

Audit and Finance Committee Agenda Item

Board Meeting Date: March 7, 2013

Title of Item:

Status Update of Prior Year's Audit Findings and Management Recommendations

Background and Analysis:

Education Code Section 84040(b) requires that each governing board of each community college district provide an annual audit of all funds, books, and accounts of the district in accordance with regulations of the Board of Governors. Vavrinek, Trine, Day, & Company, LLP (VTD), Certified Public Accountants, located in Pleasanton, California, completed the Foothill-De Anza Community College District annual audit for the year ended June 30, 2012, and the Board of Trustees accepted the audit report at their December 7, 2012 Board Meeting.

The District audit report noted two audit findings and recommendations, which were minor, deemed immaterial, and have been corrected. A copy of the audit findings and recommendations is attached, which includes management's response.

The separate Management Recommendation Letter which was prepared by VTD and presented along with the District Audit Report, made notice of one area that provides an opportunity for strengthening internal controls and operating efficiency – capital asset management. A copy of the Management Recommendation Letter is attached, which includes management's response.

Recommendation: For Information Only.

Submitted by:	Kevin McElroy, Vice Chancellor of Business Services, ext. 6201
Additional contact names:	Hector Quinonez, ext. 6250
Is backup provided?	Yes

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2012-1 Finding - Student Financial Aid Cluster, Pell Grants - CFDA #84.063
Significant Deficiency, Internal Control Over Compliance

Criteria or Specific Requirement

According to 34 CFR section 668.22(j), an institution must determine the student's withdrawal date within 30 days after the end of the earlier of:

- (1) Payment or enrollment period
- (2) Academic year in which student withdrew
- (3) Educational program from which student withdrew

Condition

We noted that the identification of the student's withdrawal date for purposes of determining the start date for the Return to Title IV processes was not consistently completed within the required timeframe.

Questioned Costs

None, as the Return to Title IV process was completed accurately, but was not timely.

Context

We reviewed the reporting of 40 of 321 Return to Title IV students and noted thirteen that were not identified within the required 30 day timeline.

Effect

The District did not comply with the required timelines for the identification of the student withdrawal date as prescribed by Title IV.

Cause

It was noted by Student Financial Aid department personnel that there was a personnel change in the department at one site and that the duties related to Return to Title IV processes were not able to be redistributed and handled in a timely manner.

Recommendation

The Financial Aid Departments should be proactive ensuring compliance procedures are completed within the required timeframes and may need to review the distribution of duties in the department to ensure that the department is capable of meeting federal processing timelines.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Management's Response and Corrective Action Plan

We agree with the audit finding. In fiscal year 2011-2012 we were compliant in returning all Title IV funds, but missed the 30 day timeline in determining the withdrawal date for some students for purposes of Return to Title IV. The Financial Aid Department was going through a period of transition due to the retirement of its longtime director, resulting in significant workload increase on the staff responsible for processing Return to Title IV. In addition, fiscal year 2011-2012 year brought a marked increase in the volume of ISIR's received and students awarded and disbursed. This also increased our number of Return to Title IV students by 16%.

As of summer 2012 the Financial Aid Department has a new leadership committed to ensuring full compliance. Measures have already been taken by instituting a biweekly process for identifying and working on students who have received financial aid and dropped all of their classes and determining their withdrawal date within the 30 day timeline. The Director of Financial Aid will document, in written form, and verify on a monthly basis that this biweekly review process is taking place. Additionally, the College Vice President of Student Services will verify with the Director of Financial Aid and document monthly that the review process is being performed. We are fully compliant with Return to Title IV as of summer 2012 and will be in 100% compliance throughout fiscal year 2012-2013, and forward. For additional information contact Kevin McElroy, Vice Chancellor Business Services, 650-949-6201.

PROGRESS TOWARD MEETING THE RECOMMENDATION AT DE ANZA COLLEGE

We have implemented the plan to ensure timely reporting of Return to Title IV, the finding for De Anza Financial Aid, and we are currently fully up to date and compliant.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2012-2 Finding – Instructional Material Fees *Significant Deficiency – Compliance*

Criteria or Specific Requirement

CCR Title V 59400-59408 sets certain requirements for Colleges that charge instructional fees, including the requirement to not show a profit from fees selected.

Condition

During our testing of instructional material fees charged by the college, we noted that the amounts spent on class materials were less than the instruction material fees for a Ceramics, Biology, Video Production, Health, Vietnamese Literature, and Women’s Studies Course.

Questioned Costs

\$18,232. This is the amount by which instructional material fees exceeded course material costs for the courses noted above.

Context

We reviewed the class schedule and selected twenty-five courses for review that charged instructional fees. We noted that the records of six of the twenty - five courses reviewed indicated that the amount collected for instructional material fees exceeded the amounts spent for materials.

Effect

The District does not appear to be in compliance with state requirements regarding determination of amounts allowable as instructional material fees.

Cause

Instructional material fee rates may be set at higher than necessary levels, or there may be inconsistencies in recording fees collected, and/or expenses related to these fees in a manner that does would accurately capture this information.

Recommendation

The process for establishing amounts of material fees should be reviewed to determine that only those amounts needed for course materials are charged. In addition, the monitoring process to determine that expenditures are appropriately charged against the fees collected should be reviewed to ensure all appropriate item elements are accurately captured.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Corrective Action Plan

We agree with the audit finding and will implement measures to spend down existing instructional material fee balances and ensure that per student charges are reasonable.

Materials fees are collected from students when certain tangible instructional materials are required to achieve the desired student learning outcomes in the class. The materials must become the possession of the student and have continuing value outside the classroom. Every effort is made to accurately determine the cost of the materials in order to ensure that students are not charged in excess of our actual cost. Initial fees are established by having each department prepare a list of each individual item needed by the students along with the related unit cost. The total becomes the amount of the fee that each enrolled student pays. These fees are reviewed annually.

Effective immediately, we will take steps to decrease the amounts collected where there is a significant instructional materials fee balance outstanding at the end of any given quarter, we will work closely with the departments to determine if the per unit fees that we charge the students are reasonable, and we will review the fees on a quarterly basis, rather than on an annual basis, in order to ensure prompt adjustments to any fees, as necessary. The quarterly review of fees will be performed and documented by the respective division deans, the Vice President of Instruction, and the Vice President of Finance and Educational Resources.

PROGRESS TOWARD MEETING THE RECOMMENDATION AT DE ANZA COLLEGE

1. Effective winter quarter, materials fees have been suspended for many of the class sections. We continue to monitor revenue and expenses for those that are still collecting fees and we are making significant headway toward bringing our balances down to zero. The college will suspend all collections in the spring quarter.
2. The Vice President of Finance and/or the Director of Budget and Personnel have been meeting with each division to assess their needs and help them find alternative methods of providing the needed materials to students. These include encouraging faculty to distribute course packets and supplies through the bookstore or by electronic means such as through email, the FHDA Portal (Course Studio), or the college's course management system (Catalyst).
3. The college is encouraging the academic departments and the library to install a print management system in their computer labs so that students will be able to print materials on a pay-as-you-go method using their student body cards.
4. The college will reinstate materials fees only when there is no other feasible alternative and when there are health and safety concerns. These fees will be monitored closely in order to ensure that all appropriate items are accurately captured.



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

To the Audit and Finance Committee
of Foothill-De Anza Community College District

In planning and performing our audit of the financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Foothill-De Anza Community College District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 19, 2012. This letter does not affect our report dated November 19, 2012, on the financial statements of Foothill-De Anza Community College District.

Current Year Comments

Capital Asset Management

We noted that the capital asset summary did not show any deletions of equipment or vehicles in the 2011-12 fiscal year. In many cases, capital asset disposal records are not specific enough to allow the capital asset manager to remove the appropriate item from the capital asset records. Not being able to identify capital assets disposed of leads to an overstatement of capital assets where the list used for management and insurance purposes may include items that are no longer in the district's possession.

Recommendation

We recommend that the process for identifying and capturing equipment and vehicle disposals be reviewed. We also recommend that those completing capital asset disposal forms be encouraged to be as detailed as possible, and record serial numbers or other specific identification features, where applicable. In addition, performing a periodic inventory of equipment and vehicles will also assist in identifying capital assets that are no longer owned by the District.

District Response

The District will review its process for identifying and capturing equipment and vehicle disposals. As part of this review, we will update the capital asset disposal forms to include serial numbers or other identification in order to clearly reconcile assets to the capital assets listing. In addition, the District will select a sample of assets annually for physical observation and for comparison with our capital asset records. Finally, the accounting department will coordinate a review of capital assets with the risk management department to ensure that we have appropriate insurance coverage limits in order to manage risk of loss.

PROGRESS TOWARD MEETING THE MANAGEMENT RECOMMENDATION

The district expects to complete the reviews and updates to capital assets as described in the recommendation and district response, as noted above, by June 30, 2013. The physical observation of fixed assets, on a sample basis, will be an on-going year-to-year process.