

*Glendale Community College District:
Agreed Upon Procedures Applied to
Management and Accounting Controls*

June 24, 2009



Board of Trustees
Glendale Community College District
Glendale, California

Re: Glendale Community College District: Agreed Upon Procedures Applied to Management and Accounting Controls

In response to your request, we were engaged to perform limited procedures for an agreed upon procedures for a review of the Glendale Community College District's management and accounting controls in accordance with standards provided by the Glendale Community College District (see the enclosed Internal Control Study Checklist). These procedures were agreed to by the management of the Glendale Community College District. This engagement to perform agreed upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the Internal Control Study Checklist, either for the purpose for which this report has been requested, or for any other purpose. A report is attached which details the results of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion relating to the matters included in the agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

This report is intended solely for the use of the Glendale Community College District's management, and is not intended to be used and should not be used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP.
Rancho Cucamonga, California
June 24, 2009

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DETAILED REPORT

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OBJECTIVES

The objective of the procedures was to determine the effectiveness and efficiency of the Glendale Community College District's (the District) financial management and accounting controls. Specific functional areas have been outlined by the District in the Internal Control Study Checklist.

Internal Controls:

- Board Policies and Procedures
- Accounting Procedures and Systems
- Control Environment
- Cash Receipts
- Revolving Cash Fund
- Cash Disbursements
- Accounts Payable and Purchases
- Receiving and Stores Procedures
- Payroll/Personnel Procedures

SCOPE

At the District's request, the scope of our procedures was primarily limited to an observation of processes and documentation related to the 2008-2009 fiscal year. For the issues noted above, we interviewed District personnel and observed financial system's processes, while reviewing updated internal controls and operating procedures.

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PROCEDURES PERFORMED

Specific procedures applied to the District's financial management and accounting controls are to be performed as outlined in the Internal Control Study Checklist.

❖ General Procedures:

- ◆ Interviews of District personnel were performed to determine background information related to operations.
 - ◆ Performed walkthrough of key controls.
- ❖ The Internal Control procedures will include the functional areas of Cash Receipting, Cash Disbursements, Payroll and Personnel, and Purchasing. The following procedures will be utilized in these areas:
- ◆ Review of pertinent policies and procedures and other relevant documentation.
 - ◆ Read designated Board Policies for identifying and defining the duties of the Disbursing Officer, Board members, and employee travel and conference reimbursements.
 - ◆ Collection and analysis of data as it relates to the scope of the review.
 - ◆ Analysis of the daily transactions and related books and ledgers, records, and reports to management.
 - ◆ Manual review and walkthrough of selected transactional details and supporting documents.
 - ◆ Assessment of the efficiency, effectiveness, and integrity of processes.
 - ◆ Observe and document the District's cash receipting controls, disbursement controls, and payroll and personnel controls.
 - ◆ Observe and document the District's budget financial and budget controls. This will include financial reporting, budget development, and position control.

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OBSERVATIONS

The following observations indicate areas of possible improvement or enhancement over current control procedures in place:

Inventory

Observation

The District last conducted a physical inventory of equipment during the 2002-2003 fiscal year.

Recommendation

It is recommended that a physical inventory be performed at least once every two years. This will ensure that assets of the District exist and are reflected fairly on the financial statements.

District Response

To avoid the cost of a complete physical inventory (\$35,000 to \$50,000) by an outside vendor, the District has adopted an internal policy to conduct a partial physical inventory on an ongoing basis. With this process, a physical inventory is performed on a sample of the assets each fiscal year through internal resources.

It is the District's intention to perform a complete physical inventory as soon as funds are available.

Credit Cards

Observation

During our testing of disbursements and review of the Bank of America credit cards, it was noted that actual receipts to support charges to credit cards have not been consistently received prior to payment of the billing.

Recommendation

Adequate supporting documentation for charges on the District credit card should be received by the Accounts Payable Department and approved by the individual(s) making the charges prior to the billing being paid. The Accounts Payable Department should maintain the supporting documentation for these charges with the monthly billings.

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District Response

All of credit card statements, like any other billing, are approved by the individual(s) making the charge(s) and/or associated TOPS' manager prior to payment. In addition, accounts payable staff review the statements for any questionable charges. For instance, credit cards assigned to the Aviation Department are primarily used to purchase fuel and repairs from the same vendors.

The District has implemented a policy to require adequate supporting documentation be submitted to accounts payable prior to the billing being paid.

Internal Audit Function

Observation

The District maintains a variety of services, which are decentralized from the District Office. An internal audit function would serve to provide accountability and to ensure maintenance of proper internal controls associated with cash receipts, cash disbursements, payroll and personnel, purchasing, and compliance with the laws and regulations associated with the various Federal and State funding sources, as well as adherence to Board approved policies and procedures.

Recommendation

The establishment of an internal audit function will enhance the overall controls over accounting functions, as well as provide management with an analysis of the operational efficiency of the various departments within the District. Regular internal audits enable timely detection of accounting inconsistencies and deviations from established policies and procedures.

District Response

Even though the establishment of an internal audit function will enhance the overall controls and operational efficiency of the District, sufficient funds within the budget are not available to support this recommendation at this time. The District will consider establishing an internal audit function when the budget improves.

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CONCLUSION

Based upon completion of our procedures, the conclusion is that the District is following policies and procedures related to Management and Accounting Controls other than the observations noted in the Observations section of this report.

Glendale Community College District

Internal Control Study Checklist

INTERNAL CONTROL STUDY CHECKLIST

Internal Controls:	Satisfactory or Unsatisfactory?
1 Board Policies identifying and defining the duties, knowledge, and skills required for each position within the Fiscal Department including the Disbursing Officer.	Satisfactory
2 Board Policies relating to Governing Board members and employee reimbursement (travel, conference, and mileage).	
Adherence to policies	Satisfactory
Authorization to travel	Satisfactory
Conference and travel rates (limits)	Satisfactory
Approval authority is at a higher level position	Satisfactory
3 Record of Board Approval of resolutions to expend income collected in excess of budget estimates. (EC 42610/85210 and 42601/83202)	Satisfactory
4 Sound controls between the Purchasing Office and the Accounts Payable Office and their consistent application.	Satisfactory
5 System of accounting used to record the financial affairs of the District in accordance with the definition, instructions, and procedures as prescribed in the Budget/Accounting Manual for California Community Colleges (EC 84004).	Satisfactory
6 Timely reconciliation of the District accounting records with the control records of the County's Superintendent Office and the County Auditor's Office.	Satisfactory
7 Reviews of reconciliations are completed timely.	Satisfactory
8 Immediate notification to the banks and County Officer when the authorized custodian leaves the employ of the District.	Satisfactory
9 System of authority to determine responsibility of staff for financial transactions.	Satisfactory
10 System of approval of financial transactions by the Board, as well as District administrators.	Satisfactory
11 Separation of duties.	Satisfactory

12 Internal audit staff. Unsatisfactory

Comments:

At this time, there are no internal auditor positions or audit department at the District. The District does have controls in place to monitor and review accounting tasks at various positions at the District, but no internal audit department is currently in place. The establishment of an internal audit function would enhance the overall controls over accounting functions, as well as provide management with an analysis of the operational efficiency of the various departments within the District. Regular internal audits enable timely detection of accounting inconsistencies and deviations from established policies and procedures. See Observations section.

13 Procedures to follow up on audit findings. Satisfactory

14 Rotation of duties. Satisfactory

15 Provision for sufficient cash to provide funds for operation during the next year prior to receipt of District taxes and State apportionments. Satisfactory

16 Methods to verify that cash is available in the county treasury for the issuance of warrants. Satisfactory

17 Adherence to managerial policies and procedures manuals. Satisfactory

18	Cash Controls:	
	Miscellaneous collections	Satisfactory
	Deposits	Satisfactory
	Restricted cash	Satisfactory
	Revolving fund	Satisfactory

Comments:

It appears that controls over cash are in place. We interviewed key personnel in the Accounting Department to gain an understanding of the procedures regarding cash controls. Within those procedures, we observed proper segregation of duties, approvals, and reconciliations.

19 Employee in-service training. Satisfactory

20 Bonding of employees. Satisfactory

21 Degree of compliance with budgetary controls as established by the Governing Board. Satisfactory

22 Personal services (consultant) contracts which meet the legal requirements of various codes. Satisfactory

23 Account and fund controls which meet legal requirements. Satisfactory

24 Policies and procedures for fund investments. Satisfactory

25	Authorization of all budget transfers.	Satisfactory
26	Warrant control (security).	Satisfactory
27	Signature control.	Satisfactory
28	Continual review of internal control policies and procedures.	Satisfactory
29	Detail records for specially funded projects.	Satisfactory
30	Effective control over credit cards.	Unsatisfactory

Comments:

Purchases made with credit cards are supposed to be tracked and matched to individual receipts. The departments, who hold the Bank of America credit cards, have failed to submit their receipts on a consistent basis. See Observations section.

31	Designated personnel as custodian of records retention and cataloging.	Satisfactory
32	Designated hours in which records are available to the general public.	Satisfactory
33	Control system to handle liens and levies and garnishments in accordance with legal requirements.	Satisfactory
34	Procedures for processing forgeries.	Satisfactory
35	Policy and procedures for issuance, cancellation, and re-issuance of warrants.	Satisfactory

Commercial Claims:

36	Established Board authorization for approval of purchase requisitions.	Satisfactory
37	Budget appropriation controls.	Satisfactory
38	Written bid specifications.	Satisfactory
39	Bid-seeking methods and procedures.	Satisfactory
40	Bid review procedures.	Satisfactory

Commercial Claims:

41	Purchase order review and approval procedures.	Satisfactory
42	Budget appropriation encumbrances.	Satisfactory

43	Change order review and approval procedures.	Satisfactory
44	Receiving procedures for verification for goods and services.	Satisfactory
45	Matching of invoices with purchase orders and receiving documentation prior to payment.	Satisfactory
46	Audit of invoices.	Satisfactory
47	Payment approval by Governing Board.	Satisfactory
48	Timely cash and warrant reconciliation.	Satisfactory
49	Construction contracts which meet the legal requirements of the various codes.	Satisfactory
50	Payments made consistent with the construction contract requirements.	Satisfactory
51	Proper reporting of expenditures to the County Superintendent of Schools and/or County Auditor.	Satisfactory
52	System for retention of supporting documentation.	Satisfactory
53	Adequacy of the following elements to provide reports required by the County Superintendent of Schools and other County officials.	
	Staffing and equipment.	Satisfactory
	Systems development and planning.	Satisfactory
	Project management and control.	Satisfactory
	Operations and systems documentation.	Satisfactory
54	Programming and procedural controls to guard against operator error, system override, or breakdown in segregation of duties.	Satisfactory
55	Vital records protection, storage, and retention control.	Satisfactory

Commercial Claims:

56	Internal controls that are sufficient to:	
	Verify conversion of data to machine readable form for input.	Satisfactory
	Detect the loss or non-processing of data items.	Satisfactory
	Guard against the misuse of files stored on machine-readable media.	Satisfactory
	Detect hardware malfunctions.	Satisfactory
	Minimize duplicate payments.	Satisfactory
57	Effective audit trails provided by EDP reports and documents.	Satisfactory

58 Physical security of assets (fixed assets, as well as credit cards).

Unsatisfactory

Comments:

The Business Office doors are closed to the public and locked during non-business hours. Campus security maintains constant patrols through the campus. Fixed assets such as equipment and other machinery are kept locked when possible. All fixed assets are tagged with a Glendale Community College District tag. The auditor observed multiple items in the Accounting Department with tags. Credit cards are maintained by the authorized user. The District also has gas cards which are held in the Facilities Department. Inventory inspection over equipment is validated from time to time (last physical inventory performed was in 2002-2003, reviewed listing). We did note areas of possible improvement or enhancement over current control procedures in place. See Observations section.

Payroll/Personnel Controls:

59 Policies and procedures in place to ensure that approvals are obtained before employees are hired and entered into the payroll system.

Satisfactory

Comments:

Applications are completed online. Once the applications are completed, the manager of the department that is hiring and the hiring committee (for classified) or the hiring committee (for certificated) are granted temporary access into the Human Resources Oracle system so that they may review the applications. Once the review is complete, Human Resources will notify the applicants selected that they have been chosen for an interview. Once the final candidate has been selected by the committee (for classified) and by the President of the college (for certificated), a Board slip is prepared. The Board slip is sent to the next Board of Directors meeting for approval. Once the Board has approved, the Vice President of Human Resources and the Employee Services Data Manager must sign off on the Board slip at which point it is sent to payroll for entry.

60 Position control system adequate.

Satisfactory

Comments:

Board slips are automatically generated online. The Services Data Manager provides the Board slip to the Assistant Vice President of the department requesting the employee. Once the Vice President approves the Board slip, the Services Data Manager will go online and complete the process. Once the Services Data Manager completes the process, the Board slip is forwarded to the Human Resources technician in charge of the assigned area to edit. It is then sent back to the Vice President for final approval. Then it goes back to the Services Data Manager who adds the position control number. The Services Data Manager verifies that there is budget available, and then the job is advertised within the campus.

61 Proper separation of duties between the Human Resource Department and the Payroll Department for internal control purposes.

Satisfactory

Comments:

Currently, the District maintains internal control separation due to the separate systems being used for Human Resources (Oracle) and Payroll (Los Angeles County Office of Education). In addition, separation is achieved through the communication process: Human Resources prepares Board slips and then forwards them to Payroll for processing. Human Resources does not have access to the payroll system and has limited access to the accounting functions (for budgeting purposes).

62 Payroll registers, account distribution expense reports, and position authorization forms approved (signed and dated) by authorized individuals approved by the District's Governing Board.

Satisfactory

Comments:

(1) Currently, each Board slip that is approved by Human Resources and Salary Change that comes from Human Resources is reviewed/approved by the Board of Directors prior to being input/changed in the payroll system.
(2) Currently, pre-payroll reports generated by the County are reviewed by the payroll staff prior to final issuance of payroll checks. The payroll staff each reviews the pre-payroll report for all of the employees for their assigned areas.

63 Gross to net payroll register reports approved before paychecks are created.

Satisfactory

64 Account distribution of payroll expense reviewed on a monthly basis to determine the validity of charges and credits to the budget program accounts.

Satisfactory

Comments:

The County sends a payroll file to the District, and the District Accountant uploads the file to the Oracle system. If an account code is incorrect or does not exist in Oracle, the system will create an error message. The District Accountant will then take those error messages and go to the Payroll Department to investigate whether or not the account coding is correct. The District Accountant will then correct any errors and complete the upload.

65 Payroll expenses are compared to budgeted values.

Satisfactory

66 Processes and procedures are in place for the reporting and transmission of Federal and State payroll taxes.

Satisfactory

Comments:

Currently, the Federal and State payroll tax deposits are transmitted by the County. The Assistant District Accountant prepares the calculation off of the 6600 reports provided by the Los Angeles County Office of Education. Then a spreadsheet is created that will show the total tax liability. The District Accountant will then create a journal entry which will be sent to the County.

67 Processes and procedures are in place to calculate garnishment deductions and transmit to authorized agencies.

Satisfactory

Comments:

Information regarding liens or garnishments is received by the Agency requesting the lien/garnishment. The request is submitted to the County where it is processed. The County then sends the District and the employee a copy of the information. The information from the County will say how much is being garnished, when it will begin, etc.

68 If a payroll check is released to someone other than the payee, does the check custodian:

- a. require a signed authorization from the payee?
- b. require proper identification of the agent requesting the check?
- c. require a signed receipt from the agent?

- d. retain the authorization and signed receipt for one year?

Satisfactory
Satisfactory
No. The District will start requiring a signed receipt from the agent.
No. The District will start retaining a signed receipt.

Comments:

It was noted that checks are not given out to someone other than the payee. The majority of the payroll checks are direct deposit; the part-time checks are automatically mailed; and any check that is not picked up is only held for three days and is then mailed. If someone does arrive to pick up their check and the District Accountant does not know who they are, he will request identification before turning over the check.

69 Are unclaimed payroll checks:

- a. kept in locked storage and secured against theft?
- b. accessible only to the designated check custodian and the alternate?
- c. returned to the Accounting Officer after two weeks?

Satisfactory
Satisfactory
Satisfactory

Comments:

Unclaimed payroll checks are held in the safe for three days; after three days, they are mailed.

70 Are employee payroll deductions:

- a. kept separate from operation accounts?
- b. promptly paid to appropriate vendors and taxing authorities?
- c. reconciled on a regular basis?

Satisfactory
Satisfactory
Satisfactory

71 Are there processes imbedded in the fiscal system that fix responsibilities to approved individuals for specific financial transactions?

Satisfactory

Comments:

Access to the County payroll system is regulated by the County Office and the District Accountant who supervises the Payroll Department. Currently, only six individuals have access to the payroll system, and a formal documentation process to change accessibility is required prior to system changes. Access to the Oracle system is regulated for Purchasing and Accounts Payable. Accessibility varies by positions (e.g., Accounts Payable personnel only have access concentrated in Accounts Payable screens).