



COAST COMMUNITY
COLLEGE DISTRICT

Follow Up Audit on OCC Swap Meet Investigation

Office of Internal Audit

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ethical, and collaborative environment*

Follow Up Audit on OCC Swap Meet Investigation

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Chancellor Weispfenning,

The Office of Internal Audit conducted Follow-Up Audit engagement related to the OCC Swap Meet Investigation that took place during Calendar Year 2015. The objectives were to determine the extent to which recommendations were implemented.

To accomplish this task, we performed the following work:

- Reviewed relevant criteria;
- Interviewed relevant stakeholders;
- Analyzed relevant documentation and information systems; and
- Assessed risk and controls, including the potential for fraud, waste, and abuse.

As a result, we determined that 14 of the 18 (78%) of the recommendations were either fully or substantially implemented. According to OCC Swap Meet management, those recommendations that are not fully implemented are awaiting the results of testing out new procedures to ensure they are functioning the way intended and achieving the desired results, or waiting for input and assistance from Human Resources.

In pursuit of continuous improvement, we made recommendations geared toward ensuring recommendations are implemented. A summary of the results is located on page 9 of the report. If you have any questions, I can be contacted at (714) 438-4602 or rsnell1@mail.cccd.edu.

Rachel Snell, MPA, Director

Objective, Scope, and Methodology

Internal Audit performed this project as listed in the FY 2016-2017 Annual Strategic Work Plan.

As per Board Policy, Internal Audit uses the International Professional Practices Framework (IPPF) to guide the performance of its activities. For this project, no independence or objectivity issues were noted amongst the team members.

Objectives:

- To determine the extent to which recommendations were implemented as a result of the investigation conducted at the OCC Swap Meet during Calendar Year 2015. (Report Issued: July 2015)

Scope:

- Information gathered was limited to determining the implementation status of the recommendations and improvement in internal controls. Any new policies and procedures implemented were reviewed and Internal Audit provided advisory services independent of this follow up audit.

Methodology:

In order to perform our work, we performed the following tasks:

- Reviewed relevant criteria;
- Conducted interviews with relevant stakeholders;
- Analyzed relevant documentation and information systems;
- Assessed risk and controls, including the potential for fraud, waste, and abuse.

We also used the following definitions in order to make determinations as to the implementation status of recommendations:

- **Fully Implemented:** Successful development and use of a process, system, or policy to implement a prior recommendation.
- **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- **Incomplete/Ongoing:** Ongoing development of a process, system, or policy to address a prior recommendation.
- **Not Implemented:** No formal process, system, or policy to address a prior recommendation.

Team Members:

- Rachel Snell, Director
- Kathy DeSalvo, Team Member

Background

The Enterprise Corporation (Enterprise) is an auxiliary organization of the Coast Community College District (District). It is governed by a Board of Directors and operates weekend Swap Meets at Orange Coast College (OCC) and Golden West College (GWC). In Fiscal Year 2015-16, Swap Meet operations for both colleges generated over \$2.5 million in net revenue. The District Foundation receives 1.5% of gross Swap Meet revenue, and the Enterprise reimburses District departments for personnel time dedicated to Swap Meet Operations.

Revenue is primarily generated from Swap Meet space rentals. At OCC, there are 798 spaces available for rent. Vendors may purchase up to four spaces for their booth. Monthly vendors sell on both Saturday and Sunday, and they sign an annual contract for their assigned space. Daily vendors sell on either Saturday or Sunday, but do not always have the same assigned space each instance they sell. Spaces must be purchased prior to granting the vendor access to enter and unload goods. Saturday spaces at the OCC Swap Meet do not always sell out, whereas Sunday spaces typically sell out. Vendors that show up “at-the-door” participate in a lottery process where they select their space for the day. Spaces are rented to vendors selling goods, not services, with special priority given to those vendors selling used merchandise. Customers of the OCC Swap Meet are not charged a parking or entrance fee.

In July 2015, Internal Audit issued an Investigation Report, which resulted in the termination of an OCC part-time hourly employee. The former employee confessed to taking money from vendors in exchange for access to preferred vendor spaces and access to preferred lottery numbers prior to the Sunday lottery. This employee also confessed to withdrawing cash advances on a personal credit card, loaning the money to vendors, and adding interest rates to the principal amount in hopes of making additional money off vendors.

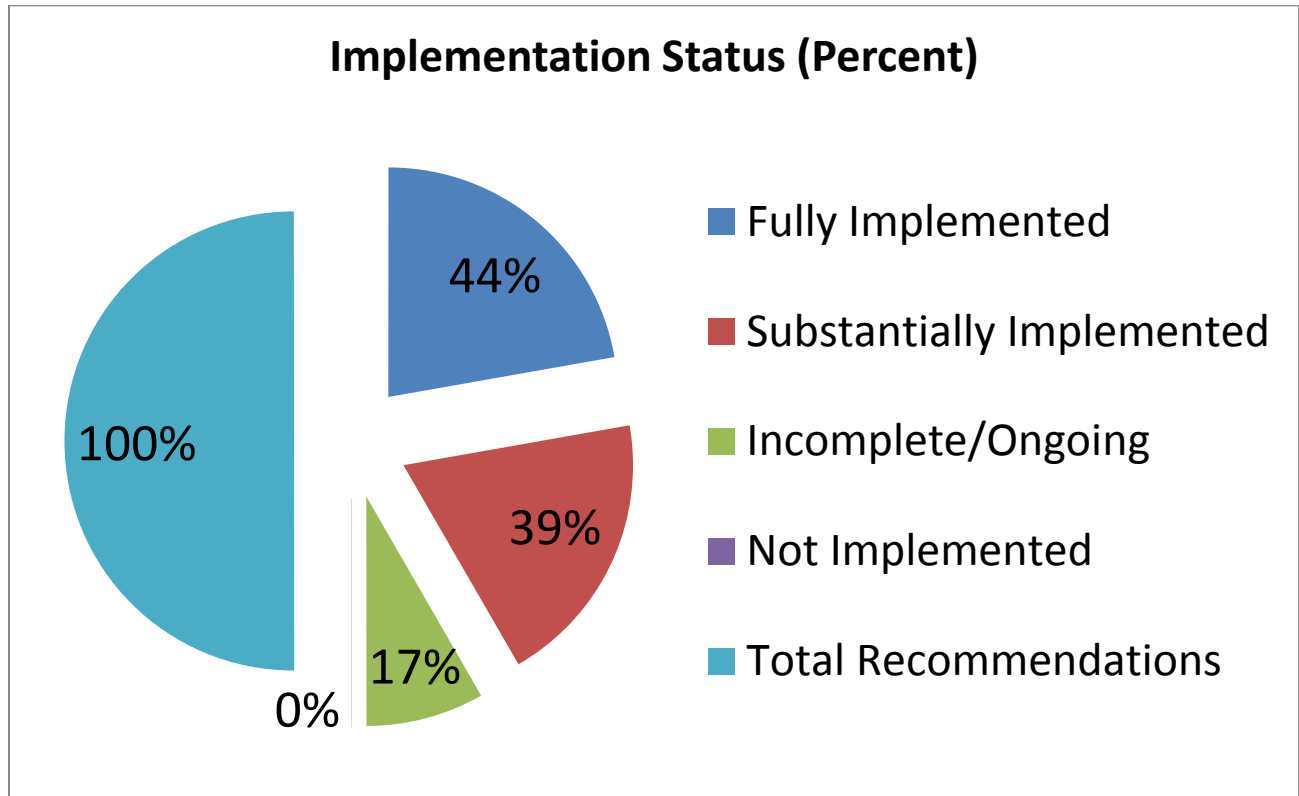
As a result, OCC Enterprise management representatives placed its Swap Meet activities under a new position – Director of College and Community Support. There is a Swap Meet Manager position, three hourly employees that serve in a lead capacity (Swap Meet Supervisors), as well as 20 hourly employees. Lastly, there are two compliance officers that report to OCC Campus Safety who assist with the verification of vendor compliance with OCC Swap Meet contract terms and conditions.

Criteria

The Director of College and Community Support is currently enhancing Swap Meet policies, procedures, and operations. Items under review include a Vendor Manual and a new Monthly Vendor Selection Process and Procedures. The Director is also developing a Swap Meet Department policies and procedures manual that will be used as a guide for Swap Meet staff to understand department expectations and processes. It is anticipated that OCC Swap Meet management will complete this work by February 2016.

Audit Engagement Results

Internal Audit reviewed all recommendations from the original investigation report issued in July 2015. While there were a total of four “global recommendations,” the recommendations were broken down into specific components for improving internal controls. Internal Audit evaluated 18 specific components. The chart below shows the implementation status of recommendations as a percentage of the total number of recommendations. It should be noted that none of the recommendations were found to be “not implemented.”



Out of the nine components associated with the first recommendation, there are three that are fully implemented, three substantially implemented, and three that are incomplete/ongoing. For the six components associated with the second recommendation, we found that four are fully implemented and two are substantially implemented. Lastly, for the three components associated with the third recommendation, we found that one is fully implemented, and two are substantially implemented. Since many of the processes were recently implemented or in progress, Internal Audit is unable to determine the extent to which the risks identified from the original report have been or will be mitigated. However, through enforcement of policies and procedures, modeling ethical behavior, and employee and vendor training and outreach, management has an opportunity to change the culture at the OCC Swap Meet over time and mitigate the risks identified in the original report.

Recommendations and Implementation Status

FINDING 1 RECOMMENDATION 1.1

OCC Swap Meet management made organizational and operational changes in order to improve and change the ethical culture at the Swap Meet. The new Director created vendor procedure manuals and a department policies and procedures guide, to include detailed information on processes, procedures, ethics, and accountability for non-compliance. OCC Swap Meet management worked with Internal Audit to obtain best practice information for mitigating risks and improving processes; however formalized final updates are still in progress. Management stated that monthly staff meetings were instituted in order to provide regular updates to staff and reinforce campus and district ethical expectations. In addition, management stated that annual training on the employee manual was also instituted at which a more in-depth training takes place and acknowledgment forms are signed. The ethics survey remains outstanding, but Swap Meet management stated assistance was requested from Human Resources in May 2016. OCC is also waiting for assistance from Human Resources in training staff on the District's Whistleblower policy.

Finding 1	Recommendation 1.1	Management Action Plan and Due Date	Implementation Status
Limitations in the control environment at the OCC Swap Meet created an atmosphere where a) Staff and vendors were afraid to report potential wrongdoing, and b) there was a perception that management was unwilling to take action on concerns related to Swap Meet staff.	Enterprise Management should improve the control environment and risk identification process to increase assurance that ethical expectations are communicated to subordinates and operational risks are identified and mitigated. This includes, but is not limited to: <ul style="list-style-type: none"> a. Providing ethics training for Enterprise management, staff, and vendors; b. Developing and communicating an Enterprise Ethics policy, applicable to Enterprise employees and vendors, and consistent with that of the District's Ethics policy; c. Conducting an ethics survey that includes vendors, Enterprise employees, and departments that have a role in Swap Meet operations; d. Reporting the results of the ethics survey to and obtaining approval of the Ethics policy from the Enterprise Board; e. Clarifying policies and training staff in expectations related staff purchases from vendors; f. Training staff in and enforcing the District's Whistleblower policy; g. Conducting a periodic risk assessment of Swap Meet operations and implementing mitigating controls for the risks identified. 	Overall, we concur with the recommendation and: Request Human Resources to assist in providing ethics training to Swap Meet vendors, management, and staff. We will develop an ethics policy and ensure all employees, including new hires upon employment, and vendors acknowledge the ethics policy upon space rental. Lastly, we will attempt to incorporate an ethics survey as part of the training, analyze results, and take appropriate action as necessary. We intend to review Swap Meet procedures and make any changes deemed necessary to address the concerns identified. In this process we will evaluate the potential for periodic risk assessments and continuous improvement either by partnering with the District's Internal Auditor or by contracting with the External Auditor. Responsible Party: Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation. Due Date: November 2015.	<ul style="list-style-type: none"> a. Fully Implemented b. Fully implemented c. Incomplete/Ongoing d. Incomplete/Ongoing e. Fully implemented f. Incomplete/Ongoing g. Substantially Implemented

FINDING 1 RECOMMENDATION 1.2

According to OCC Swap Meet management, a toll free phone line was created to report issues and concerns, which was communicated via monthly billing statements to permanent vendors and via handouts at the Bursar's Office. This phone line is still in the testing stage, but upon completion, Swap Meet management stated that the voicemail box will be accessible to Internal Audit. Internet users may also report an issue anonymously via the Swap Meet website at:

http://www.orangecoastcollege.edu/about_occ/swap-meet/Pages/default.aspx. While this link is also in its testing phase, OCC management stated that any completed forms will automatically route to Internal Audit. Management stated that it anticipates full implementation will occur in January 2017.

Finding 1	Recommendation 1.2	Management Action Plan and Due Date	Implementation Status
Limitations in the control environment at the OCC Swap Meet created an atmosphere where a) Staff and vendors were afraid to report potential wrongdoing, and b) there was a perception that management was unwilling to take action on concerns related to Swap Meet staff.	The District and the Enterprise should work together to: a. establish an anonymous hotline for reporting wrongdoing, and b. communicate its support for encouraging reports of potential allegations and the investigative process.	We concur with the recommendation. The District Board of Trustees is considering changes to Board Policy and Administrative Procedure 6400, which includes provisions for establishing an anonymous reporting mechanism. Once approved by the Board of Trustees and established by the District, the Enterprise Corporation will determine the extent to which the mechanism meets its needs and will either utilize that system or establish its own. Once a reporting mechanism is established, we will educate employees and vendors on procedures for reporting allegations of wrongdoing. Responsible Party: Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation. Due Date: November 2015.	a. Substantially implemented b. Substantially implemented

FINDING 2 RECOMMENDATION 2

According to OCC Swap Meet management, new policies and procedures within the Vendor Manual and Department Policies and Procedures Manual reinforce that all cash handling is performed by fiscal staff in the Bursar's office. OCC Swap Meet management stated that Swap Meet staff and vendors were notified that all spaces must be purchased prior to entry into the Swap Meet, and staff is required to enforce these procedures. These expectations were communicated at staff and vendor meetings, respectively. For vendors, the Contract and the Swap Meet Guidelines handout was reviewed for accuracy, and a signature line was added to the "Guidelines" sheet to confirm vendors received and understood the guidelines. While both vendor and department manuals are used in practice, the documents are still undergoing department review and updates. To date there is some information recommended below that has yet to be incorporated into the respective manual. Traffic flow protocols are mentioned in the Department policies and procedures; however, there is no process documented for waiving of parking fees.

Finding 2	Recommendation 2	Management Action Plan and Due Date	Implementation Status
Weaknesses in the control activities at the OCC Swap Meet created an environment where key operations were susceptible to wrongdoing.	<p>Enterprise management should review its current operational structure and implement improvements to mitigate the risk of wrongdoing as noted in this report. This includes, but not limited to:</p> <ul style="list-style-type: none"> a. Segregating cash handling and compliance enforcement duties. b. Ensuring all vendors, including daily vendors, pay for Swap Meet spaces at the Bursars Office in advance of entry. c. Updating and clarifying Swap Meet policies and procedures, including protocols related to permanent vendor status, verification of Driver's Licenses and other required permits and documents, compliance reporting and enforcement processes, use of cell phones, on-employees in the workplace, nepotism, and secondary employment/recruiting business for secondary employment. d. Strengthening lottery process to improve how lottery numbers are created, drawn, and verified for accuracy prior to executing the lottery. e. Reviewing traffic flow protocols and process for waiving preferred parking fees. f. Evaluate roles and responsibilities of staff positions and ensure consistency and accountability. 	<p>Management concurs with the recommendation and will review its operations to make the necessary improvements to its practices. In addition, once the operational review is complete, Swap Meet policies and procedures will be updated to reflect management expectations, and employees will be trained and held accountable for complying with the policies, as well as their job duties.</p> <p>Responsible Party: Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation. Due Date: December 2015.</p>	<ul style="list-style-type: none"> a. Fully implemented b. Fully implemented c. Substantially implemented d. Fully implemented e. Substantially implemented f. Fully implemented

In order to address concerns related to the lottery process, new lottery procedures were documented and communicated to staff and vendors. OCC Swap Meet management instituted a random number assignment for lottery using a phone application that can be used on Smart Phones. In response to the potential cash theft or unequal vendor treatment associated with "Preferred Parking," management stated that it instituted advance billing, where monthly vendors receive and pay for parking permits with monthly billing invoices. If a daily vendor needs additional parking, a \$15 permit must be purchased in the Bursar's Office. According to management, the Swap Meet Compliance Officers routinely check the parking lot to ensure vehicles have the required permit. Lastly, employee roles and responsibilities were evaluated in January 2016 as the new Director started the position and the Swap Meet Supervisor position was replaced. Expectations for each role are listed in the employee manual, and management stated staff was trained on expectations.

FINDING 3 RECOMMENDATION 3

In December 2015, OCC Swap Meet management implemented monthly staff meetings and weekly management meetings. According to management, these meetings greatly increased staff involvement in the visioning and operation of the Swap Meet. Management meetings include the Bursar's Office, Campus Safety, Swap Meet, and Facilities personnel. Management reported that there has been a shift at the OCC Swap Meet to highlight inclusivity, staff involvement, and pride in not only the work but also the workplace. The new Director also instituted an employee recognition program whereas employee of the month ceremonies are incorporated into the monthly staff meetings. OCC Swap Meet management is still working on evaluating compliance reports and trends from the Compliance Officers as part of its oversight activities.

Finding 3	Recommendation 3	Management Action Plan and Due Date	Implementation Status
Limited access to information and decreased management oversight hindered management's ability to make informed decisions regarding Swap Meet operations and ability to engage in continuous improvement.	Enterprise management should improve its information sharing, communication, and monitoring of Swap Meet operations and its employees. This includes, but is not limited to: a. Increasing oversight, monitoring, and verifying of employee activities and information provided to management by employees. b. Increasing communication between management and Swap Meet personnel, including but not limited to regular staff meetings. c. Evaluating the Swap Meet system and exploring opportunities to obtain a system that is tailored to Swap Meet operations.	Management concurs with the recommendation and will review its operations to make the necessary improvements to its practices. In addition, once the operational review is complete, Swap Meet policies and procedures will be updated to reflect management expectations, and employees will be trained and held accountable for complying with the policies. Responsible Party: Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation. Due Date: November 2015.	a. Substantially implemented b. Fully implemented c. Substantially implemented

According to management, it is currently researching the Booth Tracker software system. It has a few qualities that are missing from the current system; however, by simplifying certain processes, management believes some inefficiencies and staff frustrations were eliminated. Management would like to re-evaluate the need for Booth Tracker after approximately six months of operating under the new, simplified processes and policies.

Summary of Results and Action Plan

Finding 1: OCC Swap Meet should continue to strengthen the ethical climate at the Swap Meet.	
<p>Recommendation 1.1: OCC Swap Meet should partner with District Human Resources to implement an ethical survey to both staff and vendors, and deliver formal training on reporting issues and concerns, including the Whistleblower policy.</p> <p>Recommendation 1.2: OCC Swap Meet should continue its efforts in creating, implementing, and enforcing its strengthen policies and procedures, and continue to assess the various risks associated with Swap Meet operations.</p>	
<p>Management Response/Action Plan: We concur with the finding and recommendation. Management will continue its efforts to partner with District Human Resources to survey stakeholders on the ethical climate and ensure staff is trained in the District's Whistleblower policy. Enterprise management will request from the Enterprise Board that it adopt the District's Ethics Policy as its own and continue to reinforce ongoing ethics awareness to vendors and staff. While expectations regarding gifts, purchases, and other merchandise exchanges were communicated to both vendors and staff, management will continue to reinforce compliance with the policies and procedures in the updated vendor and employee manuals. We believe this will improve the ethical environment at the Swap Meet and strengthen the culture. Management continually assesses risk and updates procedures as new issues arise. Once we believe that most of the issues have been addressed, management will continue to periodically review its operational practices to ensure continued success in improving the ethics and culture of the Swap Meet.</p>	<p>Due Date: March 2017</p> <p>Responsible Party: Julie Clevenger, OCC Director Community Outreach and Support</p> <p>Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation</p> <p>Cindy Vyskocil, Vice Chancellor District Human Resources</p>
Finding 2: Due to the recent updates and implementation of various manuals and guides, the Swap Meet continues to evaluate progress toward mitigating the risks and concerns that were identified in the original investigation.	
<p>Recommendation 2: OCC Swap Meet should continue its risk assessment and revisions to various manuals and guidelines as risks and issues are identified; however, management should allow for a period of at least one year of operation under the new standards and revisit the opportunity for an audit in order to determine the extent to which new processes mitigate the risks identified in the investigation report and the implementation status of the recommendations.</p>	
<p>Management Response/Action Plan: Management concurs with the recommendation and is constantly making updates and revisions to standards as new issues are identified. Management will consider a full audit at a later date to reassess the success of the changes made at the Swap Meet.</p>	<p>Due Date: December 2017</p> <p>Responsible Party: Julie Clevenger, OCC Director Community Outreach and Support</p> <p>Dr. Rich Pagel and Janet Houlihan, Enterprise Corporation</p>