

Recommendation 2:

“In order to meet the Standards, the team recommends that the District resolve comprehensively and in a timely manner the ongoing deficiencies identified in the 2013 and 2014 external audit findings (III.D.2.b, III.D.3.h).”

I. Introduction

Recommendation 2 addresses the need for the District to resolve ongoing audit findings/deficiencies identified in 1.) 2013, and, 2.) 2014.

II. Explanation of Audit Findings

The District has resolved all ongoing deficiencies identified in the 2013 and 2014 external audit findings.

Audit findings represent conditions that external auditors have determined involve specific deficiencies in internal controls. These deficiencies may result in material misstatements in the District’s Financial Statements and/or in certain reporting gaps that may result in non-compliance with the requirements of the funding source, usually Federal or State.

Audit findings are classified in terms of severity, either as a Material Weakness (most severe) or a Significant Deficiency (least severe). According to the District’s external auditing firm, *a material weakness in internal controls over compliance results in the reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal controls over compliance is less severe than a material weakness yet important enough to merit attention by those charged with governance* [DR2.1].

III. Number, Type, and Classification of Peralta Community College District Audit Findings

The table below illustrates an overview of the number, type, and classification of the Peralta Community College District audit findings reported over the past three years:

Type of Audit Finding	FY 2012-13 (2013)	FY 2013-14 (2014)	FY 2014-15 (2015)
Financial Accounting & Reporting	3	3	2
Single Audit Findings (Federal)	6	5	2
State Compliance Findings	5	2	0
General Obligation Bond Performance Findings	0	2	0
Total Audit Findings	14	12	4
Classification of Audit Finding			
Material Weakness	4	1	2
Significant Deficiency	10	9	2
Not Applicable (Bond Performance Findings)	0	2	0
Total Audit Findings	14	12	4

External auditors identified a total of fourteen findings in 2013 [DR2.2]; a total of twelve findings in 2014: the Annual Financial Audit (10 audit findings) and the Bond Audit findings (2 audit findings) [DR2.3 and DR2.4]. Furthermore, there were four audit findings in the Annual Financial Audit in 2015 [DR2.5]. District Recommendation 2 requires resolving *ongoing deficiencies*, referring to those deficiencies specifically noted as findings in both 2013 and 2014. Of the twelve 2014 findings noted, six were ongoing, having been noted in 2013 audits as well [DR2.6].

Each of the six ongoing deficiencies was classified by the external auditors as a “significant deficiency,” as opposed to the more severe “material weakness.” These six ongoing deficiencies have been resolved, evidenced primarily by the fact that they were

acknowledged as such by auditors in the District's 2015 Financial and Bond Audit Reports [\[DR2.7\]](#).

In the "Schedule of Findings and Questioned Costs" section of the District's 2015 Financial and Bond Audit Reports, there is a subsection entitled "Summary Schedule of Prior Audit Findings for the Year Ended June 30, 2015." As is standard practice, the auditors note the District's progress in having implemented corrective actions to mitigate deficiencies noted in the prior year audits, in this case in 2014.

In ten of the twelve prior audit findings, i.e., those reported in 2014, the auditors assessed the "Current Status" of each as "Implemented" [\[DR2.8, DR2.9\]](#). Here the auditors validated evidence that the District had implemented corrective actions which resolved these particular deficiencies. Consequently, there were no reported findings for those (corrected) deficiencies in the current year audit.

In two of the twelve prior audit findings, the auditors noted "Current Status" as "Partially Implemented" [\[DR2.10\]](#). The first of these two findings pertains to long-term fiscal planning with respect to OPEB and is addressed at length in the Response to District Recommendation 1, which delineates how this finding has been resolved. (See also Recommendation 1).

In the second finding, the District implemented corrective actions necessary to resolve the deficiency halfway through the fiscal year. So, while sample testing in the first half of the year resulted in examples of non-compliance, samples in the latter half demonstrated compliance. The auditors state this fact clearly: "While it was noted that the District did implement a new process during the Spring (2015) semester, thereby addressing the issue, several instances of noncompliance were noted during the Fall (2014) semester. The District should continue to monitor the procedures surrounding the COD reporting at all Colleges to ensure continued compliance" [\[DR2.11\]](#).

To summarize, all twelve 2014 findings have been resolved, to include the six ongoing deficiencies from 2013 and 2014.

IV. Summary of the Resolution of Ongoing Deficiencies

The District tracks its progress in resolving audit findings on its Corrective Action Matrix [DR2.12]. This dynamic document is adapted regularly to reflect progress in correcting gaps in District business processes, reporting processes, etc., that may result in inadequate internal controls. In addition to monitoring progress, the Corrective Action Matrix also enhances accountability and responsibility by assigning the implementation of corrective actions to specific District managers.

Below is a summary of the six ongoing deficiencies taken from the Corrective Action Matrix:

2014-002: Reporting- Common Origination and Disbursement (COD)

Condition (1): Disbursements were not being reported within the 30-day requirement.

Resolution: A cross-functional team consisting of Finance, Financial Aid, and IT developed a file transfer submittal process to ensure compliance with Federal requirements. Instructions and training have been disseminated to the Colleges and the District's Financial Aid Policy & Procedures Manual has been updated to reflect this new process [DR2.13]. Additionally, Merritt College's data were resubmitted [DR2.14 and DR2.15].

Status: Resolved.

2014-003: Special Tests and Provisions – Return to Title IV

Condition (2): Identification/ calculations of Pell Grant returns were not being completed.

Resolution: Corrective actions have been implemented at the Colleges to ensure R2T4 calculations are performed and that funds are returned as applicable in a timely manner. The District's Financial Aid Policies and Procedures Manual has been updated to reflect these revised procedures [DR2.16] and training was provided to all Colleges [DR2.17]. The District's Financial Aid team meets monthly with the Colleges to offer continued support and ensure compliance [DR2.18]. Furthermore, key vacancies in the Financial Aid departments at the two Colleges cited have been filled as of November 2015 [DR2.19].

Status: Resolved

2014-004: Special Tests and Provisions – Direct Loan Reconciliations

Condition (3): Loan records, data files and College records were not reconciled monthly.

Resolution: The District has implemented policies and procedures to verify that the School Account Statement (SAS) data file and the Loan Detail records included in the DOE's Common Origination and Disbursement (COD) system are reconciled with the District's financial records regularly. The District has provided training for College Financial Aid Office personnel and management to more efficiently perform the COD reconciliation process [DR2.20, DR2.21, and DR2.22].

Status: Resolved

2014-006: Equipment Management

Condition (4): Lack of tagging and protecting of assets purchased with Federal funds.

Resolution: Administrative procedures have been developed by the Purchasing Department, reviewed by the Internal Auditor, endorsed by the Planning and Budgeting Council and approved by the Chancellor to ensure appropriate controls over the safeguarding of assets and the recording of equipment inventory. Training was provided to the storekeepers and Business Directors at each College [DR2.23, DR2.24, and DR2.25]. In addition, the Purchasing Department has implemented quarterly audits at the Colleges and District Office to ensure compliance [DR2.26].

Status: Resolved

2014-007: Time and Effort Reporting

Condition (5): Time Certifications for employees working within Federal programs were not completed and/or submitted in a timely manner.

Resolution: The District Grants Coordinator has established a Compliance Assurance Program (CAP) that includes site training in time and effort reporting, as well as regular communications to responsible College management. The District Grants Manual has been updated and distributed. A new Grants Administration Team (GAT), consisting of representation from the Colleges, Ed Services, Finance, and Student Services, has been formed and meets monthly to monitor grant compliance. Members visit the Colleges periodically to check on status of time and effort certifications and to provide additional training as needed [[DR2.27](#), [DR2.28](#), [DR2.29](#), [DR2.30](#), [DR2.31](#), [DR2.32](#)].

Status: Resolved

2014-009: Residency Determination for Credit Courses

Condition (6): Lack of thorough residency verification process performed at Colleges.

Resolution: Implementation of the following procedures: a query identifying students whose residency changed from their applications was created to generate a list that is provided to each College so each can conduct self-audits. Colleges verify the residency change and ensure that proper documentation was collected and that comments were entered into the system. The District requires that each College submit documentation of any changes to the District for record keeping. The District's Admissions & Records Team held compliance-training sessions for each of the Colleges and continues to provide ongoing support [[DR2.33](#), [DR2.34](#)].

Status: Resolved

V. Audit Resolution Work Team

In December 2014, the District convened an emergency meeting of Finance, Ed Services, IT, and Student Services personnel to address audit findings related to Financial Aid reporting and other deficiencies [DR2.35]. This group met and then reconvened as the Audit Resolution Work Team the following month (January 2015) when it began its cross functional collaboration of reviewing business processes, identifying root causes of process shortcomings, and developing sustainable solutions to these from a “ground level” perspective [DR2.36]. This group met as needed, throughout the year, and continues to meet, in order to address fiscal and reporting challenges identified by or submitted to the team [DR2.37 and DR2.38].

At the October 20, 2015, Board of Trustees meeting the newly-appointed Vice Chancellor for Finance and Administration presented a user-friendly version of the Corrective Action Matrix to report on the work of the Work Team and, more generally, on the District’s progress in resolving its 2014 audit findings [DR2.39 and DR2.40]. The presentation included a Corrective Action Plan Summary, as well as progress slides on the twelve audit findings, that is, the six ongoing deficiencies and the six non-recurrent findings.

Each slide detailed the Corrective Action required; the Status to date of developing and implementing the action; the Evidence for such action; and the Responsible/point person for the continued monitoring of the action. Below is an example of one slide representing audit finding Number 002.

**PERALTA COMMUNITY COLLEGE DISTRICT
CORRECTIVE ACTION PLAN 2014-15
2014-002 Common Origination & Disbursement**

<p>Corrective Action</p>	<ul style="list-style-type: none"> • Implement procedures to ensure student data is reported on a timely basis to the U.S. Department of Education's Common Origination & Disbursement (COD) website within the required 30 days. (Repeat finding for Merritt College) • Accreditation District Recommendation #2 (Standard III.D.2.b, III.D.3.h)
<p>Responsibility/Point</p>	<ul style="list-style-type: none"> • Responsible: College President; Associate Vice Chancellor of Student Services; Associate Vice Chancellor of Information Technology • Point: Financial Aid Director
<p>Status</p>	<ul style="list-style-type: none"> • Under the supervision and guidance of the District Financial Aid Director, reports are now transmitted to the Federal Department of Education on a timely basis • To ensure compliance with Federal reporting deadlines, a file transfer submission process & instructions have been developed & disseminated to the Colleges • The District's Policy & Procedures Manual for Financial Aid has been updated
<p>Evidence of Correction</p>	<ul style="list-style-type: none"> • 2014 Peralta Community College District Financial Aid Policies and Procedures Manual • Merritt College Transmission Activity Log

In November 2015, the Audit Resolution Work Team presented a Status Summary Report to District Management recounting their collaborative accomplishments over the past calendar year [DR2.41]. In the conclusion to the Report, the group recommended ongoing staff, faculty, and management training – with associated documentation—to ensure continued compliance. Additionally, the District’s Internal Auditor has been working closely with other District management to schedule regular, relevant training sessions [DR2.42].

VI. Continual Improvement

A significant cause of the historical internal control deficiencies at the District has been turnover in leadership in the District's Office of Finance and Administration. Over the past five years, for example, the District has employed three Vice Chancellors for Finance and Administration. Lack of consistent and permanent leadership in this area has challenged the District's ability to effectively develop and implement sustainable business process improvements.

In addition, the Office of Finance and Administration has lacked appropriate staffing to ensure a concerted and consistent focus on internal controls and operational business processes. Under the leadership of the current Vice Chancellor for Finance and Administration, who was hired in August 2015, the Office of Finance and Administration has reworked its organizational structure to include two new critical positions: a Senior Accountant and a Payroll Manager [DR2.43]. Each of these positions will provide additional support and guidance to the Colleges, as well as to provide for enhanced internal controls through monitoring and continued improvement.

The District's commitment to strengthening its internal controls and enhancing its business processes is evidenced by the marked decrease of audit findings over the past three years. Given the work of the Audit Resolution Work Team and other collaborative District efforts, the District has reduced completely its number of findings: the four findings noted in 2015 (See also DR2.2; DR2.3; DR2.4) the fourteen findings noted in 2013, and the twelve findings noted in 2014.

The District is confident that the number of recurrent audit findings will be minimal. As the Audit Resolution Work Team and other cross-functional groups—such as the Grants Administration Team—continue their collaborative efforts, District operations and compliance mechanisms are only strengthened. The re-organization of the Finance

Division, and the stability of its leadership, will provide the requisite resources to support this crucial work of audit reform.

VII. Conclusion

The District has resolved all ongoing deficiencies identified in the 2013 and 2014 external audits and meets the Standards (III.D.2.b, III.D.3.h).

Now that the ongoing deficiencies have been resolved, and the non-recurrent audit functions that are considered key to its operational efficiency, fiscal integrity, and educational services delivery capacity have been addressed, the District is focusing its attention on other business processes identified as needing improvement, e.g., debt issuance/management and purchasing/contracting processes, thereby ensuring a model for continued improvement as The District strives to exceed ACCJC Standards. The Planning and Budgeting Council (PBC) shared governance body provides a forum for ongoing discussion and evaluation [DR2.44].

RECOMMENDATION 2: DISTRICT RESPONSES	
Evidence	Title of Evidence Document
DR2.1	PCCD Annual Financial Report June 30, 2015 (excerpt): Auditor’s Definition of Types of Control Deficiencies, page 85
DR2.2	PCCD Annual Financial Report June 30, 2013 (excerpt), pages 70-100 total 14 findings
DR2.3	PCCD Annual Financial Report June 30 2014 (excerpt) pages 95-111, 10 findings
DR2.4	PCCD Measure A General Obligation Bonds Election 2006 Audit Report June 30, 2014 findings
DR2.5	PCCD Annual Financial Report June 30, 2015 (excerpt) pages 94-99 (4) findings
DR2.6	PCCD Annual Financial Report June 30, 2014 (excerpt) pages 100-106, (6) ongoing findings
DR2.7	PCCD Annual Financial Report June 30, 2015 (excerpt) pages 103-111, (6) ongoing findings resolved
DR2.8	PCCD District Annual Financial Report June 30, 2015 (excerpt) pages 103-111, (8) ongoing findings resolved
DR2.9	PCCD Measure A General Obligation Bonds Election 2006 Audit Report June 30, 2015 pages 6-7, Status FY2014 (2) findings resolved

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Evidence	Title of Evidence Document
DR2.10	PCCD Annual Financial Report June 30, 2015 (excerpt) pages 101-103, (2) findings partially resolved
DR2.11	PCCD District Annual Financial Report June 30, 2015 (excerpt) page 103, COD finding partially resolved
DR2.12	PCCD Corrective Action Matrix 2014-15 Audit Updated July 27, 2016
DR2.13	PCCD Financial Aid Policy and Procedures Manual, pages 1-73
DR2.14	Merritt Transmission Activity Log- Part 1
DR2.15	Merritt Transmission Activity Log - Part 2
DR2.16	Peralta Community College District Financial Aid Policy and Procedures Manual, pages 1-73
DR2.17	PCCD District Financial Aid Training Schedule
DR2.18	PCCD Financial Aid Supervisors Meeting Minutes
DR2.19	PCCD Financial Aid Supervisor Job Description
DR2.20	PCCD Direct Loan Reconciliation Procedures
DR2.21	Laney Direct Loan Reconciliation
DR2.22	Merritt Direct Loan Reconciliation
DR2.23	District Fixed Asset Training Presentation Material
DR2.24	College Federal Asset Tag Training Session Notice
DR2.25	Revised AP 6551 Inventory of Property and Equipment Maintenance
DR2.26	Example of Email Notification of Equipment Inventory Audit
DR2.27	Compliance Assurance Program (CAP) for Grant Management
DR2.28	PCCD Revised Draft Grant Manual
DR2.29	Grants Administration Team Organization Chart and Charter
DR2.30	Revised Time and Effort Certification Form
DR2.31	Grants Training Schedule for Colleges
DR2.32	Sample Notification to College of Time and Effort Certification Follow-up Monitoring and Training
DR2.33	A&R Training Meeting Agenda July 10, 2014
DR2.34	A&R Training Meeting Agenda July 7, 2015
DR2.35	PCCD Emergency Financial Aid Meeting Minutes Dec. 19, 2014
DR2.36	Audit Resolution Meeting Minutes Jan. 23, 2015
DR2.37	Audit Resolution Meeting Minutes Apr. 12, 2016
DR2.38	Links to Audit Resolution Workgroup Meeting Minutes
DR2.39	Board Document Audit Resolution Progress Oct. 20, 2015
DR2.40	Corrective Action Plan 2014-15 Board Presentation Oct. 20, 2015
DR2.41	Audit Resolution Work Group Team Minutes, Feb. 23, 2016
DR2.42	Grants Training Schedule for College Grant Administration
DR2.43	District Organization Charts, Sept. 2016
DR2.44	PBC Meeting Minutes Apr. 29, 2016