

Coast Community College District
ADMINISTRATIVE PROCEDURE
Chapter 6 Business and Fiscal Affairs

AP 6400 Audits

References:

Education Code Sections 84040(b), 84040.5, and 81644
Title 5 Sections 59100 through 59116
BP/AP 7700 Whistleblower Protection

External Audits

External auditing is an outside, independent activity conducted by a qualified, third party auditor, which provides an opinion on the District's financial statements, related processes, and procedures, and other activities under the auditor's purview, including the specifications within the State Contract District Audit Manual (CDAM).

The external audit firm shall be licensed by the California State Board of Accountancy, to perform an annual outside audit of all funds, financial records, and accounts of the District. An independent and objective assessment that provides assurance to the Board that the external auditor is free from conflicts of interest and scope limitations shall be performed. At a minimum, the assessment should describe the extent to which the external vendor has a(n):

- Financial interest in the District.
- Affiliation with the Board, senior management, or others within the District.
- Relationship with the District or the activities being reviewed or audited.
- Existing or potential for ongoing services that may be provided to the District.

If potential impairments are identified, the Chancellor, or designee, in collaboration with the Chief Audit Executive (CAE), shall implement solutions to mitigate the risks associated with barriers to independence and objectivity.

An auditing firm's contract shall be for a period of not to exceed three years, with an option to extend for up to two additional years, for a total not to exceed a period of five years. The external audit shall be performed in accordance with laws, regulations, Board Policies and Administrative Procedures, auditing standards, and the CDAM. It shall identify expenditures by source of funds and shall contain:

- A statement that the audit was conducted pursuant to standards and procedures developed in accordance with Education Code Section 84040.5, and
- A summary of audit exceptions and management recommendations.

Final audit reports for the preceding fiscal year must be accepted by the Board no later than the last scheduled Board Meeting in November. In accordance with the CDAM, the external audit firm must submit the final audit report to the California Community Colleges Chancellor's Office by December 31.

District Office Fiscal Services coordinates audits with the selected external auditor and ensures status updates are provided to District management and the Board as needed. The District Internal Audit Department (Department) may provide logistical support as needed. District Office Fiscal Services retains all external audit reports and management letters and ensures final audit reports are posted on the District's website.

Internal Audits

Internal auditing is an independent and objective assurance and consulting activity designed to add value and improve the District's operations. It helps the District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the District's programs and operations and internal controls.

The Chancellor appoints a Director, in accordance with District hiring policies and procedures, who serves as the Chief Audit Executive (CAE) and manages the daily operations of the department. The Internal Audit Charter (Charter) defines the internal audit function. The CAE periodically assesses the Charter to ensure it continues to enable the Department to accomplish its objectives.

INTERNAL AUDIT DEPARTMENT CHARTER

Mission

To provide value-added audit, advisory, and investigative services in an independent, ethical, and collaborative environment. Examples of key goals include:

- Contributing to the improvement of management, operations and internal control processes.
- Promoting continuous improvement and operational effectiveness and efficiency.
- Enhancing understanding of risk, fraud risk, internal control, ethics, and values.
- Partnering with management to analyze current and emerging risks and design controls to mitigate those risks.
- Fostering communication between District offices and campuses, including the sharing of best practices and model policies.

Authority

Employees are requested to assist the Department in fulfilling its roles and responsibilities. Employees assure that any information provided to the Department is true and correct based upon their best knowledge. Documents and information given to the Department will be safeguarded and held under strict accountability for confidentiality. The Department has a responsibility to observe and make disclosures pursuant to the applicable laws and regulations. Any act of non-compliance or withholding of information may be considered an audit scope limitation, and the CAE may disclose such activity in the engagement report and/or directly to the Chancellor and the Board.

Organization

The Department's policies and procedures, budget, and annual audit plan are reviewed and accepted by management and ratified by the Board. The Chancellor and the Board will receive updates regarding Department activities, and ensure that the Department is included in closed session and board meetings, as allowed under the Brown Act, as related to the activities and services provided by the Department.

Independence and Objectivity

Department staff will remain free from interference by an event or person in the District, including matters of audit selection, scope, procedures, frequency, timing or report content. In instances where independence and objectivity may be compromised, the CAE should disclose such impairment to the Chancellor and may administratively report to the next-highest-ranking executive employee for which such compromise is mitigated.

The Department does not prepare the financial statements, tax records, or any other material of the District. The CAE will confirm to the Chancellor and the Board at least annually, the organizational independence of the Department.

Department staff maintains professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, and make balanced assessments of all the relevant circumstances. They are not unduly influenced by their own interests or by others in forming judgments. An annual written statement is maintained by the Department, documenting staff's acknowledgement of independence, compliance with standards, and adherence to the Institute of Internal Auditors' (IIA's) Code of Ethics.

Scope and Responsibility

Assurance and Audit Services: An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Consulting and Advisory Services: Advisory service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Follow Up Reviews: A review of selected prior audits and/or specific recommendations made by internal and external auditors to determine the extent to which action plans as agreed to by management were implemented.

Occasions may arise where the Department does not possess the subject matter expertise or personnel resources necessary to provide services. In these instances, the CAE may pursue a third-party professional expert. Contract management and oversight of third parties engaged to perform any audit and/or investigative work is the responsibility of the Department, in order to preserve independence and objectivity.

Investigation of Allegations

The Department is the independent, objective investigating body of the District and conducts investigations into allegations of fraud, waste, and abuse, unless otherwise directed by the Chancellor or the Board. In the case of fraud, waste, and abuse, auditors must apply judgement. Fraud is the intentional act to deceive for personal gain. Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Abuse includes the misuse of authority or position for personal financial interests.

The CAE manages a reporting system for allegations related to alleged fraud, waste, and abuse. Anonymous reports will be investigated to the extent possible, and individuals contacted and/or interviewed during the course of an investigation shall be advised of the District's no-retaliation policy as referenced in Board Policy and Administrative Procedures 7700.

In the event a person makes a report as described in the District's Whistleblower Board Policy and Administrative Procedure (BP/AP 7700), the receiving supervisor or responsible administrator shall notify the CAE so that an investigation may be initiated in a timely manner. Allegations may be reported to an immediate supervisor, or if the allegation involves an immediate supervisor, a responsible administrator at the campus and/or District Office. Allegations may also be reported directly to Internal Audit. Depending on the nature of the allegation, the investigation may be referred to a campus or other department within the District at the CAE's discretion in collaboration with the Chancellor. Allegations received by the CAE will be documented and the Chancellor will be notified.

Investigations are performed under the direction of General Counsel. Any memos, reports, or other investigative documents shall be directed to General Counsel, the Chancellor, and District management as appropriate. The CAE, in collaboration and consultation with the Chancellor, is responsible for ensuring that a prompt and complete investigation is made by an individual with the competence and objectivity to conduct the work. When an allegation is substantiated by independent review, the Chancellor and/or the CAE shall notify appropriate District management and the Board.

If an investigation determines that the allegations are substantiated, District management is responsible for implementing corrective action, which may include contacting external authorities. Any persons impeding an investigation will be reported to the appropriate administrator for prompt remedial action.

Reporting Accountabilities and Quality Assurance

The CAE submits an annual, risk-based audit plan to the Chancellor for review and to the Board for ratification. The plan will report a list of the Department's activities for the fiscal year, budget and resources, and any significant resource limitations. Any deviations to the plan shall be based upon changes in the risk environment and reported to the Chancellor and the Board.

The CAE prepares and distributes written reports following the conclusion of each project to those in management charged with oversight of programs and operations as appropriate. Recommendations should be included in the written report. Management of the activity under review will respond to the written report within 14 business days. The response includes what actions were taken or will be taken by management to implement the recommendation, as well as a timetable for when such actions will be completed. A copy of the full final report will be forwarded to the Chancellor and the Board.

The Department will maintain a quality assurance program that assures compliance with auditing standards and adherence to the Code of Ethics as promulgated by the Institute of Internal Auditors. The program may employ a less formal method for evaluating performance but still assesses the efficiency and effectiveness of the internal audit activity. Any internal and external assessments shall be communicated to the Chancellor and the Board, and will be conducted at a period recommended by audit standards and industry best practices.

Ratified December 11, 2013

Ratified August 19, 2015

Ratified November 6, 2019