2015)**

23. Training on all aspects of procurement takes place on an annual basis. **(Implementation Date: June 2015)**

24. LATTCC will work with LACCD to develop a hard stop in the system form processing POs that require a PR. **(Implementation Date: January 2016)**
25. The College conducts a monthly self-audit to ensure the accuracy and the following of processes for purchase documents reported to the Board. (Implementation Date: August 2015)

26. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes. (Implementation Date: June 2015)

C. Asset Observation

27. All items come through receiving and are tagged as assets. This will be verified each month in a report to the VP Admin Services. (Implementation Date: May 2015)

28. Training on all aspects of procurement is taking place currently and will take place on an annual basis; training includes SFP asset tagging. (Implementation Date: May 2015)

29. This will be verified in the monthly report form Receiving. (Implementation Date: June 2015)

30. SFP Directors will be responsible to verify each month that assets have been tagged. A monthly report must be submitted to the VP Admin Services. Implementation due date (Implementation Date: June 2015)

31. The policy is that Receiving Department tags the asset and if it is SFP the SFP Director tags it with an SFP tag; the receiving Supervisor and the SFP Director will report to the VP Admin monthly on assets tagged. (Implementation Date: June 2015)

32. The Receiving department and the SFP Program Director will ensure asset tags are visible. (Implementation Date: June 2015)

33. An annual review will take place to ensure there is acknowledgement of receipt of assets. (Implementation Date: July 2015)

34. LATTC has a process for employees to sign out assets that are assigned said employees. To ensure all assets assigned to employees are accounted for, the IT department will annually (before June 30 each year) verify the list of checked out assets. (Implementation Date: May 2015)

35. The asset check out form and list will include the description of the asset, the asset number, and the tag of the asset that is assigned to employees. (Implementation Date: June 2015)

36. The college will coordinate the checking of all assets by department over a four-year basis; checking 25% at a time each year by August 31. (Implementation Date: August 2016)

37. If an asset is not located, the Receiving department will complete the requisite paperwork for the VP Admin Services to sign. (Implementation Date: August 2016)

38. Program Managers/Deans are the responsible parties in SFP/Categorical programs for tracking assets. (Implementation Date: June 2015)
39. Training on all aspects of procurement is taking place currently and will take place on an annual basis; training includes the process for checking and checking out technology equipment. (Implementation Date: June 2015)

40. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes for tagging and safeguarding equipment/assets. (Implementation Date: June 2015)

41. LATTC has a Technical Reviewer of POs to ensure that purchases are charged to the appropriate account. (Implementation Date: May 2015)

42. Receiving will validate that all items deemed to be considered an asset will be tagged as such and if there is an error discovered, Receiving will immediately notify the initiator and the AVP of the error that requires correcting in the system. This will be verified each month in a report to the VP Admin Services. (Implementation Date: July 2015)

43. The Technical Reviewer validates that the asset is noted in SAP; the Technical Reviewer notifies a department is there is any problem with the asset record in SAP. (Implementation Date: July 2015)

44. Training on all aspects of procurement is taking place currently and will take place on an annual basis. (Implementation Date: July 2015)

45. The college will coordinate the checking of all assets by department over a four-year basis; checking 25% at a time each year by August 31; departments will be expected to maintain a listing of their assets. (Implementation Date: August 2016)

46. The asset check out form and list will include the description of the asset, the asset number, and the tag of the asset that is assigned to employees; employees do acknowledge receipt of the goods. (Implementation Date: July 2015)

47. The department responsible for the assets will take immediate action on discovery of missing asset through reporting the missing item(s) to the College Sheriff, then working with Administrative Services to determine the next steps; Admin Services will ensure that the missing item(s) are reported properly in SAP. (Implementation Date: July 2015)

48. The Technical Reviewer is responsible to review all purchasing documents to ensure they are properly marked and associated with the appropriate cost center; assets are also checked (as well as PRs). (Implementation Date: July 2015)

49. SFP Directors will be responsible to verify each month that assets have been tagged. A monthly report must be submitted to the VP Admin Services. (Implementation Date: July 2015)

50. At annual training, employees sign that they have received knowledge and they understand to the policies, procedures and processes for tagging and safeguarding equipment/assets. (Implementation Date: July 2015)
Signatures:

Laurence Frank, President
Date: 6/3/15

Mary Gallagher, Vice President of Administrative Services
Date: 6/3/15

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
Chris Musella, Auditor
Audit: West Los Angeles College – Procurement Audit

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

Audit Report Date: April 30, 2015

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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 West Los Angeles City College (WLAC) 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 WLAC 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 specialists each assigned to a procurement region that comprises of three colleges. The regions are:
   a) West Los Angeles College, Trade Tech College, and East Los Angeles College
   b) Southwest College, Harbor College, and City College
   c) Mission College, Pierce College, and Valley 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.

WLAC procured and paid a total of $3,446,927.25 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 West 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 January 1, 2014 through June 30, 2014. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the WLAC and performed an examination of the records associated with the procurement operation of the WLAC. 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 and/or sent to the board for approval. The error percentage ranges from 2% to 20% with a cumulative dollar error amount of $4,005.00. (Impact: Moderate)

B. Payments

2. Non-compliance with LACCD policies and procedures: The three quotes/proposals were not obtained in circumstances where required and there were no justification provided for not having the three quotes as warranted. The error percentage ranges from 18% to 20% with a cumulative dollar error amount of $12,890.03. (Impact: Moderate)

3. Non-compliance with LACCD policies and procedures: Payments for purchase orders were not made timely. This equates to a error rate 9% and the dollar error amount associated with these transactions is $80,761.75. (Impact: Moderate)

4. Non-compliance to LACCD policies and procedures: Items/services procured were not properly authorized and/or approved. The error percentage rate ranges from 2% to 60% with a cumulative dollar error amount of $40,110.09. (Impact: Moderate)

5. Non-compliance to LACCD policies and procedures: Vendors used were not part of the established LACCD master vendor list as required in Directive 142 and no documentation was provided to justify the use of these vendors that are not part of the master vendor list. This equates to a 26% error rate and the dollar error amount associated with these transactions is $12,362.26. (Impact: Moderate)
C. Asset Observation

6. **Non-compliance with LACCD policies and procedures and best practices:** Equipment/assets purchased were not tagged with LACCD tags and/or specially funded tags when required. The error percentage rate range from 6% to 100% and with a cumulative dollar amount error of $21,428.00. (**Impact:** Moderate)

7. **Non-compliance with LACCD policies and procedures and best practices:** Assets purchased could not be located during the asset inventory examination and therefore tagging of assets cannot be validated. This equates to a 3% error rate and the dollar error amount associated with these assets is $1,631.73. (**Impact:** Moderate)

8. **Non-compliance with LACCD policies and procedures and best practices:** The physical tracking of asset when transfer from one department/location to another is not properly documented. This equates to a 2% error rate and the dollar error amount is $4,653.21. (**Impact:** Moderate)

**MANAGEMENT ACTION PLANS AND COMPLETION DATES:**

A. Board Reporting

1. The college will contact DO to request that a board reporting training be given at the college for all relevant employees. Email reminders will be re-sent to the college requesting submittal of RFCs 8 weeks prior to start date. Late requests will be unprocessed departments will asked to resubmit with a justification memo explaining lateness. Monthly SAP report will be generated to check procurement transactions. (**December 31, 2015**)

B. Payments

2. The college will follow the existing procurement policies and procedures. (**June 1, 2015**)

3. The accounts payable accounting technician will clearly stamp and date all vendor invoices, upon receipt. On a quarterly basis, Accounts Payable Accounting Technician will send a list of open commitments to all College employees and follow up on open orders and remind them to forward all unpaid invoices to the Business Office. District policies will be disseminated to all College employees. (**July 1, 2015**)

4. The InfoTech department will be notified and involved in the review process. The college will notify all departments of the need to include Info Tech in the review process. Facilities will complete Purchase Request Forms prior to processing into SAP. Email notifications will be sent to Administrators regarding delegation of signature approvals and other pertinent procedures. Notification will be sent to all responsible parties. The college plans to request training, request earlier payment requests and will not process late requests with justification memo with explanations. (**December 2015**)

W-12-1415
5. The college will request from District Office an updated master vendor list be sent annually. District Office will be contacted to request that a Directive 142 training be given at the college for all employees. Email notification will be sent college wide requesting that three quotes and a justification memo be included with each purchase when a vendor on the master list is not selected and the order totals $2,500 and above. (December 31, 2015)

C. Asset Observation

6. The college will follow District procedures in tagging all assets received including specially funded programs. (December 2015)

7. The college will follow District procedures in tagging all assets received including specially funded programs. (December 2015)

8. Receiving will update room changes in SAP. Notification will be sent to the college requesting that the Receiving Department be notified each time equipment is moved to a new location. (December 2015)
West Los Angeles College Procurement Audit Report
April 30, 2015

Signatures:

Nabil S. Abu-Ghazaleh, President,

Allan Hansen, Acting Vice President of Administrative Services

Date: 5/28/15

Date: 5/27/15

cc  Budget and Finance Committee; LACCD Board of Trustees
    Francisco C. 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
Tiffany Britt, CFE, Auditor
### 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). Authorization of purchases were not made timely as items were delivered and ordered prior to seeking the appropriate approvals,
INTERNAL AUDIT DEPARTMENT (IAD)

Procurement Audit

Update of Prior Audits Findings

Summary Report

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I. Los Angeles Southwest College, Los Angeles Trade Technical College and and West Los Angeles College Procurement CAP are not yet due for review.

II. Several Findings were not examined due to the fact that the transactions associated with these findings were not processed during the CAP review periods. These were denoted as Not Applicable and IAD intend to examine these CAPs during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16.

COMMON PRIOR AUDIT FINDINGS PARTIALLY IMPLEMENTED:

Board Reporting:

1. Short Term Agreements and Contracts were not reported to the board timely for approval or ratification.
PROCUREMENT AUDIT AUDIT UPDATE ON PRIOR AUDIT FINDINGS

Asset Observation:

1. 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). Authorization of purchases were not made timely as items were delivered and ordered prior to seeking the appropriate approvals,
Number of Findings: 7

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One Finding was not examined due to the fact that the transactions associated with this finding was not processed during the CAP review periods. This was denoted as Not Applicable and IAD intend to examine this CAP during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16

*Not Implemented:*

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

*Partially Implemented:*

1. Assets purchased cannot be located therefore tagging of the asset cannot be validated.
INTERNAL AUDIT DEPARTMENT (IAD)

Procurement Audit

Update of Prior Audit Findings

LACCD Educational Service Center (ESC)

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<td><strong>13 100%</strong></td>
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| Not Applicable   | 6    |
| Total Findings   | 19   |

Several Findings were not examined due to the fact that the transactions associated with these findings were not processed during the CAP review periods. These were denoted as Not Applicable and IAD intend to examine these CAPs during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16

**Not Implemented:**

1. There are internal weaknesses with the vendor set up and maintenance process.

2. Payments were made to vendors without a primary vendor account/master account.

3. 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.

**Partially Implemented:**

4. There is a lack of segregation of duties within the procurement process.
5. The documentation requirements were not provided for review to validate accuracy of vendor set up.

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

7. There was no evidence to validate and/or reconcile the amounts billed by vendors prior to processing transactions for payment.

8. Payments for purchase orders were not made timely.

9. ESC did not adhere to LACCD regulations, Directive 142.

10. There were control weaknesses with the tracking of individuals with to accounting table within SAP.

11. Assets purchased were not tagged and/or cannot be located and therefore tagging cannot be ascertained.
Internal Audit Department (IAD)

Procurement Audit

Update of Prior Audit Findings

LACCD Educational Service Center (ESC)

<table>
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Several Findings were not examined due to the fact that the transactions associated with these findings were not processed during the CAP review periods. These were denoted as Not Applicable and IAD intend to examine these CAPs during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16

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5. The documentation requirements were not provided for review to validate accuracy of vendor set up.

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7. There was no evidence to validate and/or reconcile the amounts billed by vendors prior to processing transactions for payment.

8. Payments for purchase orders were not made timely.

9. ESC did not adhere to LACCD regulations, Directive 142.

10. There were control weaknesses with the tracking of individuals with to accounting table within SAP.

11. Assets purchased were not tagged and/or cannot be located and therefore tagging cannot be ascertained.
## INTERNAL AUDIT DEPARTMENT (IAD)

### Procurement Audit

### Update of Prior Audit Findings

**Los Angeles Harbor College Summary Report**

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<tr>
<td><strong>Total Findings</strong></td>
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</table>

### Partially Implemented:

1. Equipment/Asset logs assigned to staff were not maintained
2. Short Term Agreements and Contracts were not reported to the board timely for approval or ratification.
3. Asset Purchased were not tagged with LACCD tag and/or Specially Funded Program tag.
INTERNAL AUDIT DEPARTMENT (IAD)

Procurement Audit

Update of Prior Audit Findings
Los Angeles Mission College Summary Report

<table>
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One Finding was not examined due to the fact that the transaction associated with this finding was not processed during the CAP review periods. This was denoted as Not Applicable and IAD intend to examine this CAP during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16

**Not Implemented:**

1. 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.

**Partially Implemented:**

2. Equipment purchased with LACCD general funds and LAMC College specially funded program funds were not properly tagged.

3. 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.
4. Items/services procured were not properly authorized and/or approved.

5. There was no evidence to substantiate the delivery of goods and/or the confirmation of services performed.

6. Payments for Contracts, Purchase Orders, and Short Term Agreements were not made timely.
INTERNAL AUDIT DEPARTMENT (IAD)

Procurement Audit

Update of Prior Audit Findings

Los Angeles Pierce College Summary Report

Number of Findings: 12

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| Not Applicable              | 1   |

| Total Findings              | 12  |

One Finding was not examined due to the fact that the transaction associated with this finding was not processed during the CAP review periods. This was denoted as Not Applicable and IAD intend to examine this CAP during the review of the three colleges that were not examined. Plan scheduled date is First Quarter of fiscal year 2015-16.

**Not Implemented:**

1. No process in place to ascertain to whom the assets were assigned and the location of the asset.

**Partially Implemented:**

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

3. Payments for contracts, Purchase Orders, and Short term Agreements were not made timely.
**Los Angeles Community Colleges**

**Internal Audit Department (IAD)**

**Procurement Audit**

**Update of Prior Audit Findings**

Los Angeles Valley College Summary Report

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<tr>
<td><strong>Total Findings</strong></td>
<td>7</td>
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</tbody>
</table>

**Partially Implemented:**

1. The College does not maintain any documentation to ascertain to whom the assets were assigned and the location of these assets.

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

3. Procurement policies and procedures were not adhered to as items/services procured were not properly authorized and/or approved.

4. Equipment purchased with LAVC College Specially Funded Program was not properly tagged.