

## **Audit and Finance Agenda Item**

**Meeting Date:** 6/2/11

**Title of Item:** Performance Audits

### **Background and Analysis:**

At the September 9, 2011 Audit and Finance Committee Meeting, staff and the Audit and Finance Committee agreed to contract with an independent certified public accounting firm, Vavrinek, Trine, Day & Co., LLP (VTD), for performance audits, in the following three areas:

1. Follow-up on District Procurement Card Performance Audit
2. Foothill College Cashiering Services Petty Cash/Change Fund Internal Controls
3. Foothill College PE Facilities Rental and Cash Handling Procedures

#### Procurement Card

The initial performance audit was dated June 23, 2006. Since this time period, staff have implemented numerous changes to the program in order to automate processes, improve documentation, and address the previously identified audit findings and recommendations. For fiscal year 2010-11, VTD was engaged to review the new process changes and the status of the previous performance audit's findings and recommendations. The performance audit report is attached for your review. Staff will provide management's response to the audit findings and recommendations at the September 9, 2011 Audit and Finance Committee Meeting. In fiscal year 2011-12, VTD will be contracted to perform detailed test work of procurement card transactions and to summarize the results of their most recent audit findings and recommendations.

#### Foothill College Cashiering Services

The performance audit report is attached for your review. Staff will provide management's response to the audit findings and recommendations at the September 9, 2011 Audit and Finance Committee Meeting.

#### Foothill College PE Facilities Rental and Cash Handling Procedures

This is a follow-up to the performance audit dated January 20, 2010. It is VTD's recommendation, and staff concur, that the performance audit be delayed until the start of the 2011 football season, which is when we expect to see significant activity in concession sales. A letter from Tom Brewer of VTD is attached summarizing the recommendation. We expect to have the performance audit completed in time for presentation at the December 2, 2011 Audit and Finance Committee Meeting.

**Recommendation:** (specify if information only) For Information Only.

Submitted by:	Kevin McElroy
Additional contact names:	Hector Quinonez
Is backup provided?	Yes

**FOOTHILL-DE ANZA  
COMMUNITY COLLEGE DISTRICT  
PROCUREMENT CARD PROCEDURES  
PERFORMANCE AUDIT**

**MAY 17, 2011**



May 17, 2011

Kevin McElroy, Vice Chancellor of Business Services  
Foothill-De Anza Community College District  
Los Altos, California

We have conducted a Performance Audit of Foothill College as described in the scope below in accordance with our Engagement Letter of with the Foothill-De Anza Community College District (District).

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Objectives, Scope, and Criteria of the Performance audit are described below.

Objective.

The purpose of the engagement is to determine the status of prior year performance audit findings and recommendations and to evaluate Procurement Card internal control procedures in the District Office.

Scope.

The engagement was limited to District office procedures as presented in the District's "Documentation of District Office Procedures" issued April 2011 and procedures described to us through interviews (Attachment 2).

We did not perform a walkthrough of selected transactions to verify accuracy of the current procedures as represented to us nor select transactions to determine compliance with the procedures as current procedures have not been in place for a period of time sufficient for evaluation.

Criteria.

The adequacy of the April 2011 procedures design as described to us in Attachment 2 was determined in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report Enterprise Risk Management – Integrated Approach.

## Procedures.

The following procedures were performed during the engagement:

- We requested and obtained written procedures from the District related to the use and control of procurement cards.
- We reviewed the April 2011 written procedures and conducted interviews of employees involved with issuance and control of procurement cards and the review and audit of procurement card purchases.
- Based on our review of written documentation and our interviews we prepared the draft procedures in written form (Attachment 2) and reviewed the drafts with management and employees responsible for issuance and control of procurement cards and the audit of procurement card purchases.
- We evaluated the procedures in Attachment 2 based on the COSO criteria.

## Internal Control Findings and Recommendations.

As indicated under Criteria above, we evaluated the District's system of internal control under COSO. This requires evaluation of five interrelated components which define the objectives of internal control which are: 1) Control Environment, 2) Risk Assessment, 3) Control Activities, 4) Information and Communication, and 5) Monitoring.

In the broadest sense internal controls include the plans, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors, fraud, violations of laws, regulations, and provisions of contracts and grant agreements or abuse. Safeguarding of assets is included in these objectives. We applied these criteria to each of the areas under the scope of this engagement.

## Results of Procedures.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose and scope described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. Further, as indicated under the scope of the

engagement we have not performed tests of the operation of the system of internal controls therefore our limited procedures would not disclose lack of compliance with the internal control procedures.

The following findings discuss deficiencies in internal control. We did not classify the control deficiencies as a significant or material weakness.

The status of prior year findings are included in Attachment 1. Repeat findings are included in the current findings and recommendations that follow.

#### Documentation.

A system of internal controls should be documented in writing to enhance compliance, establish responsibility and accountability, and provide guidance in the event of employee turnover. Procedures should be reviewed and updated on a regular basis to incorporate changes in operations, policies, and regulations. Written internal control procedures should require documentation that key controls have been accomplished.

1. Documentation of Procedures. As part of our review in fiscal year 2005-06, we documented District accounting procedures related to the issuance, control and review of Procurement Cards. Written District accounting procedures were documented in April 2011, but do not include all processes. We have prepared the draft procedures attached based our review of documented procedures and interviews with the Executive Assistant, the District Accountant charged with overseeing the audit process and the ETS Applications Programming Supervisor in charge of the automated posting, reporting and audit selection process for Procard statements.

Management should review the Attachment 2 draft procedures and our recommendations, determine any modifications that may be needed, and officially adopt procedures to provide a basis for auditing compliance and establishing accountability.

2. Documentation of Cardholder and Card Limit Authorization. In our performance audit report dated June 23, 2006, we recommended that the Business Office should obtain a signed and approved application for each cardholder, including those issued before the application requirement was implemented. We also recommended that a request for increased limits should be placed in the cardholders file by District accounting with a notation of the date the change was made with the bank and the initials of the person making the change.

In the section below, entitled "Quarterly Verification of Cardholder Authorization and Limits", we recommend that the list of cardholders and limits obtained from the Visa Data Center by ETS should be reconciled to the approved Procurement Card applications and to approved requests for increases to the standard limits quarterly.

We recommend that any active Procurement Cards that are not supported by an approved application and increased limit, if applicable, should be noted. An application should be sent to the approving manager for each card and limit not approved indicating that the card will be terminated if not approved in 30 days.

Many employees have more than one procurement card; some employees have as many as six cards. Each card is linked to a FOAP, budgetary account string. A separate approval should be required for each card.

To help identify and cross reference cards and increases to the standard limits with the appropriate approved applications and limit increase requests, we recommend that the last four digits of the card number be written on the applications and limit increase requests.

3. Documentation Regarding Application Approvals. The “Documentation of District Office Procedures” issued April 20, 2011 states, “The District Business Services office accepts approvals from the Chancellor, Presidents, Vice Presidents, Vice Chancellors or Deans” and the Procurement Card Application asks for signature of the Authorizing Dean, Vice President, Vice Chancellor, or President. Supervisors and Managers have authority to approve expenditures up to \$5,000. In practice they also have the authority to approve Procurement Card applications up to a limit of \$5,000 a month.

We recommend that the Procurement Card application form be updated to reflect that Supervisors and Managers have authority to approve applications and increases to the standard limits up to \$5,000 a month.

#### Information and Communication.

Once documented, procedures should be communicated to affected management and staff. Communication is necessary to provide employees with direction and permit assignment of accountability.

4. Procurement Card Policy Signed by Cardholders. When an employee picks up a Procurement Card, he/she must sign the Procurement Card Policy. The Executive Assistant provides a copy of the signed Procurement Card Policy to the cardholder. The Procurement Card Policies and Procedures have not been updated to reflect the April 2011 procedures. For instance, procedures issued April 2011 prohibit Procurement Card charges for personal/travel insurance. This prohibition is not included in the February 2010 Procurement Card Policies and Procedures currently provided to and signed by the cardholder.

We recommend that the Procurement Card Policy Statement signed by and provided to cardholders be updated with the current Policies and Procedures.

5. Dissemination of Current Policies and Procedures. Policies and procedures require change with changing circumstances. The procedures do not provide for the notification of changes to Procurement Card Policies and Procedures to existing cardholders and to the cardholder’s immediate supervisor/manager charged with reviewing the cardholder’s monthly statements and invoices. Procedures pertinent to cardholder’s and supervisors charged with reviewing cardholder’s monthly statements are posted in the Banner Portal System, however, the posted information has not been updated for the current procedures.

All affected staff and management should be notified when there has been a change to policies and procedures. We recommend that policies and procedures posted in the Banner Portal System be updated to reflect current approved procedures. Cardholders and their immediate supervisors are notified by email each month when card statements are available for viewing in the Banner Portal System. We also recommend that the email include a statement notifying them when there has been a change to the posted policies and procedures.

6. Management Notification of Cardholders. In our performance audit report dated June 23, 2006, we recommended the procedures be amended to provide an annual listing to the College Presidents indicating each manager/supervisor and the individual cardholders and limits assigned to them. We also recommended that an annual listing should be provided to the managers or supervisors listing those cardholders assigned to them.

The procedures issued April 2011 states, "The Executive Assistant provides a list of cardholders to the College President and the Chancellor for annual review and approval." The Executive Assistant informed us that this is to be done at the end of each calendar year. The procedure does not stipulate that the list include the name of each cardholder's supervisor/manager and the limit of each card assigned to the cardholder. The current procedures do not require that an annual listing be provided to the managers and supervisors listing those cardholders assigned to them.

We recommend the procedures stipulate the annual listing be provided to managers and supervisors as well as the College President and Chancellor and include the cardholder's supervisor/manager and the daily and monthly limits of each card.

#### Independent Reconciliation and Monitoring.

Independent reconciliation is a key control activity that helps ensure management directives are carried out and help ensure that District assets are not misappropriated. Monitoring of the systems of internal controls is necessary to ensure that controls are operating.

7. Quarterly Verification of Cardholder Employment Status. In our performance audit report dated June 23, 2006, we recommended that a bank listing of current credit card holders should be provided to Human Resources or Payroll for verification quarterly. The Procurement Procedures dated April 2011 states, "The Executive Assistant will quarterly reconcile the list of all cardholders with records from payroll to verify cardholder privileges, suspensions and active status of employment." The procedure has been partially implemented, but the reconciliation process has not been defined. On May 13, 2011, the Executive Assistant requested a listing of all terminated employees since 2008, however, the listing has not been received. In addition, the list of terminated employees will not identify employees on a long-term leave of absence.

After our testing of procedures in 2006, but prior to the issuance of the June 23, 2006 report, Human Resources began providing Business Services with a monthly list of terminated employees. Human Resources subsequently ceased providing that list.

The list of cardholders is obtained from the Visa Data Center by ETS. After our interview with the ETS Applications Programming Supervisor, we were told that ETS will compare the list of cardholders against the District's employee database and create an exception list of any cardholders who are either non-employees or non-active employees on a monthly basis. The listing will be provided to the Executive Assistant.

The new procedure for comparing the list of cardholders obtained from the Visa Data Center to the District's employee database and creating an exception report on a monthly basis should be documented in writing in the District Business Office Procurement Card Procedures. We recommend the Executive Assistant cancel all ProCards issued to anyone on the exception list. We also suggest that the Executive

Assistant notify the cardholder's supervisor or manager that the card has been cancelled because the cardholder is no longer an active employee.

8. Quarterly Verification of Cardholder Authorization and Limits. In our report dated June 23, 2006, we recommended that comparison of bank credit card limits and authorizations on file should be made quarterly and corrected as necessary. Bank credit card limits should not exceed those limits documented as approved in District accounting files. We were told by the Executive Assistant that the reconciliation has not been performed and that the files do not include approved applications and approval for increased limits over the standard limits for some cardholders.

We recommend that the list of cardholders and limits obtained from the Visa Data Center by ETS be reconciled to the approved Procurement Card applications as well as to approved request for increases to the standard limits on a quarterly basis. As recommended in "Documentation of Cardholder and Card Limit Authorization", an approved application and limit increase should be obtained for any cards for which proper approval is not on file.

9. Identification of Cardholder's Immediate Supervisor/Manager. The list of cardholder's and their card limits is obtained from the Visa Data Center by ETS. ETS obtains the name of the cardholder's immediate supervisor/manager from the Human Resources database in the Banner System. We were told by the ETS Applications Programming Supervisor that the name of the supervisor/manager for some cardholders cannot be identified because some employee positions are not properly linked to a supervisor/manager and some supervisor/manager positions are vacant. The Executive Assistant's name has been inserted as supervisor/manager in these cases. The Executive Assistant does not have access to the monthly statements for these cardholders and does not receive documentation for review.

The review and approval of each cardholder's monthly statement and supporting invoices is a key control in the monitoring process. It is imperative that the appropriate supervisor/manager be identified for every cardholder. Furthermore, as the Executive Assistant places the orders for new credit cards, increases card limits and receives the cards from Visa Commercial Services. In no instance should the Executive Assistant be listed as Supervisor/Manager for a cardholder.

We recommend that a list of all cardholder's without an identified supervisor/manager be sent to Human Resources to determine who the cardholder reports to. We also recommend that the list of cardholder's and immediate supervisor/managers be compiled each month and reviewed by Executive Assistant to ensure that every cardholder has a designated supervisor/manager.

10. Listing of Transactions by Category for Vice Chancellor. The Procedures issued April 20, 2011 state, "The Vice Chancellor (of Business Services) will receive a listing of all transactions by category from the prior month by ETS for review of any unusual charges. The Vice Chancellor has authority to flag any unusual activity for audit. The procedure had not been implemented as of the date of our interview.

We recommend that the procedure be implemented as soon as possible.



## Other Comments

11. Efficiency/Cost Savings Study. Increased efficiency and cost savings are a primary justification for use of credit cards. In our report dated June 23, 2006, we recommended that the District periodically document the time and dollar savings and compare to the results of the purchasing review to credit card activity.

The District has not completed a study of the time and cost savings realized by authorizing use of the Procurement cards for several years. We again recommend that the District document the time and dollar savings to justify the use of credit cards.

12. Review of Expenditures by Purchasing. During our review in fiscal year 2005-06, we noted that the cumulative total of purchases by cardholders with certain vendors is significant, and that some purchases may be able to be obtained with additional discount by District purchasing. We recommended that purchases be sorted and summarized by vendor for analysis by purchasing.

Discounts or rebates may be negotiated with vendors having significant purchasing activity. We again recommend that purchases be sorted and summarized by vendor and provided to purchasing for review for types of purchases that could be made through purchasing at a savings.

*Vavrinek, Trine, Day & Co., LLP*

Vavrinek, Trine, Day & Co., LLP

## **ATTACHMENT 1**

## **Attachment 1**

### **STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

#### **Procedures.**

**Finding.** Written procedures are an important component of an effective system of internal controls to document key controls processes, increase compliance, and ensure continuity in the event of employee turnover. Procedures for Procurement Cardholders are in writing but the related procedures for District accounting are not.

We gained an understanding of the District accounting procedures through interviews and the major steps are incorporated in our performance audit procedures.

**Recommendation.** We recommend that the District accounting procedures be documented in writing.

**Current Status.** Partially implemented. Written District accounting procedures were documented in April 2011, but do not include all processes. See current year finding and recommendation #1.

#### **Segregation of Duties.**

**Finding.** Segregation of duties so that one person does not have control over all aspects of transactions is a fundamental internal control concept.

The current District procedures for setting up and terminating credit card accounts, approving expenditure limits, approving payments, and auditing compliance with procedures are all within the control of the Executive Assistant for Business Services.

**Recommendation.** We recommend that the procedures be changed to indicate that the person authorized to establish and terminate credit card accounts with the bank should have no other duties related to payment authorization or auditing of transactions.

**Current Status:** Implemented. The Executive Assistant establishes and terminates credit card accounts with the bank. The April 2011 Procedures require that someone other than the Executive Assistant audit transactions. Although, the Executive Assistant still prepares and signs the check request for payment, the preparation of the check request only validates that the credit card statement received from the bank agrees to the downloaded statement received from ETS and expenses in the banner system. The process does not include expenditure approval. The payment request is also signed by the Vice Chancellor of Business Services.

#### **Approvals.**

**Finding.** The requirement for supervisory review and approval of credit card transactions at the level of management who would be most aware of the legitimate needs of the purchaser is an important aspect of internal controls.

Currently, although copies of credit card statements are forwarded to a card holder's manager or supervisor, there is no requirement for the manager to review or approve the transactions. The District Chancellor's credit card transactions are reviewed by the Board President.

Recommendation. Every employee's credit card transactions should be subject to a similar review and approval by their supervisor.

Finding. Credit card transactions are audited on an exception basis monthly by the District business office. Items purchased are accepted if they are supported by documentation and appear reasonable. The internal audit is an important component of the District's internal control but should not be viewed as a substitute for a review of the card holder's purchases by management with direct knowledge of the necessity or appropriateness of the expenditure.

Recommendation. We recommend that the procedures include a provision establishing responsibility by the manager or supervisor who approved the credit card to review and approve the card holder's monthly statement and supporting invoices and document the business purpose of any expenses that are not clear from the original receipt.

To facilitate District business office internal review and document that the approval has occurred, the District should consider requiring the approving manager or supervisor maintain the documentation. The District should consider requiring a monthly positive affirmation that the review has been accomplished by the manager or supervisor.

Current Status. Implemented. Procedures established in April 2011 require cardholders to submit all receipts to his/her immediate supervisor by the end of the month and require the authorizing manager to maintain the backup for a period of five years. The procedures also require the cardholder's immediate supervisor to review and approve the cardholder's monthly statement and supporting invoices, and document the business purpose of any expenses that are not clear from the original receipt. The cardholder receives his/her card statement through the Banner Portal System. The statement must be signed and dated by both the cardholder and his/her immediate supervisor.

Documentation.

Finding. Documentation of review and approval of transactions are necessary to provide evidence that the review and approval have occurred.

The Procedure for Procurement Card Holders requires the individual card holder to maintain the documentation supporting the credit card charges for subsequent audit.

As indicated above, documentation by original receipt of many purchases is not sufficient to distinguish personal vs. business purpose. Having the purchases reviewed by the card holder's manager or supervisor who has knowledge of the card holder's business needs will help verify the business purpose.

Recommendation. We have recommended that the card holder's manager or supervisor insure that the business purpose of the purchase is clearly documented. However, the card holder should be documenting the business purpose of the purchase contemporaneously. We recommend that the procedures be amended to clearly indicate that the card holder has primary responsibility to indicate the business purpose on the document supporting the purchase, if not evident by the document, and if for meals or entertainment, the names of all persons being paid for as well.

Current Status. Implemented. Procedures established in April 2011, require the cardholder's supervisor to document the purpose of any expenses that are not clear from the original receipt. Meals and entertainment are no longer allowable Procurement Card expenditures.

Finding. The unwritten District accounting procedures include sending a listing of all card holders to each College president. There is no requirement that the College president review or approve the listing for authorized card holders. There is no similar listing provided to managers or supervisors for those card holders assigned to them.

Recommendation. We recommend that the procedures be amended to provide an annual listing to the College presidents indicating each manager/supervisor and the individual card holders and limits assigned to them. Additionally, an annual listing should be provided to the managers or supervisors listing those card holders assigned to them. The procedures should require an affirmative approval be returned to District accounting for documenting the approval.

Current Status. Partially implemented. Written procedures issued in April 2011 state, "The Executive Assistant provides a list of card holders to the College Presidents and the Chancellor for annual review and approval." The procedure does not stipulate the information to be included on the list. See current year finding and recommendation #6.

## Compliance Findings and Recommendations

### Establishment of Credit Card Accounts

Finding. Not all cardholders had a signed and approved application on file in the Business Office. We reviewed 81 cardholder's files and 9 did not contain the signed and approved application. Four of these cardholders were primarily management or classified employees who, due to their positions, were automatically provided with cards when the program was initially implemented and prior to the requirement for signed and approved applications. All of these cardholders had signed the District's Procurement Card Policy and were included on the listing sent to the District's Presidents, Vice-President, Vice-Chancellor's and managers.

Recommendation. The Business Office should obtain a signed and approved application for each cardholder, including those issued before the application requirement was implemented.

Current Status. Not implemented. See current year finding and recommendation #2.

Finding. A comparison of the list of cardholders given to the President, et al, with the list of active cardholders per the bank indicated that some employees included on the list given to the President, et al, were not active cardholders.

The list provided included 9 employees whose card privileges had been suspended and 1 employee who had been terminated.

Recommendation. Business Services should periodically reconcile its record of active card holders to the bank record of cardholders and to payroll records. The annual listing provided to the Presidents, managers or supervisors for their approval should be a reconciled list and indicate which employees whose card holder privileges had been suspended.

Current Status. Partially implemented. The list of cardholders is obtained from the Visa Data Center by ETS making reconciliation of the list to bank records unnecessary. Written procedures issued April 2011 state, "The Executive Assistant will quarterly reconcile the list of all card holders with records from payroll to verify card holder privileges, suspensions and active status of employment for all card holders."

Subsequent to our interviews and review of procedures, we were told by the ETS Applications Programming Supervisor, that ETS will compare the list of cardholders against the District's employee database and create an exception list of any cardholders who are either non-employees or non-active employees on a monthly basis. This process has not yet been documented in the written procedures. See current year finding and recommendation #7.

#### Termination of Credit Card Accounts.

Finding. The Procurement Card Procedures signed by the employee does not include the steps to be taken when employment is terminated. Unwritten District accounting procedure requires the employee to give the card to their manager upon termination.

When the bank's record of active cardholders was compared to payroll records, we noted that 4 cardholder's were no longer employed by the District. However, we also noted that no activity related to their procurement cards occurred after their termination date.

Recommendation. Prior to the start of our engagement, but after the period we examined, Human Resources began providing Business Services with a monthly list of terminated employees. We concur with this change in procedure and recommend that the procedure include a requirement for return of the credit card prior to receiving their final pay warrant.

A bank listing of current credit card holders should be provided to human resources or payroll for verification quarterly.

Current Status. Not implemented. Human Resources no longer provides Business Services with a monthly list of terminated employees. The Executive Assistant requested a list of all terminated employees since 2008 from Human Resources to compare to the cardholder list on May 13, 2011. They have not yet been received from Human Resources. See current year finding and recommendation #7.

#### Credit Card Limits

Finding. Credit cards can be limited as to number of transactions, amount of single transactions, and cumulative transactions by month. The maximum limit established is 20 transactions, \$1,000 for a single transactions, and \$2,000 cumulative monthly transactions. These limits are increased upon request by a card holder's manager. Current limits are up to \$15,000.

The limits authorized have not been established by District policy. Limits are increased based on telephone calls and followed up by emails by the manager and once increased are never reduced.

Recommendation. Minimum and maximum limits should be included in written policy or procedure. The current requirement for manager approval of credit card limits in writing should be included in final written procedures. The request should be placed in the cardholders file by District accounting with a notation of the date the change was made with the bank and the initials of the person making the change. We also recommend that the credit card limits be included on the annual listing of credit card holders provided to College presidents and managers.

Current Status. Partially implemented. Standard limits and requirement for increases above the standard limits have been documented in the written procedures issued April 2011. The procedures do not address the filing and documentation of the date the change in limits is processed. The procedures also do not address including the card limits in the annual listing of credit card holders provided to College Presidents and the Chancellor. See current year finding and recommendation #2.

Finding. We compared all of the bank's card limits with the documentation of limits maintained in District accounting and found the limits differed on 39 cardholders. The limit differences were for daily/monthly dollar maximums and/or maximum number of purchases each day/month.

Recommendation. A comparison of bank credit card limits and authorizations on file should be made quarterly and corrected as necessary. Bank credit card limits should not exceed those limits documented as approved in District accounting files.

Current Status. Not implemented. See current year finding and recommendation #8.

#### Documentation.

Finding. Five of the 79 cardholders who were notified to submit documentation for this testing did not comply with the request. Of the cardholders who did submit documentation, 6 were missing at least one receipt for items costing a total of \$1,635. We noted one instance of a purchase for a terminated employee in the amount of \$26.

Recommendation. The monthly reviews by the District business office is a key internal control. Automatic notices of transactions selected for review are provided the first week following the end of the month. The procedures should require the card holder (or the card holder's approving manager or supervisor if our recommendation of retention of documentation by them is accepted) to submit supporting documentation within two weeks of the notice.

Cardholders (or managers/supervisors) who do not comply with the notice to submit documentation should be re-noticed and reminded that failure to provide the Vice-Chancellor, Business Services with information about any specific purchase will result in card revocation. If no response is received the card holder and/or the approving manager or supervisor should have their card or approval authority discontinued.

If the District determines that an appeal process to reinstate the card or approval authority is in the best interests of the District, appeals should require written approval by the Presidents or Chancellor directed to the Vice Chancellor of Business Services.

Current Status. Implemented . Written procedures issued April 2011 address specific timelines for submitting documentation for ProCard expenditures selected for audit noting that failure to comply will result in possible card termination. The decision to terminate a ProCard for violation will rest with the Vice Chancellor of Business Services.

Finding. Procurement Card Procedures require that documentation be retained by the card holder for two years. Federal guidelines require documentation to be maintained for five years after the year subject to audit.

Recommendation. The District should review State and Federal record retention requirements and amend the procedures as necessary.

Current Status. Implemented. April 2011 procedures state that managers are responsible for maintaining documentation for five years.

#### Purpose.

Finding. One card holder purchased travel insurance with a relative as named beneficiary which violated the Procurement Card Procedure prohibiting personal purchases. One card holder purchased a plaque for a terminating employee which could be considered a prohibited gift.

Recommendation. The District should clarify whether purchases of a minor gift for a terminating employee are permitted. The card holders should also be reminded that purchase of personal insurance is a violation and request the employee reimburse the District for the charge.

Current Status. Partially implemented. April 2011 procedures prohibits the use of the card to purchase gifts and gratuities and personal/travel insurance. However, the Policies and Procedures that are currently acknowledged and signed by cardholders when new cards are received have not been updated for the April 2011 prohibition on using the cards for purchase of personal/travel insurance. Cardholders have not been provided with a copy of these revised procedures. See current year finding and recommendation #5.

#### District Compliance with Review Procedures

District accounting un-written procedures include monthly auditing of selected procurement card transactions. Transactions exceeding designated audit limits are automatically selected by the system. Additional transactions are selected based on review by the Executive Assistant for Business Services and the Vice Chancellor Business Services.

District compliance with review procedures for two months was tested by reviewing 20% of cardholder charges selected for testing by ETS or by the office of the Vice-Chancellor, Business Services.

Finding. Of the 15 we reviewed, 2 cardholders had not responded to the request to submit documents to Business Services. One card was suspended; the second cardholder was on maternity leave. Business Services took appropriate action and this is not considered an exception.



Recommendation. Written procedures should include specification of the time between initial notification and when suspension will occur. The procedures should require notification to the manager of any card holder whose card has been suspended. If documentation is not subsequently provided the Vice Chancellor should be notified to determine if further investigation is warranted.

Current Status. Implemented. Written procedures issued April 2011 specify the time between initial notification and when failure to respond will result in possible card termination. The decision to terminate rests with the Vice Chancellor of Business.

Finding. One cardholder selected for review by ETS purchased furniture for the Foothill Foundation in September. The Foundation is a component unit of the District and is not considered an "other organization" for purposes of the Procurement Card Procedures prohibiting purchases for other organizations. The decision on whether purchases for the Foundation should be an expense to the Foundation or District is a management decision.

Recommendation. The District should clearly indicate that credit card purchases for or for the benefit of the Foundation is authorized in its written procedures. The District should also develop a written policy or regulation specifying the parameters to be followed by management to determine whether a purchase for the Foundation is intended to be repaid or charged to District accounts. The policy should be supported by a written opinion from District's counsel that purchases for benefit of the Foundation do not constitute gifts of public funds.

Current Status. Implemented. April 2011 Procedures do not address expenditures for the benefit of the Foundation; however, Management has expressed its intent to include a statement in the Procurement Card Procedures stipulating that expenditures for the benefit of the Foundation can only be made with a ProCard that is charged to a Foundation FOAP, budget account string.

#### Other Comments

Although not related to specific compliance with procedures, we believe the following should be considered by management.

Finding. We noted that the cumulative total of purchases by cardholders with certain vendors is significant, and that some purchases, such as flight and hotel expenses, may be able to be obtained with additional discount by District purchasing.

Recommendation. Purchases can be sorted and summarized by vendor for analysis. The District should provide a listing of summarized purchases by vendor to purchasing for review. Discounts or rebates may be negotiated with vendors having significant purchasing activity and types of purchases may be identified that could be made through purchasing at a savings.

Current Status. Not implemented. See current finding and recommendation #12.

Finding. Standard Purchase limits are 5 purchases each day, 20 purchases per month, single purchase limit \$1,000 and monthly purchase limit \$2,000. As noted above, these limitations may be increased for cardholders on request. The highest limit noted was a single purchase of \$10,000 and monthly limit of \$15,000.

Recommendation. When establishing purchase limits in policy or regulation, we recommend that a procedure for establishing these higher limits be specifically addressed.

Current Status. Implemented. Written procedures issued April 2011 state, "Requests for increases to these standard limits must be in writing from the approving manager or supervisor and will be made by the Executive Assistant. Any temporary or permanent increase over \$5,000 needs to be approved by the Vice Chancellor of Business Services."

Finding. The District has not completed a study of the time and cost savings realized by authorizing use of the Procurement cards for several years.

Recommendation. Increased efficiency and cost savings are a primary justification for use of credit cards. The District should periodically document the time and dollar savings and compare to the results of the purchasing review of the credit card activity.

Current Status. Not implemented. See current finding and recommendation #11.

## **ATTACHMENT 2**

## **Attachment 2**

### **FOOTHILL DE-ANZA COMMUNITY COLLEGE DISTRICT PROCUREMENT CARD PROCEDURES**

#### **APPLICATION PROCESS**

Persons requesting a procurement card (ProCard) must complete an application. The application includes the cardholder's name, Position, Division/Department, his/her immediate Supervisor, e-mail address, employee ID, date of birth, office phone number and the budget code to be charged. (Exhibit A) The application must be approved by the applicant's immediate Supervisor or Manager.

Standard limits are:

- \$1,000 maximum single purchase limit
- \$2,000 maximum monthly purchase limit
- Maximum limit of five purchases per day
- Maximum limit of twenty purchases per month

A request for anything outside the default limits at the time of submitting the application must be specified on the application and initialed by the approving administrator. A requested limit over \$5,000, whether temporary or permanent, must be approved by the Vice Chancellor Business Services.

The applicant delivers the approved application or sends it via District inter-office mail to the Executive Assistant in Business Services. The Executive Assistant initials the application verifying that it is complete and contains the appropriate approvals.

#### **ISSUANCE OF CREDIT CARDS**

The Executive Assistant places an order for the card by logging into Visa Commercial Services, Visa Card Management, creating a Card Account, and entering the information from the application. Cards are issued with an expiration date of two years after issuance. The card(s) is(are) generally shipped to the Executive Assistant via Federal Express and are generally received two to three days after he/she places the order.

When the card is received, the Executive Assistant calls the cardholder to notify him/her that the card is ready for pickup. Cards are held in a locked cabinet in the Executive Assistant's work area until picked up by the cardholder. The card must be picked up by the cardholder, in person. Cards not picked up within 30 days are subject to cancellation at the discretion of the Vice Chancellor of Business Services. Replacement of a cancelled card will require re-application through the standard process.

When the cardholder picks up the card, the Executive Assistant calls Visa Commercial Services and activates the card. The cardholder signs the Procurement Card Policy (Exhibit B). The Executive Assistant makes a copy of the signed Procurement Card Policy and gives it to the cardholder along with the card. The original signed Procurement Card Policy is attached to the approved application and filed in alphabetical order in the ProCard Application binders.

## **REPLACEMENT OF EXPIRED CARDS**

ProCards are issued with an expiration date of two years after issuance. The bank sends a replacement card approximately two to three weeks prior to the expiration of the old card. Replacement cards are shipped to the Executive Assistant via Federal Express.

When the replacement card is received, the Executive Assistant calls the cardholder to notify him/her that the card is ready for pickup. Replacement cards are held in a locked cabinet in the Executive Assistant's work area until picked up by the cardholder. The card must be picked up by the cardholder, in person. Cards not picked up within 30 days are subject to cancellation at the discretion of the Vice Chancellor of Business Services. Replacement of a cancelled card will require re-application through the standard process.

## **CHANGES IN LIMITS SUBSEQUENT TO INITIAL APPLICATION**

If a change in limits is requested subsequent to the initial application, the request must be in writing and signed by the approving administrator. An email from the approving administrator is acceptable. As noted above in "Application Process", a requested limit over \$5,000, whether temporary or permanent, must be approved by the Vice Chancellor Business Services.

The Executive Assistant processes the increase by logging into Visa Commercial Services and making the approved increase. A copy of the documentation authorizing the increase is attached to the original application.

## **MANAGEMENT REVIEW OF AUTHORIZED CARDHOLDERS**

The Executive Assistant may obtain a list of all active cardholders on request from ETS. The list contains the cardholder's name, the last four digits of the card number, the expiration date of the card, the daily limit, the monthly limit and the name of the cardholder's immediate supervisor. ETS obtains all the information, excepting the cardholder's immediate supervisor, from the Visa Data Center. The supervisors name is retrieved from the Human Resources database in Banner.

The Executive Assistant shall provide a list of cardholders to the College Presidents and the Chancellor at the end of each calendar year for review and approval.

The Executive Assistant shall reconcile the list of all cardholders with records from Human Resources on a quarterly basis to verify cardholder privileges, suspensions and active status of employment.

ETS extracts the monthly credit card transaction file approximately 5 to 6 days after month end from the Visa Information Management System and places it on a secure server. ETS generates individual cardholder statements and makes the statements available to each cardholder and his/her immediate supervisor through the Banner Portal System by the following day. ETS generates an email to all cardholders and their immediate supervisors from the Executive Assistant that the statements are ready for viewing (Exhibit C). The email includes instructions for accessing the statements by both cardholders and their immediate supervisors.

The cardholder shall print out his/her statement for the month, sign and date the statement, attach receipts and give the statement and receipts to his/her supervisor for review and approval prior to the end of the month. The cardholder's immediate supervisor is responsible to review the statement and supporting invoices, document the business purpose of any expenses that are not clear from the original receipt, sign and date the statement to denote approval and maintain the statement and documentation for 5 years.

#### **DISTRICT OFFICE REVIEW/AUDIT OF TRANSACTIONS**

ETS selects and flags individual statements for audit based on the following criteria:

- Statements with total monthly transactions of \$1,500 or more.
- Statements with ten or more transactions in one month.
- Ten additional statements are selected randomly.

Each statement made available to cardholders and supervisors through the Banner notes if it has been selected for audit. The email sent notifying cardholders and supervisors that statements are available (Exhibit C) provides instructions to print out the statement, sign it along with your supervisor and forward receipts for all transactions to Business Services within 21 days.

Documentation is delivered to the Executive Assistant in Business Services. The Executive Assistant gives the documentation to the District Accountant who supervises the audit process.

The District Accountant has administrative access to all statements that were selected for audit. He/she prepares a control worksheet that includes the cardholder's name, the last four digits of the card number, the number of transactions for the month, the total dollar amount of the cardholder's statement, the supervisor's name, and the FOAP (account string to be charged). Three additional columns are added: a column to input the date the documentation was received from the cardholder, a column for comments on missing data or exceptions, and the date returned to the Accountant from the Accounts Payable Assistant who does the actual review process.

Once a week the Accountant gives the statements and documentation that has been received to an Accounts Payable Assistant to review the expenditures for compliance with the card purchase limits and restrictions and to ensure that expenditures were in compliance with the District Procurement Card Policy prohibiting use:

- By others
- For personal expenses
- For alcohol and other prohibited substance material or services
- For items required to be capitalized
- For gratuities or gifts (tips are permitted)
- Splitting of purchases to avoid Procurement Card purchase limits
- Meals, catering, purchases of food for campus events or entertainment
- Personal/travel insurance

The Accounts Payable Clerk also receives a copy of the control worksheet. The Accounts Payable Clerk cross references the invoices with the cardholder's statement using circled numbers or letters to document that all invoices have been received. If all invoices have been received and there are no exceptions noted, the Accounts Payable Assistant, writes an (A) at the top of the statement and initials and dates the statement to note that the audit is complete. If an invoice is missing or an exception to the Procurement Card Policy is noted, he/she makes a note in the comment column of the control worksheet. After reviewing the statements and documentation he/she returns them to the District Accountant.

The District Accountant notes the date that he/she receives the each packet back from the Accounts Payable Assistant on the control worksheet. If information is not received in 21 days, he/she notifies the Executive Assistant. The Executive Assistant sends an email notifying that failure to respond in 14 days will result in possible card termination. If an exception to the Procurement Card Policy is noted, the District Accountant sends an email to the cardholder explaining the error with a copy to the Executive Assistant and the Vice Chancellor of Business Services. The District Accountant also makes note of any missing documentation or exception to the Procurement Card Policy on the cardholder's statement in the Banner Portal System. This allows both the cardholder and the cardholder's supervisor to see the notation.

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If the documentation is not received after the 14 days from the second notice, the District Accountant sends an email to the Executive Assistant. The decision to terminate a card for failure to respond or misuse of the card is at the discretion of the Vice Chancellor of Business Services. If a card is terminated, the College Presidents, Vice Chancellors, or Chancellor must provide a written request for re-instatement.

ETS sends the Vice Chancellor of Business Services a listing of all transactions for the prior month by category for review for unusual charges. The Vice Chancellor of Business Services has the authority to request additional audits of individual statements.

## ACCOUNTING FOR TRANSACTIONS

### Statement Reconciliation

Approximately five days after month end, the Executive Assistant receives a hard copy of the Procurement Card Statement from the bank which contains all transactions for the month by cardholder name. The Executive Assistant also receives an excel file of all transactions for the month from ETS. The Executive Assistant verifies that the total charges on the statement received from the bank agrees to the downloaded file received from ETS. If there is a difference, the Executive Assistance compares all the charges on the statement from the bank to the excel spreadsheet and identifies the difference. He/she follows up with the bank and ETS as necessary to identify the cause of the variance.

### Recording Expenditures

ETS loads the monthly transaction file extracted from Visa Information Management System into Banner and creates journal entries that feed into Banner Finance. The entry expenses each cardholder's FOAP budget account code which is tied to the card number. All expenses are charged to object code 4900.

### Payment

The Executive Assistant prepares a check request and attaches a copy of the summary page of the Procurement Card Statement received from the bank. The Vice Chancellor of Business Services approves the check request. The Executive Assistant makes a copy of the approved check request for filing. He/she sends the original check request and the Statement summary page copy to Accounts Payable for processing.

The Accounts Payable Clerk process the check request through the District's Accounts Payable System. He/she gives the check to the Executive Assistant. The Executive Assistant sends the check and the remittance advice to the bank. He/she attaches the check copy to the Procurement Card Statement and the copy of the check request and files the packet in chronological order.



## **EXHIBIT A**

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**APPLICATION FOR DISTRICT PROCUREMENT CARD**

Date: \_\_\_\_\_

Cardholder's Name \_\_\_\_\_  
(as you want it to appear on your card)

Division/Department \_\_\_\_\_

Position \_\_\_\_\_ F/T \_\_\_\_\_ P/T \_\_\_\_\_

Immediate Supervisor \_\_\_\_\_

E-Mail Address \_\_\_\_\_

Employee ID # \_\_\_\_\_

Date of Birth: \_\_\_\_\_

Office Phone #: \_\_\_\_\_

Budget Code: \_\_\_\_\_

Standard limits are \$1,000 single purchase/\$2,000 monthly/5 transactions a day/20 transactions a month. If you desire different default limits, please specify below and have the Authorizing Administrator initial next to the request.

\_\_\_\_\_

Approval Signature: \_\_\_\_\_

Authorizing Dean, Vice President, Vice Chancellor, or President

\_\_\_\_\_  
Printed Name of Authorizing Administrator

Date: \_\_\_\_\_

**Please return this form to Craig Gawlick in Business Services**

*Updated April 15, 2011*

**EXHIBIT A**

## **EXHIBIT B**

## FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

### Business Services PROCUREMENT CARD POLICIES AND PROCEDURES REVISED: February 2010

The Board of Trustees authorized the use of procurement cards (procard) at their meeting in December, 2003. This authority is granted under Ed Code Section 81656. This purchasing process is used to expedite the purchase and accounting of low cost and frequently needed items or whenever there is sufficient benefit to the District. An application for a District procard must be approved by the authorizing manager.

#### **Unauthorized charges or inappropriate use of the procard will result in immediate revocation of the card**

1. All procards shall be reauthorized every September by the authorizing manager. Business Services will issue a list of current cardholders, the authorizing manager, and the dollar and transaction limits on each card. If a card is not reauthorized by September 30, it shall be terminated. All approved cardholders shall be required to sign a new agreement each September.
2. Every cardholder shall be an employee of the Foothill-De Anza Community College District and shall agree to all terms and conditions as follows established for the issuance of a District Procurement Card.
3. Every cardholder shall sign the card in the presence of a designated district issuer immediately upon taking possession of the card.
4. The cardholder shall be responsible for submitting all receipts to the authorizing manager at the end of each month whether or not he/she is audited by Business Services. ~~The authorizing manager shall be responsible for maintaining the audit backup for a period of five years.~~
5. The authorizing manager shall be responsible for complying with all procard audits requested by Business Services. If requested receipts are not submitted to Business Services within two weeks of the audit notification, the procard will be suspended immediately.
6. Business Services shall prepare a quarterly summary of audits completed on procard accounts and any corrective actions implemented. The summary shall be presented to the Audit and Finance committee as part of the internal auditing system.
7. The cardholder shall be personally liable for inappropriate charges and shall be personally responsible for the settlement of any dispute on any purchase with a vendor. Any inappropriate use of the procard shall result in immediate termination of the card and appropriate disciplinary action shall be taken in accordance with appropriate contractual and statutory processes.
8. ~~Under no circumstances can public funds be used for the purchase of alcohol.~~
9. ~~The Procurement Card cannot be used to purchase meals, food, or beverages.~~

## EXHIBIT B

10. The procard cannot be used to purchase services of any type, including labor services and independent contractor services.
11. The procard cannot be used to purchase gas for a personal vehicle; instead, the cardholder should submit a Mileage Voucher or Trip Voucher for reimbursement.
12. High cost, infrequently needed items and equipment that are subject to the district's capitalization policy and technology items (such as computers, printers, servers, network equipment including wireless, and multi-function copiers) which will require the installation and support of ETS, department technical staff, or Plant Services, shall not be purchased with the procurement card, but shall be processed through District Purchasing.
13. The procard will be revoked for the following reasons:
  - The card is used for personal or unauthorized purchases
  - The card is used to purchase food, meals, or beverages
  - The card is used to purchase services of any kind
  - The card is used to purchase alcoholic beverages or any substance, material, or service which violates policy, law, or regulation pertaining to the District
  - The cardholder allows the card to be used by another individual
  - The cardholder splits a purchase to circumvent a purchase limit assigned to the card
  - The cardholder purchases equipment requiring capitalization
  - The cardholder uses another cardholder's card to circumvent a purchase limit assigned to either cardholder
  - The cardholder accepts a personal gratuity from a vendor
  - **The cardholder uses the card to purchase gratuities or gifts**
  - The cardholder fails to provide the Vice Chancellor, Business Services with information about any specific purchase
  - The cardholder fails to provide documentation confirming that charges are approved within thirty days of the audit notification
  - The cardholder fails to provide accounting with expense transfer documentation that may be necessary to record a purchase appropriately
  - The cardholder does not adhere to any of the Procurement Card policies and procedures
  - The Procurement Card is the property of the bank, and the bank may at any time revoke card privileges under the provisions of its policies and procedures.
14. Each procard will be assigned specific purchase limits and restrictions. Cardholders shall adhere to these limits and restrictions.
15. The cardholder is personally responsible for guaranteeing that all charges are for appropriate District expenses, that purchases are within budget limits, and that the purchase does not violate any other law, regulation, or policy of the Board of Trustees. Neither the Bank nor the District assumes responsibility for non-District purchases. The cardholder shall be liable to the District and to the Bank for any non-District purchase.
16. The cardholder shall immediately notify Business Services if the procard is lost, stolen, or in the possession of an unauthorized person. A written follow-up, including pertinent information on

the cause of the *Procurement Card* loss or use by an unauthorized person, shall be forwarded to the Vice Chancellor of Business Services in a timely manner.

17. Payment for charges made against the procard shall be processed as follows:

- When the statements are transmitted or otherwise received by the District, the charges against each card shall be charged to that card's designated budget account.
- Statements shall be forwarded to a designated administrator at each college or Central Services for review and approval.
- Random and scheduled audits are performed each month. Upon request of the Vice Chancellor, Business Services, cardholder shall provide in a timely manner receipts and other documentation to support monthly charges.

18. All charges on the bank statement shall be passed on to the designated cardholder account, including any transaction or annual fees.

.....  
I \_\_\_\_\_, have read the District's Procurement Card Policy and Procedures and  
(print name).

agree to abide by them upon acceptance of a Procurement Card issued to me, and that revocation of card authorization will have no effect on obligations outstanding as of the date of revocation.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **EXHIBIT C**

ProCard Activity for April 2011 now available

**Subject:** ProCard Activity for April 2011 now available  
**From:** Business Services <gawlickcraig@fhda.edu>  
**Date:** Fri, 6 May 2011 15:13:57 -0700 (PDT)  
**To:** undisclosed-recipients::

\*\*\*IMPORTANT, PLEASE READ\*\*\*

Beginning now for April statements, you will be responsible for printing your own statement to submit to your manager with all corresponding receipts. PAPER STATEMENT WILL NO LONGER BE SENT OUT. If you are flagged for an audit, you will be able to track the progress, and be reminded if you haven't turned in the needed documentation to Business Services

\*\*\*

This e-mail is to inform you that your ProCard activity for the month of April 2011 is now available through MyPortal. Please follow the directives below to access your statements.

#### CARDHOLDERS

If you are a ProCard cardholder, follow these steps to see your statements:

1. Log into MyPortal
2. Click on the Employees tab
3. Click on the ProCard Activity link within the Employee Web Services (may need to scroll down to see the link)
4. Click on View My Statements

#### SUPERVISORS

If one or more employees who report to you are ProCard cardholders, follow these steps to review their purchasing activity:

1. Log into MyPortal
2. Click on the Employees tab
3. Click on the ProCard Activity link within the Employee Web Services (may need to scroll down to see the link)
4. Click on View My Employees' Statements

#### AUDITING

Cardholders who have spent over \$1500, or charged more than 10 transactions, will be audited. In addition to that, we are randomly selecting statements regardless of criteria for review. If your statement is flagged for audit, please promptly print out your statement, sign it along with your supervisor, and forward receipts for ALL transactions to Business Services within 21 days. If you do not comply in a reasonable amount of time, your card will be at risk for cancellation.

If you have any questions about the ProCard program, please contact Craig Gawlick at (650) 949-6202.



**FOOTHILL COLLEGE  
ADMISSIONS AND RECORDS  
PETTY CASH/CHANGE FUND PROCEDURES  
PERFORMANCE AUDIT  
FEBRUARY 7, 2011**



May 23, 2011

Kevin McElroy, Vice Chancellor of Business Services  
Foothill-De Anza Community College District  
Los Altos, California

We were engaged to conduct a Performance Audit, subject to the terms of our engagement letter dated February 4, 2011.

**Professional Standards.**

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Objective, Scope, and Criteria of the Performance audit are described below.

**Objective.**

The purpose of the engagement is to evaluate the procedures over the Petty Cash/Change Fund maintained by Foothill College Admissions and Records.

**Scope.**

The engagement was limited to procedures for the Foothill College Petty Cash/Change Fund maintained by Admissions and Records based upon written procedures and interviews. We did not perform testing to verify that the procedures were operating as described.

The engagement did not include the District Fiscal office procedures for reimbursing the Petty Cash/Change Fund.

**Criteria.**

The adequacy of the procedures was determined in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report *Enterprise Risk Management – Integrated Approach*. The procedures evaluated were the District's written procedures and additional documented procedures based on interviews with management and appropriate staff.

## **Background.**

Foothill College has established one \$5,000 Petty Cash/Change Fund for the campus. The Fund is maintained in the Admissions and Records Office. It is used to make change for the cashiers in the Admissions and Records Office and to reimburse approved expenditures for low value supplies. The Fund is generally replenished twice a quarter when petty cash reimbursed expenditures reach \$1,200 to \$1,500; approximately \$10,000 to \$12,000 in expenditures flow through the Fund each year.

## **Procedures.**

- We obtained written *Petty Cash Fund Operating Procedures* issued by the District Accounting Office on February 23, 2005.
- We reviewed the written procedures and conducted interviews of the Registrar, the Cashiering Coordinator/Petty Cash Fund Custodian and the Part-time Senior Cashier involved with Petty Cash handling at Foothill College Admissions and Records.
- Based on our review of written documentation and our interviews we prepared the attached draft of procedures currently in practice and reviewed the drafts with the Registrar and the Cashiering Coordinator/Petty Cash Fund Custodian. They agreed that the written documentation represents current practice related to the Petty Cash/Change Fund at Foothill College.
- We evaluated the draft procedures based on the COSO criteria.

## **Internal Control Findings and Recommendations.**

As indicated under Criteria above, we evaluated the District's system of internal control under COSO. This requires evaluation of five interrelated components which define the objectives of internal control which are: 1) Control Environment, 2) Risk Assessment, 3) Control Activities, 4) Information and Communication, and 5) Monitoring.

In the broadest sense internal controls include the plans, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors, fraud, violations of laws, regulations, and provisions of contracts and grant agreements or abuse. Safeguarding of assets is included in these objectives. We applied these criteria to each of the areas under the scope of this engagement.

## **Results of Procedures.**

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose and scope described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. Further, as indicated under the scope of the engagement we have not performed tests of the operation of the system of internal controls therefore our limited procedures would not disclose lack of compliance with the internal control procedures.

The following findings discuss deficiencies in internal control. We did not classify the control deficiencies as a significant or material weakness.

Our findings and recommendations that follow are offered as improvements that could further strengthen the internal controls or improve efficiency.

#### **Documentation.**

A system of internal controls should be documented in writing and communicated to affected management and staff to improve compliance with unwritten procedures, establish responsibility and accountability, and provide guidance in the event of employee turnover.

- **Documentation of Procedures.** Petty Cash Fund Procedures were in writing but did not include all processes. We have prepared the draft procedures attached based on interviews with the Registrar and the Petty Cash/Change Fund Custodian. The draft procedures attached are limited to the Petty Cash/Change Fund process by the Admissions and Records Office at Foothill College.

*Management should review the draft procedures and our recommendations, determine any modifications that may be needed, and officially adopt procedures to provide a basis for auditing compliance and establishing accountability.*

- **Distribution of Procedures.** The Petty Cash/Change Fund Custodian does not have a copy of the *Petty Cash Fund Operating Procedures* issued by the District Accounting Office on February 23, 2005. If procedures are not communicated to affected management and staff, employees may be inclined to change procedures to accommodate workload and changing environment.

*Management should verify that staff have received a copy of written procedures applicable to their position and ensure that the procedures are understood. Written confirmation of receipt is advisable.*

## **Monitoring.**

The Petty Cash/Change Fund is counted two times a year by the Petty Cash Custodian and the Part-time Senior Cashier at the same time but independently. They each prepare a *Petty Cash Audit Form*, and identify and correct for any discrepancies and sign and date the forms. A copy of the forms is given to the Registrar for his/her review. However, the Registrar does not sign the Audit Form or otherwise denote approval of the count or the variance.

*Review and approval of the Petty Cash Audit Form should be documented by the Registrar and the process should be documented in the written procedures.*

## **Fund Overages and Shortages.**

During the course of our review, we observed a Petty Cash count. Total cash and vouchers not submitted for replenishment totaled \$4,739.60; the established fund amount is \$5,000.00. We were told by the Registrar that approximately \$250 went missing between April and June 2009. The District Business Office and District Police are aware of the missing money. The Fund also fluctuates by smaller amounts from count to count. The *Petty Cash Audit Form*, used to count petty cash, does not contain a place for the prior count and calculation of the variances (overages and shortages) since the prior count.

District *Petty Cash Operating Procedures* state that “in the event of a theft, the loss must be reported to campus police.” The procedures do not stipulate a dollar minimum that must be reported, nor require that a loss or shortage be reported to the District Business Office.

The District Accountant does confirm the existence of Petty Cash funds at year end; however, this process is not documented in the written procedures.

*The prior petty cash count total and calculated variance should be added to the Petty Cash Audit Form to ensure that overages and shortages since the last count are documented and brought to the attention of the Registrar. Guidelines for dollar amounts that require immediate reporting to the District Police and Business Office should be established and documented in the written procedures. The District should replenish the petty cash fund and expensing the shortages at least annually.*

## **Voucher Verification Procedures.**

Prior to disbursing Petty Cash, the Petty Cash Custodian or his/her alternate, reviews the voucher and the receipt(s) to ensure that the amounts agree, that the expenditures were for the purpose for which the fund was authorized, and that the voucher was signed by the appropriate manager for the indicated budget code. If the receipt indicates it was paid by credit card, he/she verifies that it was not paid for by a District Procurement Card. If the reimbursement was for only a portion of the receipt, he/she verifies the calculation of the total to be reimbursed. No notation is made on the voucher or receipt indicating that the appropriate verification was performed.

*Performance of the verification process should be documented on the voucher by the Petty Cash Custodian or his/her alternate when disbursing petty cash. This could be accomplished by initialing the specific information verified or utilizing a stamp to check off information verified.*

### **Adherence to District Administrative Procedures.**

General guidelines specified in the District's *Petty Cash Funds Operating Procedures* state, "A petty cash fund serves as a revolving fund and may be established in a department when it can be demonstrated that a continuing cash advance should be kept on hand to permit the purchase of low-value (less than \$100) supplies." In reviewing procedures with the Petty Cash/Change Fund Custodian, we found that the fund is also used to reimburse employee meals under \$100. While food for meetings may be classified as supplies, restaurant meals are not.

*District guidelines should be followed regarding permitted expenditures for petty cash reimbursement. If District Management deems employee meals are an allowable expenditure for petty cash reimbursement, the District's Petty Cash Funds Operating Procedure should be changed.*

### **Petty Cash Replenishment Procedures.**

The Part-time Senior Cashier reimburses Petty Cash Vouchers submitted by District employees. She also prepares and submits the *Petty Cash Replenishment Request*. The *Petty Cash Replenishment Request* form, containing the detail of all Petty Cash Vouchers reimbursed, is given to the Registrar for review along with the vouchers and receipt documentation. The Registrar compares the vouchers and documentation to the *Petty Cash Replenishment Request* and signs the last page of the form as evidence of approval. The Registrar gives the *Petty Cash Replenishment Request* form, vouchers and receipt documentation back to the Part-time Senior Cashier to process with Accounts Payable. The Part-time Senior Cashier sends an electronic copy of the *Petty Cash Replenishment Request* form to Accounts Payable prior to physically taking the hard copy of the form, the vouchers and documentation to the Accounts Payable clerk. The Petty Cash Replenishment Request form could potentially be altered between the time that it is reviewed and signed by the Registrar and the submission to Accounts Payable.

*The Registrar should receive the electronic copy of the Request form from the Part-time Senior Cashier prior to his/her review of the form and the supporting documentation. After the review, the Registrar should email the electronic copy of the form directly to Accounts Payable.*

### **Control of Vouchers Processed but Not Submitted for Replenishment.**

Vouchers and receipts representing petty cash disbursements that have not been replenished are maintained on the desk of the Part-time Senior Cashier. A log is not maintained of the vouchers that have not been submitted to Accounts Payable for replenishment. If a voucher was lost or misplaced, the petty cash fund would be short with no documentation of whether the shortage is due to a missing voucher or missing cash. Further, employees do not sign for, or otherwise verify, that they have received the cash reimbursement.

*Vouchers and receipts that have not been submitted to Accounts Payable for replenishment should be maintained in the safe to prevent loss or misplacement. We also suggest that a log be maintained with the date, employee name, employee signature, and amount received, as proof the reimbursement was received by the employee and to ensure that if a voucher should become lost or misplaced, it can be traced. The log should be numbered and the number entered on the voucher for cross reference.*

## Change of Custody.

- **Verification of Amount Transferred.** The District *Petty Cash Funds Operating Procedures* require that when a petty cash fund is transferred to another custodian, the fund be counted at that time by the manager/administrator and the custodian relinquishing the fund and counted a second time by the manager/administrator in the presence of the new custodian. The Custodian Form is signed by both the new custodian and the manager/administrator and notes the date and the amount, however, the form does not confirm that the fund has been counted by the new custodian and the manager/administrator. In addition, the procedures do not require that the manager/administrator acknowledge the amount that he/she received from the custodian relinquishing the fund.

*The Custodian Form should stipulate that the fund be counted by the new custodian and the manager/administrator together and that a copy of a Petty Cash Count Form be attached to the Custodian Form sent to the District Controller's Office. A separate form should be developed to confirm the transfer of petty cash from the custodian relinquishing funds to the manager/administrator. This form should also be sent to the District Controller's Office along with a copy of a Petty Cash Count Form. Both forms should be described and referenced as exhibits in the District Petty Cash Operating Procedures.*

- **Custodian Form.** The Custodian Form for the new custodian includes the statement, "I understand that I am personally responsible for the dollar amount authorized in this fund". The Custodian of the Foothill Petty Cash/Change fund does not have authority to limit access to the fund and as noted in our finding below entitled Safeguarding, six employees have access to the fund.

*District Management should obtain a legal opinion on the wording of the acknowledgement statement in the Custodian Form.*

## Safeguarding.

The Petty Cash/Change Fund is kept in a safe. The safe contains two compartments with combination locks; the top safe and the bottom safe. Both compartments are kept locked at all times. The top safe contains ten change envelopes, with \$100 each, used as change funds for the cashiers in Admissions and Records and a cash box used to make change for cashiers during Admissions and Records Operating Hours and to make petty cash expense reimbursements. The cash box generally contains between \$1,000 and \$2,000 in currency and coins. Surplus change is kept in the bottom safe. This includes rolled coins and packets of \$1s, \$5s, \$10s and \$20s. The surplus change generally ranges between \$1,000 and \$2,000.

Six individuals have the combination to the top safe which contains the change envelopes and the cash box and four individuals have access to the bottom safe which contains the surplus change. Since numerous individuals have access to the Petty Cash/Change Fund, it is difficult, if not impossible, to establish responsibility for a shortage or misappropriation.

*The number of individuals with combinations to the safe should be reviewed to ensure that only those individuals who must have access for operational efficiency are authorized to have access. Since the safe is also used for Registration receipts, installation of a camera should be considered.*

*This recommendation is a repeat of a recommendation in our Performance Audit Report regarding the Foothill College Admissions and Records Office dated June 21, 2006.*

**Compliance Verification.**

Once the procedures have been modified, as deemed necessary, and approved, a selection of transactions to evaluate compliance with the procedures should occur on a regular basis.

*Vavrinek, Trine, Day & Co., LLP*

**Vavrinek, Trine, Day & Co., LLP**





April 21, 2011

Hector Quinonez, Controller  
Foothill - DeAnza Community College District  
12345 El Monte Road,  
Los Altos Hills, California 94022

Re: Foothill Athletic Field Rental, Event ticket sales, and Concession Operation Performance Audit

Dear Mr. Quinonez,

We were engaged to provide a performance audit of the Foothill athletic field rental, event ticket sales, and concession operations related to revenue control, cash handling, and related disbursement controls in accordance with our engagement letter of February 4, 2011. This is a follow-up to our performance audit of January 20, 2010.

Based on our preliminary work we recommend that the performance audit be delayed until the start of the 2011 football season. Football generates the most revenues from ticket and concession sales. We would not be able to determine the implementation of internal control procedures or their effectiveness without observing the controls during the games. Additionally, there has been a recent turnover of key management who are in the process of evaluating current procedures to determine if changes would be appropriate.

Please advise if you would prefer to reschedule the Performance audit until September 2011.

Regards,

A handwritten signature in black ink, appearing to read 'Thomas A. Brewer', with a stylized flourish at the end.

Thomas A. Brewer, Partner