

Internal Controls Review 2018/19

Sheena Tran, CPA, MBA

February 28, 2020

TO: ACCCA BOARD OF DIRECTORS

This is a financial review and recommendations for the Association of California Community College Administrators (ACCCA) regarding its financial records and day to day operations. The period examined is July 1, 2018 through June 30, 2019. No deficiencies in internal controls were noted to be material weaknesses. Recommendations and suggestions were made only to better improve ACCCA's internal controls. This engagement is not intended to generate an opinion on the Association's financial statements.

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

From: Sheena Tran, CPA, MBA

Date: February 28, 2020

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

I performed the internal audit review of the financial records and operations of the Association of California Community College Administrators (ACCCA) for fiscal year ended **June 30, 2019**. *During the testing, I found no items that I believe are major weaknesses.* Based upon my testing, I have made recommendations and suggestions to better improve ACCCA's internal controls.

PURPOSE

The purpose of the review was to determine whether:

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

SCOPE

The review examined internal controls and sampled transactions for fiscal year ended June 30, 2019. Specific areas reviewed included: cash and negotiables, receivables, payables, fixed assets, payrolls, net assets, disbursements, cash receipts, Board minutes, financial statements, records and contracts. At the request of the Executive Director, the Consultant also examined and provided verbal feedback regarding ACCCA's new policies and procedures manual during this internal controls review.

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

IN SUMMARY

The attached Operational Audit Report provides comments and details on significant issues, along with recommendations for improvement. All matters were discussed with the Executive Director, Susan Bray, during and after the audit. The Association has issued its responses regarding the audit findings and they have all been incorporated into this report. Ms. Bray and her team are always diligently working to ensure that ACCCA is adhering to proper internal control guidelines as recommended. A new *Policies & Procedures Manual* has been put in place since fiscal year 2017/18. The Executive Director has worked hard to accomplish this task and the operation's section of the manual is fully executed and effective at this point. Furthermore, I will assist and provide recommendations to Ms. Bray as she continues to modify and improve the manual for this organization.

It has been a pleasure to serving the Association. The cooperation and assistance of the ACCCA staff was greatly appreciated during this review process. Please do not hesitate to contact me with any questions pertaining to this audit report.

CC: Susan Bray, Executive Director - ACCCA

**ASSOCIATION OF CALIFORNIA COMMUNITY COLLEGE ADMINISTRATORS
OPERATIONAL AUDIT REPORT
For Fiscal Year 2018/2019**

Background

Established in 1975, the Association of California Community College Administrators (ACCCA or “the Association”) is a non-profit member-supported professional organization for administrators and managers of California’s community college system. ACCCA provides its members with insurance benefits, publications, professional development opportunities, business partnerships, advocacy, peer counseling and assistance. Its operations consist of a small office (4 Full-Time Employees), with a budget of \$896,902 in revenue and \$924,770 in expenses for fiscal year 2018-2019.

Status of Previous Year Findings on 2017/18 Audit:

Prior year findings #1, 2 and 3 were not implemented. Two new findings have been added.

2018/19 Audit Current Year Findings:

Finding #1: Aged Reconciling Items

The Association has put policies and procedures in place to resolve aged reconciling items, noted in Section 4.2.6 of the manual. Unfortunately, such policies and procedures are not being adhere to. It appears that fourteen checks remain reconciling items on ACCCA’s June 30th bank reconciliation as of the 2018/19 audit (performed in December 2019). Seven checks were issued within the same year of the audit and seven were issued in year priors. ACCCA has now developed operating procedures with timelines for reconciling items.

Recommendations: *Checks should be written off as soon as possible if they are not going to be cashed by payees. ACCCA should follow procedures for resolving outstanding checks that are greater than 180 days. The following steps may be taken:*

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

Association's Response: We agree with the finding. These transactions were previously voided checks and have since been reconciled in QB. Processes established to address unreconciled items were reviewed with staff to prevent future oversights.

Finding #2: Disbursements Supporting Documentation

Auditor selected a sample of 16 cash disbursements for testing of internal controls. During the selection of samples, 2 disbursements lacked proper supporting documentation. The entire voucher packets were missing for the following vendors: Wok in the Park (Electronic Fund Transfer) and Uber Tip (Electronic Fund Transfer). Expenses were incurred but invoices and proper supporting documentation could not be located at time of audit. This constitutes a 19% error rate.

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

Association's Response: We concur with the finding. In each of these examples, the transactions were handled by EFT and were reflected on the credit card statements but supporting documentation was not attached or had been separated from the packet. However, these specific expenses were related to events and meetings that were documented, and they were properly coded in QB to those events/meetings. Processes already established to address proper documentation of expenses were reviewed by staff to prevent future discrepancies.

Finding #3: Payroll Procedures & Timecards

ACCCA's payroll is being processed in-house by the Administrative Supervisor. The Association uses the annual budget and relies on the Board approved payroll schedules and calculates the benefits to process each bi-monthly payroll for ACCCA staff. It appears that timecards were missing for one of the employees. This employee worked from July 2018 through October 2018 and neither timecards or supporting documentation were noted to show that time was worked.

Recommendations: All work performed on timecards are considered positive attendance reporting. All timecards must be approved by management to determine if the work of the employee has been performed before submitting for payment. Timecards should also be signed by the employee and approved by the direct supervisor of the employee performing the task. Timecard information such as date and time worked must be accurate and reviewed carefully by management before any payment is disbursed to prevent misuse of funds.

Association's Response: *We concur with the finding. The employee in question resigned in October 2018 and is no longer with the Association. From July 1 through October 31, 2018 the employee was designated as salaried not hourly, and timecards were not processed.*

Finding #4: Accounting for Fixed Assets

Currently, ACCCA will inventory fixed assets valued over \$500 threshold and it also has good tracking procedures for its physical inventory. According to its policies and procedures manual, the physical inventory list is reviewed at least semi-annually and is reconciled with each of the Association's annual tax return's depreciation schedule to ensure full capitalization of all assets. Unfortunately, the audit did not prove this to be the case. ACCCA's inventory list did not reconcile to the depreciation schedule of the tax return.

Recommendations: *Please note that the terms fixed assets and inventory both mean the same in this context. It is recommended that ACCCA keep a comprehensive inventory list of items that are valued over \$500 and ensure that all items are captured on the depreciation schedule each year. This way, both the Association and the Accounting Firm can report identical information on ACCCA's Compilation Report at fiscal year-end.*

Association's Response: *We agree with the finding. The current inventory/fixed asset listing is not current and includes assets that have long been depreciated or no longer rise to the \$500 value threshold. The existing inventory documentation is being reviewed and reformatted to eliminate furniture and equipment that is either below the \$500 threshold or has been depreciated to that extent over time. Additional equipment purchased in the current year did not rise to the threshold and was not included on the list. Once this reconciliation is complete, it will be shared with the accountant as documentation for the next 990 report.*

Finding #5: Payroll Clearing Balance

The Payroll Clearing – Employee Advance amount of \$4,454 reported on the Compilation Report can be misleading to the reader if it includes vacation payouts. According to the support documentation for the payouts, it does not appear that payroll taxes were withheld from the employee nor paid by the Association. This means ACCCA underreported payroll taxes and FICA (Social Security & Medicare) was calculated incorrectly for the employer and employee portions. The total payout of \$5,654 also does not equal the amount reported on the Compilation Report. There is a difference of \$1,200.

Recommendations: *Vacation payouts should never be reported in a payroll clearing account. They should be categorized as regular salary compensation using separate line items. In addition, all vacation payouts should be taxed the same way as salaries. If it is a true salary advance, then employers must withhold and pay payroll taxes on the advance because it would normally be part of the employee's wages. Advances are not taxable wages only if employees*

are legally obligated to repay the advance amounts. It is recommended that ACCCA put procedures in place to account for vacation payouts in the near future.

Association's Response: *We agree with the auditors finding that was based on the accountant-prepared compilation for 2018-19 and specific transactions recorded in QuickBooks having to do with a board-approved one-time payout of vacation days that exceeded levels indicated in revised policy.*

Staff has since reviewed the data used by the accountant to formulate their conclusions and agree that although the figures were correct, the coding designation and subsequent handling of those transactions was inaccurate. A revision to the coding has been done correcting entries in QuickBooks, and a revised report will be included in the next federal payroll report [form 941] to document the adjustment. Additionally, staff has requested that the auditor provide guidelines for processing any future employee salary payments and advances that are outside the regular payroll processing. As with all significant processes, any new guidelines will first be vetted by the Policy & Procedures Committee before being included in the operating manual.