CITY COLLEGE OF SAN FRANCISCO

RISK ASSESSMENT AND INTERNAL AUDIT PLAN

March 2010

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This report summarizes City College of San Francisco's (CCSF or the District) risks as assessed by Internal Audit and details a three-year Internal Audit Plan. The primary purpose of this document is to identify areas of focus for the Internal Audit Function. It should be viewed as a planning document and not an audit of the District's risks. Risks identified in this assessment are defined as any **_potential_** problem or loss as well as missed opportunities that could keep the District from achieving its objectives. Because these risks are potential exposures rather than actual issues, we caution the reader to only view the identified risks as areas on which management should focus and Internal Audit attention should be placed. When appropriate, recommended management actions to address significant risk areas have been included. As the District is currently operating in a resource constrained environment, implementation of all recommendations is most likely not possible. Further, District personnel may have alternative methods of addressing identified risks. To assist management in determining what recommendations can be addressed given resource constraints, expected time frames to accomplish recommended actions have been provided.

From the identified risk areas, an Internal Audit Plan was created. The identified internal audits were selected based on the level of assessed inherent risk, the importance of management's risk response in mitigating the inherent risk, and the amount of risk coverage provided by each audit at the time of this risk assessment. Many of the proposed internal audits have a potential to result in short-term budgetary savings for the District. The potential savings from these internal audits have been noted in the Internal Audit Plan found in the body of this report. In several of the noted risk areas, management is currently undertaking activities, such as the hiring of a Chief Technology Officer and Vice Chancellor Legal Affairs, that may affect the Internal Audit Plan. The Plan was created based on the District structure and activities as of March 2010. Should management complete the aforementioned actions and recommended improvements, the level of recommended internal audit activity should be revisited and potentially reduced.

Several good practices and risk management capabilities surfaced during this risk assessment. The District has an active Audit Committee with appropriate independent representation on the Committee, and has implemented an Internal Audit Function to monitor the internal control structure and report on its propriety and functionality. Further, the District's "tone at the top" supports implementation of a strong internal control structure. By comparison to our experience with other community college districts, CCSF's staff experience and the focus on high quality and affordable education for students compares well.

In addition to organization control structure strengths, areas of risk and potential improvement were observed. The major areas of potential risk include:

- **Strategic Planning and Budgeting** – The planning and budgeting processes within the District play a crucial role in ensuring its short-term and long-term success. The strategic planning process sets a clear direction for the District. The budget should be based on these stated strategic objectives and should be developed to support the strategic plan. Several factors suggest that the strategic planning and budgeting processes should be evaluated by Internal Audit. First, the District is in the process of updating its long-term strategic plan and is currently operating without a clearly documented and well-understood plan. This apparent lack of clear strategic direction can result in unfocused budgetary choices, as clear objectives are needed to aid in the decision making process. Second, the District faces significant budgetary constraints due to the overall economic condition and to structural factors within the District. In particular, a large portion of the budgetary pressures can be attributed to the size and compensation of the District's work force, as salaries and benefits constitute as much as 92 percent of the annual budget.

- **Control Environment** – The District's control environment drives the effectiveness of every other aspect of the District. The District has undertaken many positive steps to achieve good control environment administration, but the approach to building a strong control environment is somewhat informal and has not incorporated common control environment best practices such as a whistleblower hotline/policy, designation of a volunteer financial expert on the Audit Committee, a management intervention policy, etc. See Risks Nos. 1, 2, 10, 14, and 24 in Appendix A.

- **Internal Audit Function** – Another area of the District's control environment that presents risk is the role and structure of the District's Internal Audit Function. Given the size and complexity of the District's operations, the Internal Audit Function does not appear to be completely staffed (see Appendix B for an internal audit resource benchmarking). While we were very impressed by the skill sets, capabilities and positive improvements influenced by the District's Internal Audit Director, due to the very limited size of the Internal Audit Department (one professional), there is potential for an inappropriate match between audit skill requirements and available auditor skills sets. Inadequate resources extend beyond personnel to tools. Internal Audit does not own appropriate internal audit tools, such as a workpaper documentation system, computer assisted audit tools, sampling software, etc. Per Institute of Internal Auditors (IIA) standards (IPPF 2030), the Director of Internal Audit must ensure that internal audit resources are appropriate, sufficient, and effectively deployed. The lack of adequate internal audit resources diminishes the Function's ability to adequately monitor risks and controls at the District on behalf of the Board of Trustees. Further, the District's apparent expectations of internal audit activities do not comply with the standards issued by the IIA. The District's Internal Audit Charter correctly describes the function and purpose of internal audit, but some of the tasks which have been completed by the Internal Audit Department in 2008 and 2009 are not appropriate. Per IIA standards (IPPF 1130.A1 and 1130.A2), internal auditors cannot audit areas for which they have responsibility for implementing or designing policies, procedures and internal controls.

Although the Internal Audit Function can be used in a consulting role, the District should be aware that if the Internal Audit Department performs management functions they cannot objectively assess the areas for which they were responsible. See Risks Nos. 5, 39, and 64 in Appendix A.

- **Policies and Procedures** – District policies are not centrally controlled and are developed and implemented on a departmental basis. Many reviewed policies appeared to be out of date, incomplete, and unapproved by Senior District Management. Without a Districtwide approach to policy creation and maintenance, employees may not know where to find relevant policies, resulting in a reduced likelihood of adherence. Written policies and procedures are a key aspect of organizational control. Although the Board has established a baseline of District policies, they do not address all departments and are not written at a level of detail that is sufficient to ensure day-to-day operations follow a consistent and authorized approach. See Risks Nos. 12, 16, 22, and 35 in Appendix A.

- **Construction Management** – Given the volume of activity, recommendations for District performance audits, and other issues with respect to construction management, this area is viewed as possible considerable risk to the District. In particular, risk areas include bidding practices, budget monitoring, change order review and approval, and construction accounting. See Risks Nos. 11, 19, 20, 23, 26 and 69 in Appendix A.

- **Banner Customization** – Banner is highly customized for use at the District. Although customization of the system may be appropriate for the District's business purposes, it creates several risks. First, a large number of customizations make version upgrades difficult and potentially prone to error or business disruption, as every customized aspect must be validated prior to fully implementing the upgrade. This may limit the District's ability to utilize new functionality and/or it may create errors in customized processes. Second, as customizations occur, they must be thoroughly tested to ensure the customization meets user needs. Without thorough testing, it is possible that customizations are not processing as desired, causing management to rely on erroneous information. See Risks Nos. 4, 28 and 30 in Appendix A.

- **Segregation of Duties** – Segregation of duties controls are designed to ensure that no single individual inappropriately handles all aspects of a transaction or business process, helping to prevent employees from committing errors or engaging in fraudulent activity. When using an enterprise resource planning technology to integrate business and information processes, hundreds of users have access to the District's system, each with authorization to perform multiple transactions. The sheer volume of activity in this type of environment and the automated nature of transaction processing can make proper segregation of duties very challenging. The risk is further compounded at the District as the administration of Banner access rights is not centrally controlled in the Information Technology (IT) department; instead, Banner access is administered at the department level. The District has

not historically provided these security administrators with training on adequate segregation of duties or performed periodic audits of access rights. See Risks Nos. 3, 6, 42, and 45 in Appendix A.

- **Delegation of Authority** – The District does not have a documented authorization policy and matrix. An authorization policy formally documents the delegation and assignment of responsibility to various levels of the organization for various types of contractual obligations. An authorization matrix is a best practice wherein the most common types of commitments and expenditures are mapped against the appropriate signature level required. An alternate signer also may be designated if the authorized signer is absent from the office. Without a formal policy and an up-to-date authorization matrix, contractual obligations, such as purchase requisitions and contracts, may be entered into by individuals without the appropriate knowledge or authority. A formal policy helps ensure that the policy is consistently applied across the organization as a whole. See Risks Nos. 13 and 58 in Appendix A.

Specific details on each of these risk areas can be found in the body of the report. The graphic below shows the various specific risks identified during this assessment and plots each risk in terms of its potential impact and likelihood.

These risk areas require District Administration's focus and attention through management action and/or Internal Audit monitoring. Again, the risks identified in this assessment are defined as any **potential** problem or loss as well as missed opportunities that could keep the District from achieving its objectives. The identification of a risk does not mean that there is actually a problem in that area.

Based on these risk assessment procedures, a three-year Internal Audit Plan and budget was developed. This risk assessment and Internal Audit Plan were performed and documented in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gathered from our interviews with District employees and on our analysis of documentation provided by the District. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards. This report is intended solely for the information of District Management and the Board of Trustees.

ASSESSMENT AND PLANNING METHODOLOGY

Because internal audit resources should be deployed relative to risk, a risk assessment was performed to better understand the areas of risk facing the organization and management's response to those risks. Our methodology for assessing risk recognizes risk as a function of objectives and uses a structured approach to identify and assess risk. We call the approach **ORCA: Objectives, Risks, Controls and Alignment**.

Objectives: Objectives are the purpose of the organization and what it seeks to accomplish. Objectives may also be defined as goals. All stakeholders influence objectives: shareholders, management, employees, customers, governments, communities and environment. The objectives considered in this risk assessment were derived from the internal control framework provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – a group of leading financial and accounting bodies (see Appendix C for the complete framework). COSO's *Internal Control – Integrated Framework* has become widely accepted by regulators, businesses, and the accounting and legal professions as the standard for measuring the effectiveness of an entity's control and operations compliance program. Within each major District business process we considered the objectives relative to the efficiency and effectiveness of operations, compliance with laws and regulations, accuracy of financial reporting and safeguarding of assets.

Risks: Risk is inherent in the pursuit of objectives. Risk is anything that may impact the achievement of objectives, and may include things that go wrong (hazards), underperformance, or missed opportunities. Using the COSO framework we identified inherent risks to the achievement of key objectives and assessed the risk significance to the organization (see Appendix A). Risk significance is evaluated by considering the probability of occurrence and impact. Risk impact is the measure of the potential effect of a condition on organizational goals. Both risk impact and probability are assessed on a scale of one to ten, and the product of these two measures is used to score each identified risk. The table below provides a general guideline of the various risk score levels. Risk score is a subjective measure used to help compare risks and to prioritize internal audit activities.

Risk Score (Probability x Impact)	Probability	Impact
100	High probability, virtually certain	• Potential financial reporting misstatement of ≥ $2.5 million on the balance sheet • Change in net assets misstatement of ≥ $250,000 • Cash loss ≥ $100,000 • Potential legal issues and/or damage to reputation • Practices that oppose overall District objectives • Any event or action that causes physical harm to a person
70	Medium probability, more likely to occur than not	• Potential financial reporting misstatement of approximately $1.5 million to $2.5 million • Change in net assets misstatement of approximately $150,000 to $250,000 • Cash loss of approximately $50,000 to $100,000 • Ethical violations that could have a control environment impact and do not directly impact reputation • Practices that could possibly negatively impact achievement of the overall District objectives
30	Low probability, remote possibility	• Potential financial reporting misstatement of less than $500,000 • Change in net assets misstatement of less than $150,000 • Cash loss of less than $50,000 • Ethical violations that do not have a control environment impact or that do not directly impact reputation • Practices that cannot possibly negatively impact achievement of the overall District objectives

Controls: In addition to understanding inherent risk, we also focused on the controls needed to address the identified risks. Since risk is inherent, the issue is response to risk, or controls. Controls may avoid, manage, mitigate or ignore risk. They focus on the most important and urgent objectives, the most probable and highest impact risks. Understanding management's risk response is useful in

designing the scope of individual audit projects. Depending on the extent and nature of an inherent risk and management's response, an internal audit may not be appropriate.

Alignment: Alignment is how well controls address the key objectives and risks, how well the objectives complement and support the interests of all the stakeholders, and how consistently the objectives are implemented vertically and horizontally within the organization. Lack of objectives, missing or weak controls, and conflicting objectives lead to opportunities for improvement. Residual risk is a measure of the level of alignment between a control and an inherent risk. An understanding of residual risk is useful in understanding how important management's risk response is in controlling risk.

Internal Audit drew upon the knowledge and experience of our risk management and control specialists and industry expertise. In performing the risk assessment we reviewed select documentation (see Appendix D) and interviewed key management personnel (see Appendix E) regarding entity-wide and business unit specific objectives and risks that could impact the achievement of those objectives. Observations and assessment of risk were based on those interviews, review of corroborating evidence, and our experience with other organizations in similar industries.

The interviews were conducted on the basis of absolute confidentiality and no comments made by interviewees were attributed to any specific person. Conducting many interviews in a variety of functional areas enabled us to understand important ideas and beliefs as they are generally understood within the District. The interview process yielded common themes and/or a general understanding of objectives, risks, controls and alignment issues. Our observations are not findings in fact based on testing of transactions, but perceptions based on conversations with employees, review of management reports and other relevant background materials.

Based on the risk assessment procedures and results we developed a three-year Internal Audit Plan as detailed in the next section of this report.

INTERNAL AUDIT PLAN

Proposed internal audits to be performed in 2010, 2011 and 2012 have been designed to address key risks identified in this report. These internal audits were selected based on the level of assessed inherent risk, the importance of management's risk response in mitigating the inherent risk, and the amount of risk coverage provided by each audit. The audit plan includes the proposed timing and hours budget for each internal audit as well as a description of the audit activity and the relevant risk coverage. Additionally, many of the proposed internal audits have a potential to result in short-term budgetary savings for the District. The potential savings from these internal audits have been noted in the table below.

For each internal audit, a report will be issued that includes a matrix of existing control activities, control design deficiencies (missing or not adequate in addressing risk), detailed testing results, good practices identified and improvement recommendations. Each report will include management responses to internal audit findings and recommendations.

In addition to performing the internal audit activity detailed below, Internal Audit should update the Risk Assessment and Internal Audit Plan annually, issue a formal remediation tracking report semi-annually (documenting management's reported progress on Internal Audit recommendations), and report to the Board at least quarterly on Internal Audit activities and results. Additionally, some capacity should be reserved for ad hoc Internal Audit activity such as fraud investigations, special projects requested by the Board of Trustees, and for issues, risks, and exposures that may surface.

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
1	User Access / Segregation of Duties	District security policies may not be adequately designed to prevent unauthorized access to key informational assets. Additionally, system enforced access rights may not be adequately segregated amongst users. Inappropriate segregation of duties significantly increases the risk of asset misappropriation and other intentional and unintentional errors. See Risks Nos. 4, 6, 15, 17, 25, 33, 40, 42, 45, 48, and 58 in Appendix A. In addition to addressing the risks listed above, this internal audit may yield budget savings through a reduction in inappropriate, unnecessary or excess purchasing and/or payroll expenditures that are currently allowed through inadequate segregation of duties.	This audit will focus on the ability of employees to manipulate assets and/or financial reporting and make unauthorized system entries or records modification. To address logical security, the access configurations of key District Information Technology (IT) systems such as the network and Banner, as well as the overall IT process for granting access rights. Specifically, user access rights to these applications will be extracted from the systems and analyzed in a database against a baseline segregation of duties matrix to identify inappropriate or conflicting security assignments. The analysis will consider not only conflicting access within a system but across systems and manual functions. For conflicts identified, a root cause analysis will be performed to determine whether the conflict resulted from improperly designed controls or a control failed in operation.	350		
2	Financial Close	The financial closing and reporting process may not be designed to provide for complete, accurate and timely financial reporting. A poorly designed financial close and reporting process can lead to unreliable financial reporting, faulty decision making by District Senior Management and ineffective oversight of District activities. See Risks Nos. 9, 16, 18, 37, 38, 46, and 50 in Appendix A.	The audit will focus on the overall structure of the Accounting Department and the financial close process, from closing of subledgers to drafting the financial statement. Emphasis will be placed on completeness of closing procedures, completeness and efficacy of account reconciliations, completeness of reporting procedures and approval controls sufficiency. Existing procedures will be compared to accepted good practices to determine the efficacy of internal control design. Testing of controls will be performed to evaluate whether existing controls are operating as intended.	350		

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
3	Construction Management	Ineffective management of construction activities could lead to asset misappropriation and legal liability. Areas of potential exposures include construction bidding, payment review and authorization, change order monitoring, and construction reporting. See Risks Nos. 11, 13, 19, 20, 23, 26, 58, 65, and 69 in Appendix A. In addition to addressing the risks listed above, this internal audit may yield budget savings. Our experience has been that this type of audit results in identification of 2-4% cost savings opportunities.	This internal audit will focus on the management of construction projects from the establishment of a master plan, contractor identification and bidding, payment application review and approval, change order management, budget control and reporting and complete, timely, efficient and effective close-out of construction projects. In addition to the evaluation of construction controls and procedures, a detailed sample of transactions will be tested to determine appropriateness of payment and adherence to identified controls. Opportunities to improve construction program controls and to reduce cost will be reported.	450		
4	Budgeting Process Controls	The District is currently facing funding decreases. The Western Association of Schools and Colleges (WASC) accrediting body has identified the District's budget deficit as a significant problem that requires remediation. If the budgeting process is designed and operating correctly, it can help the District in addressing these issues as it can enforce fiscal discipline. However, if the budgetary process is not designed or operating effectively, overspending and fiscal deficits will most likely continue. See Risks Nos. 1, 21, 35, 36, and 64 in Appendix A. Through addressing the risks listed above, this internal audit may yield budget savings as increased control in this area can reduce unfavorable variances and better enable to District to execute budgetary plans.	This internal audit will evaluate the overall process for planning and completing the budgeting process to determine effectiveness of compliance with District policies and procedures, as established. Further procedures will be performed to evaluate whether the budget process is operating as planned.	325		

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
5	Payroll	Payroll processing controls have not been appropriately established and/or are not operating effectively to ensure payroll is adequately safeguarded, accurately and timely reported, and efficient in processing. See Risk No. 43 in Appendix A. Through addressing the risk listed above, this internal audit may yield budget savings in conjunction with the segregation of duties internal audit through control of inappropriate personnel additions and changes including pay rate and personnel hours.	Audit procedures will focus on the establishment of employees for payroll disbursement, recording of payroll hours, processing and disbursement of payroll and the monitoring and reporting of payroll expenditures. The audit will focus on both control design and operating effectiveness.	250		
6	Control Environment Assessment	Key control environment administration processes including Audit Committee Oversight and control environment elements may not be properly structured or operating effectively. See Risks Nos. 7, 10, 13, 14, 15, 24, 39, 55, 57, 58, and 70 in Appendix A.	The District's approach to overall control environment administration will be assessed in this audit. Objectives will include elements of the control environment, management risk assessment, information and communication and monitoring. Controls related to control environment communication, risks of management override and overall ethical tone will be identified and evaluated.	250	150	
7	Legal Controls	The District operates in a highly regulated environment and must comply with laws and regulations from various federal, state and local entities. Moreover, these laws and regulations change frequently. This highly regulated environment, coupled with a somewhat decentralized operating approach, create risk that is ideally mitigated through an active legal function. If the District Legal Function is not properly designed or operating effectively, there is risk of significant legal and related financial exposures. See Risks Nos. 12, 31, 34 and 41 in Appendix A.	The objective of this audit is to evaluate the effectiveness in both design and operation of the District's Legal Function. In making this evaluation, Internal Audit will consider the Legal Function's role in establishment and oversight of compliance activities, review and approval of contracts, and use of and oversight of outside counsel.		300	

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
8	Human Resources	Compliance with laws and regulations is a critical aspect of the District's Human Resources Function and significant controls are required to ensure compliance. Additionally, the Human Resources Function is critical in ensuring adequate compensation, training, and employee administration. See Risks Nos. 25, 29, 59, 61, and 66 in Appendix A.	The objective of this audit is to assess documented Human Resource (HR) policies and actual practices against accepted good practices, and HR laws and regulations in California. Procedures will span the HR process (including recruiting, hiring, compensation and benefits, training, terminations, etc.) and will evaluate the effectiveness and efficiency of the HR procedures and related internal controls, including the quality and integrity of information systems supporting the HR process.		275	
9	Procurement Controls	Given the volume and complexity of public procurement requirements, controls over the bidding, authorization, recording and reporting of District purchases may not be adequately designed or operating effectively. Ineffective procurement controls could lead to legal liability and asset misappropriation. See Risks Nos. 7, 13, 37, 48, 49, 53, 58, 69, and 72 in Appendix A. Through addressing the risks listed above, this internal audit may yield budget savings in conjunction with the segregation of duties internal audit through control of inappropriate, unnecessary or excess purchasing.	The objectives of this audit are to identify, document and assess the internal controls related to procurement, cash disbursements and cash handling, with an emphasis on safeguarding assets, validity of expenditures, and accuracy of expense accounting. Existing policies will be reviewed for appropriate design and compared to actual practice. A sample of expenditures will be tested for validity and accuracy to assess the effectiveness of existing control activities.		275	

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
10	Systems Change Management	The District's policies and procedures related to changes in key information technology assets, including Banner, may not be appropriately designed or operating effectively. A lack of an effective change management process can result in significant information system processing errors and fraud. See Risks Nos. 5, 15, 28, 30, and 32 in Appendix A.	This audit will focus on an assessment of management's process, procedures and controls designed to: • Ensure IT changes meet the organization's needs and create business value. • Anticipate and manage problems that may be introduced in the production environment as a result of changes. • Promote the effectiveness and efficiency of IT change management efforts. Audit procedures will include a review of the policies and procedures supporting quality assurance of system changes for key systems such as Banner and Moodle. Detailed testing will occur to assess management's validation of change testing, existence of management change approvals, user acceptance of applied changes, and a review of activities and controls over promoting TEST code / changes to PROD. This audit will be coordinated with the System Development internal audit.		175	
11	System Development	Similar to Systems Change Management, the District's policies and procedures related to development of key information technology systems may not be appropriately designed or operating effectively. A lack of an effective change management process can result in significant information system processing errors and fraud. See Risks Nos. 28, 30, 52, and 65 in Appendix A.	Audit procedures will include an evaluation of District system development policy. The evaluation will consider whether the District has incorporated the System Development Life Cycle (SDLC) into its policies and procedures. A sample of development activities will be assessed for adherence to policy and/or SDLC best practice.		225	

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
12	Noninstructional Assignments	The District's noninstructional assignments may not be adequately approved or monitored. As the noninstructional assignments constitute a significant portion of the District's labor costs, inadequate oversight of the assignments could result in significant financial loss to the District. See Risk No. 8 in Appendix A. Through addressing the risk listed above, this internal audit may yield budget savings through improved control of and accountability for noninstructional assignments.	The objective of this audit is to evaluate the types of noninstructional assignments in use by the District and evaluate the procedures surrounding the approval and monitoring of these assignments. Inefficiencies and excessive labor costs that surface during this review will be reported.		225	
13	Cash Handling	As the District has experienced issues with respect to cash handling in the past, and due to the use of various cash receipt sites within the District, there is a potential for asset misappropriation in this area. Specific exposures include logging of cash receipts, cash deposits and reconciliations. See Risk No. 22 in Appendix A. Through addressing the risk listed above, this internal audit may yield budget savings through better control of cash collections.	This audit entails assessing the controls related to the collection and recording of cash at various locations in the District. The audit focus includes review of procedures for cash security, recordkeeping, check acceptance and handling, customer receipts, cash reconciliation, money transfer, cash deposit, petty cash and change fund authorization and replenishment, and proper segregation of duties, and will include an evaluation of control design and operating effectiveness. Cash handling control issues and anomalies that surface during this internal audit will be reported.		275	

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
14	Property, Plant and Equipment	The controls over the acquisition, tracking and disposals of property, plant and equipment may not be designed or operating effectively, leading to financial misstatement and asset misappropriation. See Risks Nos. 60 and 62 in Appendix A. Through addressing the risks listed above, this internal audit may yield budget savings by better ensuring that unnecessary capital equipment purchases are minimized and equipment disposals are properly controlled.	Audit objectives include an assessment of the District's current controls and procedures for receiving, recording, and monitoring additions property, plant and equipment will be assessed. Additionally, asset transfer and disposals procedures and controls will be evaluated for effectiveness. To assess controls and procedures, the audit will include an evaluation of the design of controls as well as detailed testing of transactions to evaluate operating effectiveness.			225
15	Financial Aid	Financial aid policies and procedures may not be appropriately designed or operate effectively given the significant increase in volume. This could result in poor service to students and financial loss and liability for the District. See Risk No. 47 in Appendix A.	In this audit, procedures will be performed to assess the existence and function of controls over financial aid awards and compliance with financial aid laws, regulations and reporting requirements. In evaluating the controls, consideration will be given to the increase in the volume of financial aid activity and its potential effect on existing processes. Additionally, District processes will be assessed for efficient and effective performance with consideration for higher education best practices, including the increased use of information technology.			250

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
16	Instructional Service Agreements	Instructional service agreements are a significant source of revenue for the District and are administered decentrally. The District has experienced issues in the past with the accounting for these agreements, and the State Chancellor has specifically identified risk areas related to these types of agreements. There is exposure that the District may not have adequate policies and procedures related to these agreements, and the procedures may not be operating effectively. See Risk No. 67 in Appendix A.	Audit procedures include an inventory of all instructional service agreements within the District and a review of policies and procedures established for management of the agreements. The process will be analyzed from establishment of the contractual agreement through collection of apportionment and payment of public agency partners. Consideration will be given to the State Chancellor's guidance and will consider the design and operation of controls.			350
17	Accounts Payable	Accounts payable practices from vendor setup, invoice entry and cash disbursements may not be adequately designed and operating effectively. Errors in the accounts payable process can lead to asset misappropriation, inefficient use of District resources, and erroneous expenditure tracking. See Risks Nos. 54 and 68 in Appendix A. Through addressing the risks listed above, this internal audit may yield budget savings through a review for duplicate payments and controls over utilization of vendor discounts.	The objective of this audit is to evaluate the controls surrounding the payment of vendors. Specific consideration will be given to receipt and processing of vendor invoices, control of vendor master files, review of vendor invoices, and use of a contract database. In addition to the evaluation of the design and operating effectiveness of controls, a sample of payments will be tested for validity. Additionally, a duplicate and unusual payments analysis will be performed to identify potential overpayments by the District.			225
18	Business Continuity	The District's business continuity activities may not be coordinated, well documented or tested. A disruption in information technology services could significantly impact the District's ability to provide services and could result in significant cost. See Risk No. 51 in Appendix A.	Audit procedures will focus on the assessment of the design of the existing IT Business Continuity Plan against accepted good practices and actual adherence to policy. Consideration will be given to testing of the plan, including bringing up alternate sites, loading backup tapes, and user operational testing.			225

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
19	Grant Management Controls	Grant writing, accounting and monitoring procedures may not be appropriately designed or operating effectively. The District's decentralized approach to grant writing and administration could expose the District to revenue loss and compliance penalties. See Risks Nos. 44 and 56 in Appendix A. Through addressing the risks listed above, this internal audit may yield budget savings through increased grant revenue, better capture of District overhead, and a reduction in grant penalties.	The audit will focus on the District's processes and controls for the administration of federal, state and local grants. The audit will focus on the entire grant process, including grant writing, award, accounting setup, program and financial reporting, and grant close-out and audit administration.			250
20	Student Attendance	The District must comply with the student attendance requirements as established and outlined in the California Community Colleges Student Attendance Accounting Manual. Oversight and control surrounding attendance are critical in that inaccurate or incomplete student attendance accounting significantly affects the District's revenue from apportionment. Further, should the District overstate these amounts it may be exposed to liability. See Risk No. 27 in Appendix A. Through addressing the risk listed above, this internal audit may yield budget savings through more accurate and complete capture of student attendance, leading to higher apportionment.	This audit will focus on the District's process for recording student attendance in noncredit classes in a complete, accurate and timely manner. It will also evaluate the reporting activities for reporting that attendance and collecting apportionment funds.			225

Audit No.	Audit Name	Risk(s) Addressed	Activity Description	2010 Hours	2011 Hours	2012 Hours
	Internal Audit Administration	General oversight and administration of the Internal Audit Function, including periodic reporting to the Chancellor's biweekly standing Internal Audit Committee, Board of Trustee reporting, and other key Internal Audit Administration activities. This area should include oversight and administrative review of the planned internal audits.		1,000	1,000	1,000
	Special Requests	Special audit or consulting assignments as requested by the Board of Trustees, Chancellor or other members of District Senior Management. Previous projects have included: Faculty Position Allocation Committee (FPAC) office consulting, trademark investigation, On Focus investigation, Recruitment of Athletes Investigation, and other miscellaneous consulting.		800	800	800
	External Audit Coordination	Coordinate with external auditors, including Financial Statement Auditors, Bond Auditors, Construction Performance Auditors, and Compliance Auditors.		200	200	200
	Risk Assessment Update	Update the Internal Audit Risk Assessment annually to ensure high probability and high impact risks to the achievement of District objectives are addressed.		100	100	100
			Total Internal Audit Hours	**4,075**	**4,000**	**3,850**

As described in the plan, total audit hours are expected to average 4,000 hours in 2010, 2011 and 2012. The level of activity is commensurate with internal audit departments in organizations of similar size and complexity (see Appendix B).

APPENDIX A – DISTRICT RISK ANALYSIS

This section provides a detailed summary of risk identified, recommended improvements, and risk score associated with key District processes. Risk score is a product of risk impact and a probability of occurrence. The risks below were ranked based on residual risk levels (i.e., the amount of risk left over after considering the District's internal controls) and were used to develop and prioritize internal audit plans. Planned internal audits to address the identified risks found in the report body are summarized in the below table.

When appropriate, recommendations for addressing the risk, strengthening controls or seizing an available opportunity were made for management's consideration. As the District is currently operating in a resource constrained environment, implementation of all recommendations is most likely not possible. Further, District personnel may have alternative methods of addressing identified risks. To assist management in determining what recommendations can be addressed given resource constraints, a time frame for each recommendation has been noted. Each recommendation indicates whether the recommendation can be implemented in the short term (less than three months), midterm (three to twelve months), or long term (greater than twelve months).

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
1	**Budgeting**	**Component:** Risk Assessment **Element:** Entity-Wide Objectives **Objective:** Consistency of business plans and budgets with entity-wide objectives, strategic plans and current conditions.	86	**Budget Deficit** – The District appears to face a budget deficit based on structural factors wherein ongoing expenditures exceed ongoing revenue. As indicated by District Senior Administration, the majority of this mismatch is due to salaries and benefits, which constitute as much as 92 percent of the annual budget. Based on discussion with District personnel, although a hiring and salary freeze was put in place, the cost of fringe benefits continues to increase.	**Midterm:** District Management should evaluate the budgeting process to ensure that budget targets are appropriate given expected revenue. The budget monitoring and accountability mechanisms should be reviewed and enforced to help ensure that budget targets are obtained. If the established budget, based on current District objectives, yields a budget deficit, management should re-evaluate District strategic priorities and identify areas that are not in alignment with core District objectives and/or have a significant disconnect between expenditures and revenue source. These areas should be evaluated for elimination.	**Budgeting Process Controls**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
2	**Control Environment**	**Component:** Risk Assessment **Element:** Entity-Wide Objectives **Objective:** Effectiveness with which the entity-wide objectives are communicated to employees and board of directors.	81	**Strategic Plan** – The District's Long-Term Strategic Plan is out-of-date as it covered the 2003-2008 period. The District is currently working on updating the plan. However, based on discussions with various personnel within the District, there is a general lack of awareness of the District's strategic and operational objectives. This lack of awareness may lead to missing, overlapping or incompatible activity-level objectives. When activity- and entity-level objectives are not in alignment, the ability for the District to function in an effective and efficient manner is put at risk.	**Midterm:** Although District Senior Management is working on updating the strategic plan, a timeline and project plan have not been established. A project plan and timeline will help ensure the strategic plan is completed in a timely, efficient and effective manner. Additionally, District Senior Management should implement mechanisms to increase the visibility of strategic objectives once the plan is complete.	**None Proposed**
3	**Information Technology**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	79	**Banner Segregation of Duties** – As noted in several other risk areas, the duties of Banner users may not be adequately segregated. Segregation of duties controls are designed to help ensure that no single individual inappropriately handles all aspects of a transaction or business process, helping to prevent employees from committing errors or engaging in fraudulent activity. When using an enterprise resource planning technology to integrate business and information processes, hundreds of users have access to the District's system, each with authorization to perform multiple transactions. The sheer volume of activity in this type of environment and the automated nature of transaction processing can make proper segregation of duties very challenging. The risk is further compounded at the District as the administration of Banner access rights is not centrally controlled in the Information Technology (IT) Department; instead, Banner access is administered at the department level.	**Short Term:** The response to this risk should be coordinated with Risks Nos. 6, 17, 25, 33, 42, and 48. The District should implement a procedure to systematically grant access to employees based on appropriate review of their current and proposed duties. Further, the Information Technology Department should facilitate a periodic review of Banner access rights, including consideration of conflicting duties.	**User Access / Segregation of Duties**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
4	**Information Technology**	**Component:** Information and Communication **Element:** Information **Objective:** Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.	74	**Banner Customization** – Banner is highly customized for use at the District. Although customization of the system may be appropriate for the District's business purposes, it creates several risks. First, a large number of customizations makes version upgrades difficult and potentially prone to error or business disruption, as every customized aspect must be validated prior to fully implementing the upgrade. This may limit the District's ability to utilize new functionality, and/or it may create errors in customized processes. Second, as customizations occur they must be thoroughly tested to ensure the customization meets user needs. Without thorough testing, it is possible that customizations are not processing as desired, causing management to rely on erroneous information.	**Short Term:** Implement a change management policy to clearly define the process for implementing changes to Banner. The policy should address the gathering of user requirements, development in a test environment, documentation of changes, testing of changes, user acceptance, and implementation of changes into the production environment.	**Systems Change Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
5	**Internal Audit**	**Component:** Monitoring **Element:** Ongoing Monitoring **Objective:** Effectiveness of internal audit activities.	72	**Resources and Role of Internal Audit Function** – Given the size and complexity of the District's operations, the Internal Audit Function does not appear to be adequately staffed (see Appendix B for an internal audit resource benchmarking). Additionally, due to the limited size of the Internal Audit Department, there is a potential for inappropriate match between audit skill requirements and available auditor skills sets. Inadequate resources extend beyond personnel to tools. Internal Audit does not own appropriate internal audit tools, such as a workpaper documentation system, computer assisted audit tools, sampling software, etc. Per Institute of Internal Auditors (IIA) standards (IPPF 2030), the Director of Internal Audit must ensure that internal audit resources are appropriate, sufficient, and effectively deployed. The lack of adequate internal audit resources diminishes the Function's ability to adequately monitor risks and controls at the District on behalf of the Board of Trustees. Further, the District's apparent expectations of internal audit activities do not comply with the standards issued by the IIA. The District's Internal Audit Charter correctly describes the function and purpose of Internal Audit, but some of the tasks which have been completed by the Internal Audit Department in 2008 and 2009 are not appropriate. Per IIA standards (IPPF 1130.A1 and 1130.A2), internal auditors cannot audit areas for which they have responsibility for implementing or designing policies, procedures and internal controls. Although the Internal Audit Function can be used in a consulting role, the District should be aware that if the Internal Audit Department performs management functions, it cannot objectively assess the areas for which it was responsible.	**Short Term:** The District should review the current Internal Audit resources relative to the proposed internal audit plans and the Internal Audit Charter to identify resource requirements. The use of a formal internal audit plan will help to clarify the role and activities of the Internal Audit Function. Additionally, the District Internal Audit Director should work to educate management on the role of Internal Audit through formal education, in-person meetings and by referring members of management to the Internal Audit Charter.	**None Proposed**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
6	**Information Technology**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	70	**System Access Policy** – The District has drafted a policy related to network access. The policy is specific to Active Directory and does not address other key applications in use at the District, such as Banner. Without an established policy, there is a risk that access standards such as password length and complexity, access granting, and access revoking could be inadequate.	**Short Term:** Similar to the District's policy on network access, a policy should be drafted to address key District information systems such as Banner. The policy should address the request, review, approval, change, and termination of access. Additionally, the policy should address a periodic user access review. This aspect of the recommendation should be coordinated with actions to address Risk No. 3.	**User Access / Segregation of Duties**
7	**Control Environment**	**Component:** Control Environment **Element:** Integrity and Ethical Values **Objective:** Management's attitude towards intervention or overriding established controls.	68	**Management Intervention** – A thorough and well-documented purchasing manual exists; however, in practice, the District is exposed to the procurement process not consistently operating as documented. Informal changes to established policy increase the risk of management override of internal controls. Management override is an overruling of prescribed policies or procedures for illegitimate purposes.	**Long Term:** As part of the response to Risks No. 10 and No. 12, management should clarify its policy on management intervention. Management override should not be confused with management intervention, which represents management's actions to depart from prescribed policies or procedures for legitimate purposes. Management intervention is necessary to deal with nonrecurring and nonstandard transactions or events that otherwise might be handled inappropriately by the control system. Provision for management intervention is necessary in all internal control systems because no system can be designed to anticipate every condition. Management's actions to intervene are generally overt and should be properly documented or otherwise disclosed to appropriate personnel, whereas actions to override usually are not documented or disclosed, with an intent to cover up the actions.	**Control Environment Assessment**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
8	**Academic Affairs**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	68	**Noninstructional Assignments Monitoring** – Noninstructional faculty assignments such as Extra Services Release Units constitute a significant portion of total faculty activity (over 10 percent). Controls over the process to ensure all assignments are appropriate and authorized are critical. In particular, the monitoring of actual data entry into the payroll system and payments are important aspects of cost control.	**Midterm:** A procedure should be designed and implemented wherein the approved schedule of noninstructional assignments is compared to actual data entry in Banner. A monitoring procedure of actual payments made to faculty for noninstructional assignments should be implemented.	**Non-instructional Assignments**
9	**Accounting**	**Component:** Monitoring **Element:** Ongoing Monitoring **Objective:** Extent to which personnel, in carrying out their regular activities, obtain evidence as to whether the system of internal control continues to function.	64	**Close Process Control** – Given the size and complexity of the District's Accounting Function, there is a strong possibility that not all recurring accounting procedures will take place in a timely manner. The District Accounting Department has implemented a period-end close checklist to help ensure all steps are completed in a timely and accurate manner. The effectiveness of this tool is contingent on the quality of its design.	**Short Term:** Management should review and evaluate the design and implementation of its period-end close checklist. The checklist should contemplate all major recurring activities such as key accruals, closing of subledgers, journal entries and reconciliations. The checklist should also indicate who is responsible for the task and when the task is due.	**Financial Close**
10	**Control Environment**	**Component:** Control Environment **Element:** Integrity and Ethical Values **Objective:** Management's attitude towards intervention or overriding established controls.	64	**Whistleblower Policy and Hotline** – The District has not established a formal whistleblower policy to govern the reporting and investigation of allegations of suspected improper governmental activities and the protection for whistleblowers as required under the California Whistleblower Protection Act (Government Code Section 8547 - 8547.12). Additionally, although the District, through the Office of the District Internal Auditor, has established a mechanism for reporting of improper activities, the District has not implemented a formal reporting hotline. A whistleblower hotline allows for anonymous and confidential submissions. Whistleblower reporting systems are widely considered a best practice for nonprofit organizations. In fact, Form 990 now includes disclosure whether the nonprofit has adopted a whistleblower collection mechanism.	**Short Term:** Implement an externally managed whistleblower hotline and reporting program. For best results and to simplify communication, companies should provide a single mechanism for reporting all workplace issues, including fraud, harassment and discrimination. Using a centralized reporting mechanism, information can be disseminated to the most appropriate party, which likely includes Human Resources, the Audit Committee of the Board of Directors, and Legal, among others. Dual dissemination of complaints related to fraud acts as a system of checks and balances by helping to ensure that no single person is in possession of this highly sensitive information. This protects the integrity of the reporting mechanism.	**Control Environment Assessment**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
11	**Procurement**	**Component:** Control Environment **Element:** Integrity and Ethical Values **Objective:** Dealings with employees, suppliers, customers, investors, creditors, insurers, competitors, and auditors, etc. (e.g., whether management conducts business on a high ethical plane, and insists that others do so, or pays little attention to ethical issues).	63	**Competitive Construction Purchase Bidding** – Given the volume and magnitude of construction purchases, the fact that construction purchasing is not administered by the District Purchasing Department, and recent turnover in the Facilities Office, competitive bidding for procurement of construction goods and services may not be occurring and/or may not have occurred in the past. Management has recently drafted and implemented construction policies. However, there is a risk that the policies are not comprehensive, have not been implemented as intended, or have not been consistently followed.	**Midterm:** Management should review existing policies and procedures and compare with practices from other California Community College Districts.	**Construction Management**
12	**Control Environment**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	61	**Districtwide Policy Structure** – District policies are not centrally controlled and are developed and implemented on a departmental basis. Many reviewed policies appeared to be out of date, incomplete, and unapproved by senior District management. Without a Districtwide approach to policy creation and maintenance, employees may not know where to find relevant policies, resulting in a reduced likelihood of adherence.	**Long Term:** The existing firmwide policies as posted on the District's external website should be updated. A survey of existing policies and procedures should be conducted to identify departmental policies. These policies should be reviewed against policies approved by the Board and incorporated into the official District Policy Manual. Finally, policy control should be centralized.	**Legal Controls**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
13	**Control Environment**	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes.	60	**Signature Authorization Policy and Matrix** – The District does not have a documented authorization policy and matrix. An authorization policy formally documents the delegation and assignment of responsibility to various levels of the organization for various types of contractual obligations. An authorization matrix is a best practice wherein the most common types of commitments and expenditures are mapped against the appropriate signature level required. An alternate signer may be designated if the authorized signer is absent from the office. Without formal policy and an up-to-date matrix, contractual obligations such as purchase requisitions and contracts may be entered into by individuals without the appropriate knowledge or authority. A formal policy helps ensure that the policy is consistently applied across the organization as a whole.	**Short Term:** A formal policy regarding delegation of authority should be documented and approved by the Board of Trustees. As part of the policy, a thorough matrix of common contractual arrangements (i.e., cash disbursement approval, purchase orders, vendor contracts, leases, etc.) should be identified and various approval levels assigned by position classification.	**Control Environment Assessment** **Procurement Controls** **Construction Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
14	**Control Environment**	**Component:** Control Environment **Element:** Board of Directors or Audit Committee **Objective:** Knowledge and experience of directors.	58	**Audit Committee Financial Expert** – While all Audit Committee members should be financially literate, not all need to be considered financial experts. However, without a financial expert on the committee it may be difficult to oversee some financial reporting and risk management activities. In particular, financial expertise is often necessary to effectively oversee complex management financial estimate. Additionally, without a financial expert it can sometimes be difficult to interface effectively with external and internal audit personnel.	**Short Term:** The Audit Committee should consider adding a financial expert to the Audit Committee. A financial expert is typically an individual with: 1. An understanding of generally accepted accounting principles and financial statements; 2. Experience applying such generally accepted accounting principles in connection with the accounting for estimates, accruals, and reserves; 3. Experience preparing or auditing financial statements that present accounting issues that are generally comparable to those raised by the District's financial statements; 4. Experience with internal controls and procedures for financial reporting; and 5. An understanding of audit committee functions. The Internal Audit Director has raised this issue in the past and can provide specific guidance on this issue.	**Control Environment Assessment**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
15	**Control Environment and Information Technology**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Appropriateness of reporting relationships.	57	**Information Technology Department Structure** – Approximately 30 percent (20 people) of personnel performing information technology activities within the District do not report to the Information Technology Department and are housed in various departments and locations throughout the District. These individuals are performing information technology tasks, such as security administration and program development, without oversight from the Information Technology Department. Plans currently exist to reorganize Information Technology personnel so that all IT staff report to a Chief Technology Office or equivalent. Without centralization of Information Technology personnel, there is a significant risk that key IT objectives, such as security of data and accurate IT processing, will not be met. Additionally, there is a risk of duplication of efforts without central coordination.	**Midterm:** The District is currently centralizing the IT function. The results of this effort should be reviewed.	**Systems Change Management** **User Access / Segregation of Duties** **Control Environment Assessment**
16	**Accounting**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	57	**Accounting Policies** – The Accounting Department currently has a binder of policy-related memos and trainings; however, it does not have a comprehensive, logically designed and useable manual. Without a reference source of accounting policies and procedures, there is an increased risk of financial misstatement and inconsistency in accounting processing between individuals and over time. This risk is exacerbated by an increase in turnovers due to retirements.	**Long Term:** Accounting Management should consider documenting key policies in a centralized policy manual and providing training to the Accounting staff on the use of the policies. The policies should be periodically reviewed and updated as necessary.	**Financial Close**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
17	**Human Resources and Information Technology**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.	57	**Changes to Employee Access Rights** – Human Resources and Information Technology must be coordinated to ensure the access rights for personnel who leave the District or change job functions are removed or changed as necessary. This coordination needs to occur in a complete and timely manner and may not occur consistently at the District. Further, Information Technology is only involved in the alteration of access rights to the District's network. As security management for Banner is decentralized, it does not appear that a formal process is in place to ensure appropriate changes are made in the Banner system.	**Midterm:** Document employee add/change/delete procedures. Documentation should include specific identification of all individuals that require notification from Human Resources, key reports used in notification, required approval, common conflicting duties, and general expectations of timeliness when changing user access rights. Information Technology should facilitate a periodic evaluation of access rights for appropriateness and approval.	**User Access / Segregation of Duties**
18	**Accounting**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	56	**Non-Cash Account Reconciliations** – While the District reconciles its cash accounts on a monthly basis, other balance sheet accounts, such as property, plant and equipment, accounts receivable and accounts payable, are only required to be reconciled on an annual basis in preparation for the audit. Account reconciliations are a key control in detecting and correcting financial misstatements. The more frequent and timely the reconciliation, the more effective the control.	**Short Term:** Consideration should be given to increasing the frequency of non-cash account reconciliations to a quarterly or monthly basis.	**Financial Close**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
19	**Facilities and Accounting**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	55	**State Construction Matching Funds** – Significant funds are due to state matching from construction projects. In order to receive the funds due, the District must file appropriate documentation with the state in a timely manner. Well-designed controls over this process must be in place and operating effectively to ensure the funds are received and are accurate. Should the relevant controls not be designed sufficiently or operate consistently, there is a risk that the District may not receive all funds due or may be receiving funds in excess of due, resulting in a liability for the District. Due to a retirement in October 2009, the submission of claims for the state matching funds has not occurred. Unbilled claims total approximately $7mm. The District is currently submitting claims to become current and does not expect any collection issues from the state.	**Short Term:** The process and controls in place help ensure state matching funds on bond construction projects are received in an accurate, timely and complete manner. Senior financial management may consider implementing monitoring controls to help ensure continued effective operation of the process and controls.	**Construction Management**
20	**Facilities**	**Component:** Monitoring **Element:** Ongoing Monitoring **Objective:** Extent to which personnel, in carrying out their regular activities, obtain evidence as to whether the system of internal control continues to function.	53	**Construction Close-out** – The Facilities Office does not utilize a close-out checklist to ensure all steps are completed in an accurate and timely manner. Currently, multiple checklists are used. A close-out checklist helps to ensure that all specified work has been completed in accordance with requirements of the contract, that all documents of record have been received, and that all financial aspects of the contract are addressed and resolved. Without the use of a comprehensive close-out checklist, steps (and the documentation thereof) for closing out construction projects may not occur or may not occur completely, leading to significant future costs or liabilities that have no recourse.	**Midterm:** A comprehensive construction project close-out checklist should be developed and implemented. The checklist should be comprehensive in nature and allow for clear documentation of who performed the step, when it was performed, and any relevant comments. Additionally, management should consider implementing a review of the close-out checklist by Facilities Senior Management as an added level of oversight.	**Construction Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
21	**Control Environment**	**Component:** Risk Assessment **Element:** Activity-Level Objectives **Objective:** Linkage of activity-level objectives with entity-wide objectives and strategic plans.	52	**Budget Prioritization** – Various committees (FPAC, IT Project Committee, etc.) meet to make recommendations regarding resource investments without an understanding of budget constraints. This leads to an iterative and slow allocation process and in some cases inappropriate prioritization of investments.	**Midterm:** The Budget and Planning Committee should consider providing initial guidance to the various committees that can impact the capital and operational budget. The committees should be instructed to prioritize their budget activities based on this budgetary guidance using a zero-based budgeting approach. In zero-based budgeting, every department function is reviewed comprehensively and all expenditures must be approved, rather than only increases. Zero-based budgeting requires the budget request be justified in complete detail by each department manager starting from the zero-base. The zero-base is indifferent to whether the total budget is increasing or decreasing.	**Budgeting Process Controls**
22	**Accounting**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	52	**Cash Handling Policy** – A cash handling policy has not been implemented. Due to the number and diversity of cash receipts sites at the District and prior cash receipts issues, a documented procedure and policy will help improve the completeness, accuracy and timeliness of cash transactions. Without a standard policy and approach, there is a risk of significant cash misappropriation and underreporting.	**Midterm:** The District should document its cash handling policies and procedures. The policy should address receipt of cash, deposits, cash safeguarding, and bank reconciliations.	**Cash Handling**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
23	**Facilities**	**Component:** Information and Communication **Element:** Communication **Objective:** Adequacy of communication across the organization (for example, between procurement and production activities) and the completeness and timeliness of information and its sufficiency to enable people to discharge their responsibilities effectively.	51	**Construction Accounting** – As there is no longer a District accountant dedicated to construction project accounting on site in the Facilities Office, there is a risk of a lack of coordination between the Facilities Office and Accounting. A lack of coordination could lead to incomplete accounting for construction contracts, including overpayment or duplicate payment of contractor invoices.	**Midterm:** As of February 2010 the District is looking to replace the Construction Accounting position. Ideally, this accountant should reside with Facilities personnel to increase the level of coordination. If this is not feasible, periodic meetings should be held between the Facilities Office and Accounting to ensure relative roles and responsibilities are understood and to identify coordination problems or risks.	**Construction Management**
24	**Control Environment**	**Component:** Control Environment **Element:** Integrity and Ethical Values **Objective:** Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behavior.	50	**Formal Code of Conduct** – The District has not implemented a formal code of conduct. Although the Faculty, Administrative, and Classified handbooks address discrimination and harassment issues, they do not address other important areas of business conduct and ethics.	**Short Term:** Implement a formal code of conduct. A thorough code of conduct should address conflicts of interest, illegal or improper payments, acceptable business practices, mechanism for reporting suspected violations of the code of conduct, etc. Ideally, all employees will periodically acknowledge their agreement to the code. At a minimum, all new hires will be trained on the contents of the code and asked to acknowledge their understanding and agreement.	**Control Environment Assessment**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
25	**Human Resources**	**Component:** Information and Communication **Element:** Communication **Objective:** Adequacy of communication across the organization (for example, between procurement and production activities) and the completeness and timeliness of information and its sufficiency to enable people to discharge their responsibilities effectively	48	**Termination Notification** – Procedures do not currently exist to ensure consistent and timely notification of employee terminations and job changes from Human Resources to Information Technology, Payroll and Accounts Payable. Without notification, terminated employees may continue to access District information systems, creating the risk of inappropriate transactions and data loss. Terminated employees may continue to receive payment from Payroll and may be considered authorized to approve or initiate procurement and cash disbursement by Procurement and Accounts Payable. Similar risks arise from position changes within the District that are not communicated to these support functions.	**Short Term:** Human Resource Management should implement policies and procedures to ensure employee terminations are completely, accurately and timely reported to relevant support functions. In developing the policies and procedures, consideration should be given to an understanding of what information is needed by the affected departments (i.e., what does IT consider a "termination"), reporting format, and timing.	**Human Resources** **User Access / Segregation of Duties**
26	**Facilities**	**Component:** Risk Assessment **Element:** Activity-Level Objectives **Objective:** Adequacy of resources relative to objectives.	48	**Facilities Master Plan** – A master plan is required from certain institutions by the City and County of San Francisco every 10 years. The current CCSF Master Plan was issued in 2004 and provides a comprehensive strategy for the development of grounds and facilities to meet the College's needs through the year 2015. The CCSF Master Plan presents plans and recommendations for the long-term development of the campuses of City College of San Francisco. Due to the time required to prepare the Master Plan and to secure state matching funds, Facilities personnel are concerned that the District may lack sufficient time to meet the required timing for the Master Plan update.	**Long Term:** The District should work to update the Facilities Master Plan and coordinate with the District's long-term strategic plan, technology plan, education plan and budget.	**Construction Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
27	Academic Affairs	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	47	**Noncredit Student Attendance Record Keeping** – The District must comply with the student attendance requirements as established and outlined in the California Community Colleges Student Attendance Accounting Manual. Oversight and control surrounding attendance are critical in that inaccurate or incomplete student attendance accounting significantly affects the District's revenue from apportionment. Should the District overstate these amounts, it may be exposed to liability. As the District currently uses paper-based forms for attendance purposes, the logistical challenges of coordinating and compiling the attendance data increases the risk that the District will not completely and accurately record student attendance in accordance with the California Community Colleges Student Attendance Accounting Manual.	No specific recommendations noted.	**Student Attendance**
28	Information Technology	**Component:** Information and Communication **Element:** Information **Objective:** Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.	44	**Testing of Program Developments** – The District Information Technology policies do not provide for testing of significant changes in applications and infrastructure technology. Installation testing and validating relate to the migration of new systems into production. Before such systems are installed, appropriate testing and validation should be performed to determine if the systems are operating as designed. Without adequate testing, systems may not function as intended and may provide invalid information, which could result in unreliable financial information and reports.	**Midterm:** As part of the system development and change management policies described in Risks Nos. 4 and 52, robust testing should be utilized. This testing should utilize thorough test plans and ensure that developed programs operate as desired and expected.	**System Development** **Systems Change Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
29	**Human Resources**	**Component:** Control Environment **Element:** Commitment to Competence **Objective:** Analyses of the knowledge and skills needed to perform jobs adequately.	42	**Sufficiency and Appropriateness of Training** – The amount and type of training may not be sufficient for certain technical support functions. Training plays a critical role in an effective internal control system. As the District has faced significant budget issues, the amount and frequency of training has decreased. With general faculty and staff, this decrease may not present a significant risk, but in technical support functions such as Information Technology, Accounting and Legal, a decrease in the amount of training may present significant exposure. Additionally, as the amount of training decreases, the identification and selection of training topics increases in importance, as general training should be replaced with specific targeted training. Regardless of position, training on existing policies and procedures is critical in establishing compliance. Finally, as the current approach to Flex Day training does not include a mechanism to ensure attendance and accountability, there is a risk that even if the relevant training is provided, District employees will not be trained.	**Long Term:** Identify key training requirements for critical support functions and prioritize training requirements against available budget. Training should focus on District policies and procedures. Additionally, accountability mechanisms such as training session sign-in/sign-out should be reinstated.	**Human Resources**
30	**Information Technology**	**Component:** Information and Communication **Element:** Information **Objective:** Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.	42	**Program Development Segregation of Duties** – From review of the Information Technology policies, it does not appear that individuals with programming development responsibilities are segregated from the actual production environment. Without this restricted access, it is possible that the programmer could intentionally or unintentionally introduce source code that has not been properly tested. Untested source code could cause operational disruption or asset misappropriation.	**Short Term:** In coordination with the response to Risks Nos. 4 and 28, District IT Management should ensure that those charged with developing program changes are segregated from those that who place changes into operation in the production environment. This segregation of duties can be enforced through system access rights controls and change logs.	**System Development** **Systems Change Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
31	**Control Environment**	**Component:** Risk Assessment **Element:** Risks **Objective:** Adequacy of mechanisms to identify risks arising from internal sources.	42	**Chief Compliance Officer** – The District lacks a Chief Compliance Officer or equivalent to help ensure all various laws and regulations are complied with and to facilitate required reporting. The District faces a large number of federal, state and local laws and regulations. Further, many of these laws and regulations require multidisciplinary coordination. Without a central point of control to identify requirements and to facilitate multidepartment coordination, the likelihood of noncompliance increases.	**Midterm:** The District should consider creating a Chief Compliance Officer position or equivalent to act as a resource for compliance issues and a clearinghouse of compliance filings.	**Legal Controls**
32	**Information Technology**	**Component:** Information and Communication **Element:** Information **Objective:** Providing information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.	42	**Ad Hoc Reporting** – Banner is a relatively flexible Enterprise Resource Planning software package. As a result, customized reporting is possible. However, based on discussion with users, there is an inconsistent understanding of data fields and reporting, leading to inconsistency in report output based on which department is creating a report.	**Midterm:** When customized reports are written in Banner, a change management process should be utilized. The response to this risk should be coordinated with Risk No. 4 in that a change management policy should be developed and implemented. A key aspect of report development to help ensure accurate and stable reporting is a thorough understanding of business user requirements and acceptance testing by users prior to report release.	**Systems Change Management**
33	**Procurement**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.	41	**Purchase Order Access** – Access to create purchase orders isn't limited to purchasing staff, as personnel in the Accounting Department can create purchase orders. A review of Banner access to create purchase orders has not been performed, so others within the District may have similar access. As a purchase order constitutes a legal offer to buy products or services, access to create purchase orders is essentially access to District assets. It is important that the ability to create and execute purchase orders be segregated from the approval of or recording of purchase. Lack of this segregation creates opportunity for asset theft.	**Short Term:** Access to create purchase orders should be evaluated for appropriateness. If individuals outside the Procurement Department currently have access and indicate that access is necessary to perform their current duties, consideration should be given to changing their duties or finding alternative approaches.	**User Access / Segregation of Duties**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
34	Legal	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	38	**Legal Review of Contracts** – Contracts are reviewed by Legal on an inconsistent or ad hoc basis, and there is no formal mechanism such as a policy or transaction review to help ensure significant contracts (including Request for Proposals) are reviewed by Legal prior to entering into a commitment. Unless a standard approved contract is used or Legal has reviewed contract terms, it is possible that certain contract provision may create significant obligations and liabilities for the District.	**Midterm:** The District should implement policies and procedures that require Legal review of all nonstandard contracts. As this is a preventative control and contracts are currently executed in a decentralized manner, a temporary detective control should be considered wherein all new encumbrances set up in Banner are reviewed for Legal approval prior to entry. Additionally, payments against encumbrances may also need to be reviewed for Legal approval.	**Legal Controls**
35	Accounting	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	36	**Budget Policy** – District Policy 8.1 addresses the need for a budget and stipulates that the budget be prepared in accordance with existing law. However, the District has not documented specifics regarding its budgeting process. In addition to Policy 8.1, the District utilizes the California Community Colleges Budget and Accounting Manual (BAM). The BAM provides a basic overview of the budgeting requirements and timeline as well as the general accounting requirements, but it is not specific to the procedures to be used by the District. A robust budgeting process is critical in controlling spending, predicting cash flow and expenditures, and monitoring progress toward goals.	**Midterm:** The District should review its existing and documented policies and procedures specific to the District. A comprehensive budget policy should include specifics on the budget process from initial establishment, compilation, review, approval, and monitoring.	**Budgeting Process Controls**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
36	**Accounting**	**Component:** Information and Communication **Element:** Communication **Objective:** Effectiveness with which employees' duties and control responsibilities are communicated.	36	**Budget Awareness** – The District has taken a centralized approach to budget creation and monitoring. As a result, operating departments may not have awareness of their approved budget, spend to date against the budget, and responsibility for budget control. The District has built in some centralized preventative controls, such as a budget check prior to issuance of a purchase order and vendor invoice payment. However, a lack of budget awareness and accountability creates the risk of overspending as those initiating budget spend may not appropriately prioritize their activities.	**Midterm:** A budget communication plan should be established to help ensure budget owners (department managers, etc.) understand their budget. Periodic reporting of actual to budgeted expenditures should be provided to budget owners with indication of actual or potential overspend. Ideally, the budget process would be zero-based bottoms-up build. This method helps to ensure buy-in from budget owners. However, this approach requires significant administration and is slower than a centralized approach.	**Budgeting Process Controls**
37	**Accounting**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Appropriateness of reporting relationships.	35	**Accounting Department Structure** – Personnel outside of the Accounting Department (Bursar, Early Childhood Mentoring Program, etc.) are performing key accounting functions, such as cash receipts, deposits, cash disbursements, journal entries, vendor setup, etc. Without direct oversight by and accountability to the CFO and Controller, there is a risk that inappropriate accounting activities will occur, which could lead to material financial misstatement or asset misappropriation.	**Long Term:** District Management should consider reorganizing accounting functions so that all employees who perform key accounting functions report to the Controller and CFO. If reorganization is not feasible, specific detective controls should be implemented to help ensure accuracy of accounting activities performed by nonaccounting personnel.	**Financial Close** **Procurement Controls**
38	**Accounting**	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Appropriate numbers of people, particularly with respect to data processing and accounting functions, with the requisite skill levels relative to the size of the entity and nature and complexity of activities and systems.	35	**Quantity of Qualified Accounting Personnel** – Given the structure, complexity and reporting requirements of the District, it appears that the Accounting Department is understaffed in critical supervisory positions. There is only one Certified Public Accountant on staff out of a total of 20 accountants. Qualification of accounting personnel is a critical aspect of ensuring internal control operates effectively. Without a sufficient number of qualified accountants, the likelihood of a material financial reporting misstatement and/or asset misappropriation increases.	**Short Term:** A scan of the Accounting Department functions should be performed to identify staffing and knowledge requirements. The evaluation of the Accounting Department functions should then be compared against existing accounting resources to identify gaps. Gaps should be prioritized to determine the most critical needs.	**Financial Close**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
39	**Control Environment**	**Component:** Control Environment **Element:** Board of Directors or Audit Committee **Objective:** Use of board committees where warranted by the need for more in-depth or directed attention to particular matters.	35	**Audit Committee Charter** – Although a policy (BP 2220) has been implemented creating an Audit Committee, an audit committee charter has not been established, documented and approved. Without an audit committee charter, there is a risk that committee members may have differing understandings of appropriate roles and actions of the committee. This could lead to lack of appropriate oversight and significant inefficiency.	**Midterm:** The Audit Committee of the Board of Trustees should consider designing, documenting and implementing an audit committee charter. Ideally, this charter will be developed based on control environment best practices, such as audit committee guidance provided by the National Association of Corporate Directors. The Internal Audit Director has raised this issue in the past and can provide example charters.	**Control Environment Assessment**
40	**Budgeting**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Sufficient numbers of employees exist, particularly in management and supervisory capacities.	34	**Hiring Freeze** – Due to budget constraints, the District has implemented a Districtwide hiring freeze. Key employees in critical support functions, such as IT and Accounting, have retired or are expected to retire in the near future, and with the hiring freeze in place there is a risk that critical functions will be understaffed and/or handled by individuals without the requisite knowledge, ability or experience.	**Midterm:** A review of current staffing levels should be performed. Employee shortages should be inventoried and prioritized based on criticality of position to District objectives and risk exposures from not filling the position.	**User Access / Segregation of Duties**
41	**Legal**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	33	**Use of Standard Contracts** – Although the District uses a few standard contracts (Limited Contracts and Professional Services), the District has not established standardized contract language for all common contractual arrangements. Use of these standard contracts is considered a best practice, as they protect the District's interests, and contracts based on a common standard can be reviewed more quickly by Legal, increasing contracting efficiency.	**Long Term:** The Legal function should inventory common contracts entered into by the District and develop model templates. When negotiating contracts, District employees should start with the standard template and track changes to facilitate an efficient review by Legal.	**Legal Controls**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
42	**Human Resources**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.	32	**Employee Setup** – Due to a system limitation, Payroll personnel can access employee profile data in NBA jobs. Access to set up employee profile information such as pay rate, withholding, direct deposit bank information, etc., should be segregated from payroll processes such as time entry and approval and check processing. If these duties are not segregated, it is possible for inappropriate changes to employee profile data to be made, such as an increase in pay rate. In addition to Payroll personnel access to NBA jobs, certain Grant accountants access NBA jobs to set up and change employee profile time allocations for various grants. The access of Grant accountants to NBA jobs creates similar segregation of duties issues.	**Short Term:** Identify and evaluate current user access to employee profile data in NBA jobs. If payroll access is needed to perform job duties, investigate the system limitation and determine if alternatives are available. If no system access alternatives are available, consider implementing an audit trail to log changes to employee profile data. The log should identify what change was made (old value and new value), who made the change, and when the change was made. This exception log should be periodically reviewed by someone without access to employee profile setup.	**User Access / Segregation of Duties**
43	**Payroll**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	30	**Time Entry** – Personnel time can be entered via Banner or on a paper timesheet. The combination of both electronic and paper time entry increases the risk that time recorded is not accurate in terms of amount or coding. Time entry is an exception system wherein employees are assumed to have worked the standard number of hours and only exceptions are recorded. The approval of exception hours relies on both physical review and signature and approval workflow implemented in Banner. Given that personnel time reporting includes grant and noninstructional time reporting, there is a risk that expenditures may be in excess of budgeted amount or not in compliance with grant contractual requirements.	**Long Term:** The District should evaluate the impediments to fully computer-based time entry. Based on the nature of the impediments, the District should consider mandating use of computer-based time entry. If paper-based time entry is required, monitoring controls should be implemented to help ensure accuracy of data entry. A tracking mechanism, such as a log sheet, should support the exception-based time reporting.	**Payroll**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
44	**Grants**	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Appropriateness of control-related standards and procedures, including employee job descriptions.	29	**Grant Coordination** – Although a District Grant Manual has been published, there is no centralized control over grants. Although employees are encouraged to utilize the resources of and coordinate with the Office of Research, Planning and Grants, there is no requirement to do so. As a result, individuals with relatively little experience may be drafting grant proposals, resulting in a less competitive presentation and thus a loss of revenue. As there is no centralized coordination, multiple CCSF personnel may be in competition for the same grant.	**Midterm:** The District should consider implementing a grant writing policy wherein all grants must be coordinated (not necessarily written) through the Office of Research, Planning and Grants.	**Grant Management Controls**
45	**Student Development and Information Technology**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.	29	**Confidential Student Data** – The District maintains confidential and sensitive student data in several departments and information systems. In particular, the Financial Aid Department enters and maintains a significant volume of student information, as does Admission and Records. The Moodle system is an online learning application that also maintains student information. Given the nature and volume of student information and the reliance on effective logical access controls to protect this data, there is a risk that student information could be inappropriately released. The disclosure of information from student records is governed by the Federal Family Educational Rights and Privacy Act (FERPA) and by the State of California Educational Code, and inappropriate disclosure could create a significant liability for the District.	**Midterm:** A data security risk assessment should be performed that identifies and prioritizes types and locations of sensitive information within the District and identifies the data owners.	**User Access / Segregation of Duties**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
46	**Accounting**	**Component:** Information and Communication **Element:** Information **Objective:** Obtaining external and internal information, and providing management with necessary reports on the entity's performance relative to established objectives.	28	**Completeness and Timeliness of Reporting** – The Accounting Department generates approximately 140 unique reports for distribution to various regulatory and funding entities. There is a risk that due to the high volume of reports, uniqueness, and changing nature of the reporting responsibilities, that the reports will not be generated and sent in a complete, accurate and timely manner. Depending on the nature of the oversight, the exposure to a report error could be severe, including a loss of funding or legal penalty.	**Midterm:** Accounting Management should consider implementing a reporting calendar that identifies the filing due dates for all required reporting.	**Financial Close**
47	**Student Development**	**Component:** Risk Assessment **Element:** Risks **Objective:** Adequacy of mechanisms to identify risks arising from external sources.	28	**Financial Aid Processing** – The volume of financial aid applications has increased to a rate almost 100 percent more than the prior year. The Financial Aid Office has maintained the same level of resources during this spike in applications and has designed the process to be scalable through the use of automated processes. However, as the Financial Aid Department has never experienced this volume of activity, there is a risk that the manual and automated process will cease to operate as designed. As a result, the District could be out of compliance with federal requirement, exposing the District to financial and legal liabilities.	**Midterm:** Financial Aid Management should review the processes that could be affected by the increase in processing volume. Potential areas of processing weakness, whether automated or manual, should be identified and prioritized, and risk mitigation plans established.	**Financial Aid**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
48	**Procurement**	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes.	25	**Vendor Setup** – Banner access to set up or change vendor profiles is not limited to purchasing personnel. The District recently removed access from Accounts Payable personnel, and some accounting staff in the Early Childhood Development Mentoring program still have access to create and change vendors. As a result, items may not be purchased from approved vendors.	**Short Term:** District Management should review Banner access to set up new vendors and consolidate under Procurement. If consolidation is not feasible, detective controls, such as a change log, should be designed and implemented to track changes to the vendor master file. The log should identify the change (old value and new value), who made the change, and when the change was made. Additionally, existing vendors should be reviewed for appropriateness.	**User Access / Segregation of Duties** **Procurement Controls**
49	**Procurement and Accounting**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Adequacy of knowledge and experience of key managers in light of responsibilities.	25	**Expenditure Coding** – Department chairs (or equivalent) are responsible for reviewing purchase requisitions and documenting funding code. However, as no training has been offered regarding appropriate coding, Procurement and Accounts Payable staff are often required to correct coding. As Procurement and Accounts Payable personnel may not be familiar with the actual purpose of the purchase, the review of coding only detects obvious errors, and nonobvious errors may not be detected and corrected. When obvious errors are detected, the department chair must be contacted to correct the coding, thus slowing down the overall process.	**Midterm:** Materials should be developed that explain the importance of and methods to be used in determining expenditure coding. Additionally, training should be provided to those approving and coding expenditures.	**Procurement Controls**
50	**Accounting**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	25	**Accommodation Account** – The Accommodation account is not under the control of Accounting. As disbursements and receipts are not managed by Accounting staff, there is a risk that funds are not appropriately accounted for, including the risk of inappropriate expenditures.	**Short Term:** Control of and accounting for the Accommodation account should be brought under the Accounting Department. This should include the recording of cash receipts and cash disbursements and the performance of reconciliations.	**Financial Close**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
51	**Information Technology**	**Component:** Information and Communication **Element:** Information **Objective:** Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.	25	**Business Continuity** – Information Technology policies address the backup of data, but are not specific. Backup policies should address the specific data, media, frequency and logging of backup. Additionally, the IT policies do not cover storage and restoration of backups. Policies also do not address disaster recovery risk assessment. Disaster recovery risk assessments are performed to identify threats and risks that could make an organization vulnerable to business interruptions. By walking through various disaster scenarios, organizations can pinpoint their greatest business threats, as well as identify their control gaps, which increase the impact of the threat. By doing this, the business continuity team can prioritize risks and spend time only on the threats and risks that are most likely to occur and/or have the potential to severely impact the organization.	**Midterm:** Senior District IT management should periodically review the Disaster Recovery and Business Continuity Policy and plans to help ensure they remain relevant based on the District's business needs and system architecture.	**Business Continuity**
52	**Information Technology**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	24	**System Development Policy** – The District's draft IT policies do not include a policy regarding system development. The purpose of such a policy is to clearly define the methodologies and processes for effective implementation of application development projects and significant application upgrades. A system development policy promotes and provides a controlled business environment where an orderly process takes place to minimize risk for implementing major new applications or changes to existing applications that have an urgent priority. Without a development policy, there is a risk that development will be performed in an ad hoc and unstructured manner, resulting in nonachievement of objectives and/or cost overruns.	**Midterm:** IT management should design and implement a system development policy. This policy should be based on the System Development Life Cycle. In addition, procedures should be reviewed and altered to help ensure compliance with the policy.	**System Development**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
53	Procurement	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes.	24	**Purchase Requisition System Approvals** – A majority of purchases are initiated through an online purchase requisition. The approval of these requisitions occurs electronically. The approval authority is established in the Banner system and may not match management intention due to position changes or improper or erroneous data entry. As no additional verification of purchase approval is performed for requisition created and approved in Banner, an error in the approval setup could result in purchases that are inappropriate or not approved by the appropriate level of management.	**Short Term:** As the Banner system is currently enforcing an informal signature authorization policy and matrix, the configuration of approval workflows should be reviewed for appropriateness. This should be coordinated with the implementation of a formal signature authorization policy.	**Procurement Controls**
54	Accounting	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	24	**Receipt of Vendor Invoices** – The District has not adopted a policy of receiving all vendor invoices in the Accounts Payable Department. Currently, vendors send invoices to their primary contacts in various departments. Personnel in the various departments then forward the invoices to Accounts Payable for processing. Several risks arise from this practice. First, this approach relies on the departments to forward invoices in a complete and timely manner. If a department holds the invoices for an extended period of time, it could lead to a potential financial misstatement (and subsequent restatement). Additionally, if invoices are not forwarded in a timely manner, early payment discounts may be lost, resulting in financial loss to the District. Finally, decentralized receipt of vendor invoices creates the risk of invoice tampering and asset misappropriation.	**Midterm:** Consideration should be given to requiring original invoices to be sent directly to Accounts Payable. For invoices requiring additional approval (e.g., purchased services or items without a receiving report, etc.), copies of the original should be forwarded to the appropriate department for approval. To assist in implementation of this process, Legal and Procurement should review all contracts and purchase orders to ensure the correct Accounts Payable address has been included.	**Accounts Payable**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
55	**Control Environment**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Appropriateness of the entity's organizational structure, and its ability to provide the necessary information flow to manage its activities.	24	**Shared Governance Structure** – The current implementation of Shared Governance does not appear to conform to the standards outlined in the District's Shared Governance Handbook. In particular, the handbook describes many of the committees as advisory to the District administration, in effect operating in a participatory manner. In practice, it appears that the advisory committees operate as if they have decision-making authority. If the shared governance system is not operating as designed and documented in the Shared Governance Handbook, there is a significant risk that the decision-making process will become dysfunctional in that decision-making will become a slow and iterative process with significant amount of compromise that could ultimately be detrimental to the objectives of the District.	**Long Term:** AB 1725 and Title 5 of the California Education Code allow for significant discretion in the implementation of a shared governance system. District Management should identify current weakness in the District's shared governance structure. The evaluation should include a survey of the structure of shared governance systems at other California community colleges. If specific best practices are identified, the District should consider implementation. Additionally, training of staff, students and board members on the purpose, structure and process of shared governance should be reinstated. Finally, the Shared Governance Handbook should be updated to include not only the purpose and roles of shared governance and the various committees thereof, but it should also document the decision-making process contemplated in shared governance. This description of the shared governance decision-making process should clarify the types of decisions that should be handled by the shared governance system and what decisions can be made outside the system.	**Control Environment Assessment**
56	**Grants**	**Component:** Risk Assessment **Element:** Activity-Level Objectives **Objective:** Relevance of activity-level objectives to all significant business processes.	23	**Indirect Cost Recovery** – District grants do not consistently apply an overhead rate to grant contracts. By not applying an overhead rate to grants, significant revenue collection opportunities may be missed.	**Short Term:** Verify that the rate approved by the State Chancellor's office is sufficient for use in overhead rate application and no additional negotiation of rates is required. Once a rate has been confirmed, implement procedures in grant writing and grant accounting to help ensure a rate is consistently applied and collected as appropriate.	**Grant Management Controls**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
57	**Control Environment**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	23	**Public Information Policy** – The District has a Comprehensive Policy (Policy 1.04) based on the California Public Records Act (CPRA) (Gov. Code, § 6250 et seq.) and the Ralph M. Brown Act (Gov. Code, § 54950 et seq.). However, this policy is specific to the Board of Trustees. No formal policy exists for the District Policies and Procedures on public information requests made to District employees. Informally it appears many employees know that the Public Information Officer is to handle all requests, but this procedure is inconsistently understood. A public information policy should also address verbal requests for information, such as inquiries from the media. A lack of a public information policy could result in disclosure of sensitive information in an uncontrolled manner or a legal liability if information is not disclosed as required in a timely fashion.	**Midterm:** The District should consider updating Policy 1.04 or creating a separate policy to formally document its policies and procedures regarding access to and release of public information when requests are made of District employees. A public information policy establishes clear lines of demarcation to distinguish information which is made publicly available (either on a routine basis or upon request) from information which may not be disclosed on the grounds of being confidential, and establishes the specific steps to follow.	**Control Environment Assessment**
58	**Control Environment**	**Component:** Control Environment **Element:** Assignment of Authority and Responsibility **Objective:** Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes.	23	**Signature Cards** – The District does not utilize signature cards. Signature cards are used as a formal record in validating authorization signatures. A significant number of authorizations (such as purchase orders, receipt approval, etc.) are received via manual signature. Currently, validation of authorized signatures is performed informally based on accumulated experience. An informal approach to signature authorization validation increases the likelihood of processing improperly authorized transactions. This risk is exacerbated by turnover and changes in business processes and authorization levels (e.g., changes in department chair).	**Midterm:** A signature card program should be implemented by the District. Human Resources should implement a procedure to collect samples of employee signatures. This database of signatures should then be made available to Procurement, IT and Accounting staff for verification of authorization of various transactions and actions.	**Control Environment Assessment** **Procurement Controls** **Construction Management** **User Access / Segregation of Duties**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
59	**Human Resources**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Personnel turnover in key functions, e.g., operating, accounting, data processing, internal audit.	22	**Succession Planning** – The District does not have a succession planning process. Several key departments, such as Information Technology and Accounting, are facing expected retirements. Lack of formal succession planning does not allow for a systematic, measured transfer of responsibility. Succession planning helps ensure the availability of experienced and capable employees who are prepared to assume these roles as they become available.	**Long Term:** Develop a succession planning program including specific policies and key training. Work with department managers to ensure succession planning program has been implemented at the department level.	**Human Resources**
60	**Accounting**	**Component:** Information and Communication **Element:** Information **Objective:** Providing information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.	22	**Asset Disposals** – As the District does not tag or inventory its assets, there is a risk that asset disposals or transfers may not be communicated to proper personnel. It does not appear that operating personnel in the District understand the process for reporting asset disposals. If asset disposals or transfers are not tracked, there is a risk of financial misstatement in that assets and depreciation expense could be overstated.	**Long Term:** Implement a policy and procedure for the identification, approval and accounting notification of asset disposals. The response to this risk should be coordinated with Risk No. 62, as a periodic inventory of property, plant and equipment will help to detect asset disposals that were not properly recorded at the time of asset disposal.	**Property, Plant and Equipment**
61	**Human Resources**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Personnel turnover in key functions, e.g., operating, accounting, data processing, internal audit.	21	**Classified Bumping** – As the District works under the merit system of the San Francisco Civil Service, when civil service employees are laid off in a particular job class, those employees displace, or "bump," employees with less seniority into lower positions under the purview of civil service. As the District has not laid off personnel and the City has, this has created an influx of new personnel. Although many of these personnel share the same job titles with existing District personnel, their skills and backgrounds are different. High turnover of personnel can result in process and control breakdowns. This risk is further exacerbated by the absence of robust policies and procedures manuals and training.	**Short Term:** Identify personnel who are at risk of being bumped and develop a contingency plan to facilitate transition if they are bumped. Consideration should be given to cross-training others and documentation of key procedures that are performed by the classified employee.	**Human Resources**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
62	**Accounting**	**Component:** Control Environment **Element:** Management's Philosophy and Operating Style **Objective:** Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.	21	**Equipment Safeguarding** – The District does not place asset tags on newly purchased assets and/or periodically inventory District property. An asset tag identifies an item as property of the District and provides the item with a unique identify number. By tagging an asset with a unique identification number, the asset can be periodically counted and compared to records maintained by the Accounting Department. Without tagging and periodic asset inventories, there is a risk that assets are being misappropriated and not identified and investigated.	**Long Term:** As part of its updating of District accounting policies, the Accounting Department should document and implement a fixed asset policy. An individual should be designated to oversee fixed asset accounting. The individual should ensure that all new assets purchased and added to the fixed asset ledger have been tagged. The individual should coordinate a periodic inventory of District property and equipment. The annual count could be designed to cycle through various departments and locations over a multiyear period.	**Property, Plant and Equipment**
63	**Information Technology**	**Component:** Information and Communication **Element:** Information **Objective:** Management's support for the development of necessary information systems is demonstrated by the commitment of appropriate resources – human and financial.	20	**Information Technology Equipment** – District information technology is nearing obsolescence. In particular, user computers are aged and in some cases have significant performance issues. These performance issues are resulting in a resistance to utilize information system capabilities such as time sheets and student attendance in favor of paper-based record keeping. Without adequate information system technology, the District may continue to experience resistance from users in adopting technological efficiency solutions.	**Midterm:** The District Information Technology Plan should consider not only strategic initiative resource requirements but also routine maintenance resource costs, such as a rotational replacement of desktop computers and other IT infrastructure.	**Budgeting Process Controls**
64	**Internal Audit**	**Component:** Monitoring **Element:** Ongoing Monitoring **Objective:** Effectiveness of internal audit activities.	19	**Internal Audit Charter** – Although a formal internal audit charter has been documented by the Director of Internal Audit and approved by the Board of Trustees, the Charter has not been integrated into the District's policy manual. Without a formal documentation of the District's policy regarding Internal Audit's role, the ability of the Internal Audit Department to perform its function may be significantly impaired.	**Short Term:** The District should implement a policy to reflect the Board's approval of the Internal Audit Charter to further clarify the role and organizational status of CCSF Internal Audit.	**None Proposed**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
65	**Facilities**	**Component:** Information and Communication **Element:** Information **Objective:** Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.	19	**Construction Management Software** – The District purchased construction management software to manage its construction activity, but the software was not implemented. Key reports (such as estimate to complete versus budget) are not readily available for management of the construction program. Construction management software is designed to manage large construction programs and can improve schedule, cost and quality accountability. Without construction management software, key oversight activities need to be performed manually and may not be performed or performed completely.	**Midterm:** A cost/benefit analysis of construction software implementation should be performed. Specific obstacles to implementation should be understood and remediation actions implemented if appropriate. In determining the cost benefit of implementing the construction management software that was purchased by the District, the current Facilities Master Plan (and expected future master plan) should be factored in. If the District does not expect a large volume of construction in the future, the value of implementing the software is diminished.	**System Development** **Construction Management**
66	**Human Resources**	**Component:** Control Environment **Element:** Commitment to Competence **Objective:** Formal or informal job descriptions or other means of defining tasks that comprise particular jobs.	18	**Completeness and Accuracy of Job Descriptions** – Due to the effect of classified bumping and other turnover, the number and diversity of positions, and the redesign of business processes in various departments, formal job descriptions maintained by Human Resources may be incomplete and/or not reflect actual assigned duties. Without complete and accurate job descriptions, there is a risk that key tasks will not be performed, efforts will be duplicated, and employees may not be qualified for their actual responsibilities.	**Midterm:** Management should perform a review of job functions and interview individuals in various positions to determine if the descriptions are accurate. Additionally, a process for periodically evaluating and updating job descriptions should be designed, documented and adopted.	**Human Resources**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
67	**Academic Affairs**	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	18	**Instructional Service Agreements (ISA) Attendance Record Keeping** – Per Legal Advisory 04-01.5 from the California Community Colleges Chancellor's Office, student attendance in classes offered under ISAs is eligible for apportionment provided all Education Code and Title 5 requirements are satisfied. Because ISA requirements are somewhat complicated, apportionment may be claimed inappropriately. Furthermore, because ISAs often operate outside of the District's usual processes, abuse can occur. There may be charges of "double dipping" when the organization is a public agency because apportionment and agency training funds are applied to the same instruction. Additionally, apportionment funds received by the District may be redirected not to the training partner as an appropriate offset to instructional costs, but to a third party that wrongfully profits from the program. Should these procedures not be in place, the District may be exposed to revenue exposure, potential legal liability, and reputational damage.	**Midterm:** Specific procedures should be implemented to control for the noted risks. The District should review the Contract Guide for Instructional Service Agreements between College Districts and Public Agencies in tandem with its review of its control structure.	**Instructional Service Agreements**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
68	Accounting	**Component:** Control Activities **Element:** Control Activities **Objective:** Identified control activities in place are being applied properly.	18	**Contract Management Database** – The District may not be effectively utilizing Banner capabilities to track all contractual obligations. The District utilizes the Banner system as a central repository or database of contracts with vendors and services providers through the use of encumbrances. The function of the database is to serve as a repository and quick reference guide when needing to research a completed and approved contract. Use of a contract database allows for efficient and effective control of service expenditures, as contract amounts and time frame per the contract are referenced prior to invoice payment. Without a contract database, the District is reliant on decentralized contract administration. This can lead to payments that exceed contract terms and/or payments for expired contracts.	**Midterm:** The use of the Banner system to track contractual obligations should be evaluated. This evaluation should include an assessment of the completeness of the database, accuracy of data input and a determination if payments have been made that are not supported by the database, in terms of nature, amount or timing.	**Accounts Payable**
69	Procurement and Facilities	**Component:** Information and Communication **Element:** Communication **Objective:** Timely and appropriate follow-up action by management resulting from communications received from customers, vendors, regulators or other external parties.	18	**Bid Protest Policy** – Although District Request for Proposals states the bidders' procedures for lodging a bid protest, no District policy for handling bid protests has been established. The bid protest process does not appear to be consistently understood by Procurement personnel. Without a documented policy and procedure relating to bid protests, the District may not comply with the requirements of California Public Contract Code, resulting in legal liability.	**Midterm:** A formal bid protest policy should be developed to clearly document the District procedures relative to bid protests. The policy should be developed with consideration of the California Public Contract Code.	**Procurement Controls** **Construction Management**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
70	**Legal**	**Component:** Control Activities **Element:** Control Activities **Objective:** Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.	17	**Record Retention Policy** – The District does not currently have a comprehensive record retention policy and enforcement process. Well-run districts need to have a records management plan and procedure in place for determining the security of the information they store, and also for determining how long they must retain specific types of information. Record retention requirements stem from good business practice, such as a complete record of construction activity for use in monitoring and auditing construction payments. Record retention requirements also stem from numerous legal and regulatory requirements, such as human resources laws and procurement practices. A lack of a record retention policy and enforcement mechanism can lead to inefficient use of funds or significant legal penalties.	**Midterm:** A record retention policy should be designed and implemented by the District. An inventory of the various categories of records should be developed. For each category, relevant laws and regulations should be consulted to ensure the District's policy of retention meets the required period. Once the inventory and legally required retention periods have been completed, a table should be developed and included in the policy referencing this information. The policy should also address record storage and destruction.	**Control Environment Assessment**
71	**Information Technology**	**Component:** Control Environment **Element:** Organizational Structure **Objective:** Appropriateness of the entity's organizational structure, and its ability to provide the necessary information flow to manage its activities.	16	**Website Content Review** – The website is administered by the Information Technology Services Department. The Department provides website development security, connectivity, and system technical support. Oversight of website content is not administered by the Webmaster. Web authors are responsible for ensuring web pages abide by all department, College, District, city, state, and federal policies, rules, and laws. Website standards have been documented, describing general content prohibitions. The Webmaster may review web content at any time, but preventative reviews do not take place prior to content changes. As controls over website content are detective rather than preventative, inappropriate content may be posted and not identified before significant exposure has occurred. Depending on the nature of the inappropriate content, the District may incur sizeable legal and reputational damage.	**Midterm:** Implement preventative content reviews prior to public posting of website changes. The individual charged with review of website content should be knowledgeable of District, legal and regulatory requirements.	**None Proposed**

Risk No.	CCSF Area	COSO	Risk Score	Risk Description	Recommendation for Management	Planned Internal Audit
72	**Procurement**	**Component:** Information and Communication **Element:** Information **Objective:** Providing information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.	16	**Purchasing Reporting** – The Procurement Department uses a limited number of reports. Due to a lack of Banner capabilities or a system limitation, several common purchasing reports are not readily available for use. Key reports not available include an open purchase order report, open invoice report, and receiving report. Without these reporting capabilities, the Procurement Department is prevented from adequate oversight of purchases without significant manual intervention. Should oversight not occur, the District may be paying for goods and services not received, may be overpaying for those goods and services, or may have goods and services that are not delivered in a timely manner.	**Midterm:** Banner purchasing and accounts payable reporting capabilities should be investigated by a joint team of Procurement, Accounts Payable and IT personnel. Identified reporting requirements should be compared against available reports and reporting gaps identified. The cost of creating custom reports should be weighed against the potential benefits as assessed by Procurement and Accounts Payable.	**Procurement Controls**

APPENDIX B – INTERNAL AUDIT RESOURCE STATISTICS

The following shows average internal audit data based on various levels of revenue, assets, and expenses. This information is complied by the Institute of Internal Auditors on an annual basis and published in their Global Audit Information Network report.

Revenues

	Revenues	Total Employees	Audit Staff Count	Internal Audit Costs	Total External Audit Fees	IA Costs AS % of Revenues	EA Fees AS % of Revenues
Under $500 Million	$244,397,347	750.00	3.28	$484,818	$468,515	0.3139%	0.1929%
$500 Million - $1 Billion	$760,490,406	2,043.00	3.59	$537,638	$688,510	0.07%	0.0865%
$1 Billion - $5 Billion	$1,940,756,745	6,112.00	3.56	$697,180	$1,673,377	0.0415%	0.0959%
$5 Billion - $15 Billion							
$15 Billion - $25 Billion							
Over $25 Billion							

Assets

	Assets	Total Employees	Audit Staff Count	Internal Audit Costs	Total External Audit Fees	IA Costs AS % of Assets	EA Fees AS % of Assets
Under $500 Million	$321,783,974	1,611.00	2.81	$496,773	$681,268	0.2754%	0.1876%
$500 Million - $1 Billion	$779,692,627	1,653.00	3.60	$467,138	$712,538	0.0612%	0.0916%
$1 Billion - $5 Billion	$2,454,910,787	2,865.00	3.74	$593,359	$886,514	0.0286%	0.0456%
$5 Billion - $15 Billion	$8,620,632,000	2,969.00	3.35	$671,814	$933,333	0.0085%	0.0098%
$15 Billion - $25 Billion							
Over $25 Billion	$68,223,841,200	32.00	3.10	$478,177	$176,000	0.0007%	0.0003%

Expenses

	Expenses	Total Employees	Audit Staff Count	Internal Audit Costs	Total External Audit Fees	IA Costs AS % of Expenses	EA Fees AS % of Expenses
Under $500 Million	$220,497,217	822.00	3.37	$486,424	$464,122	0.3634%	0.2349%
$500 Million - $1 Billion	$751,204,018	2,134.00	3.51	$544,990	$673,679	0.0732%	0.0865%
$1 Billion - $5 Billion	$1,862,996,575	5,878.00	3.68	$705,788	$1,680,707	0.0451%	0.0962%
$5 Billion - $15 Billion							
$15 Billion - $25 Billion							
Over $25 Billion							

<u>APPENDIX C – COSO INTERNAL CONTROL FRAMEWORK</u>

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Integrated Framework – Evaluation Tools* publication was used to perform this risk assessment. The COSO framework consists of five interrelated components derived from the way management runs an organization. According to COSO, these components provide an effective framework for describing and analyzing the internal control system implemented in an organization and are summarized below.

CONTROL ENVIRONMENT
Integrity and Ethical Values   • Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behavior.   • Establishment of the "tone at the top" – including explicit moral guidance about what is right and wrong – and extent of its communication throughout the organization.   • Dealings with employees, suppliers, customers, investors, creditors, insurers, competitors, and auditors, etc. (e.g., whether management conducts business on a high ethical plane, and insists that others do so, or pays little attention to ethical issues).   • Appropriateness of remedial action taken in response to departures from approved policies and procedures or violations of the code of conduct. Extent to which remedial action is communicated or otherwise becomes known throughout the entity.   • Management's attitude towards intervention or overriding established controls.   • Pressure to meet unrealistic performance targets – particularly for short-term results – and extent to which compensation is based on achieving those performance targets.
Commitment to Competence   • Formal or informal job descriptions or other means of defining tasks that comprise particular jobs.   • Analyses of the knowledge and skills needed to perform jobs adequately.

CONTROL ENVIRONMENT

Board of Directors or Audit Committee

- Independence from management, such that necessary, even if difficult and probing, questions are raised.

- Use of board committees where warranted by the need for more in-depth or directed attention to particular matters.

- Knowledge and experience of directors.

- Frequency and timeliness with which meetings are held with chief financial and/or accounting officers, internal auditors and external auditors.

- Sufficiency and timeliness with which information is provided to board or committee members to allow monitoring of management's objectives and strategies, the entity's financial position and operating results, and terms of significant agreements.

- Sufficiency and timeliness with which the board or audit committee is apprised of sensitive information, investigations and improper acts (e.g., travel expenses of senior officers, significant litigation, investigations of regulatory agencies, defalcations, embezzlement or misuse of corporate assets, violations of insider trading rules, political payments, illegal payments).

- Oversight in determining the compensation of executive officers and head of internal audit, and the appointment and termination of those individuals.

- Role in establishing the appropriate "tone at the top."

- Actions the board or committee takes as a result of its findings, including special investigations as needed.

CONTROL ENVIRONMENT

Management's Philosophy and Operating Style

- Nature of business risks accepted, e.g., whether management often enters into particularly high-risk ventures, or is extremely conservative in accepting risks.

- Personnel turnover in key functions, e.g., operating, accounting, data processing, and internal audit.

- Management's attitude toward the data processing and accounting functions, and concerns about the reliability of financial reporting and safeguarding of assets.

- Frequency of interaction between senior management and operating management, particularly when operating from geographically removed locations.

- Attitudes and actions toward financial reporting, including disputes over application of accounting treatments (e.g., selection of conservative versus liberal accounting policies, whether accounting principles have been misapplied, important financial information not disclosed, or records manipulated or falsified).

Organizational Structure

- Appropriateness of the entity's organizational structure, and its ability to provide the necessary information flow to manage its activities.

- Adequacy of definition of key managers' responsibilities, and their understanding of these responsibilities.

- Adequacy of knowledge and experience of key managers in light of responsibilities.

- Appropriateness of reporting relationships.

- Extent to which modifications to the organizational structure are made in light of changed conditions.

- Sufficient numbers of employees exist, particularly in management and supervisory capacities.

CONTROL ENVIRONMENT

Assignment of Authority and Responsibility

- Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes.

- Appropriateness of control-related standards and procedures, including employee job descriptions.

- Appropriate numbers of people, particularly with respect to data processing and accounting functions, with the requisite skill levels relative to the size of the entity and nature and complexity of activities and systems.

- Appropriateness of delegated authority in relation to assigned responsibilities.

Human Resources Policies and Practices

- Extent to which policies and procedures for hiring, training, promoting and compensating employees are in place.

- Extent to which people are made aware of their responsibilities and expectations of them.

- Appropriateness of remedial action taken in response to departures from approved policies and procedures.

- Extent to which personnel policies address adherence to appropriate ethical and moral standards.

- Adequacy of employee candidate background checks, particularly with regard to prior actions or activities considered to be unacceptable by the entity.

- Adequacy of employee retention and promotion criteria and information-gathering techniques (e.g., performance evaluations) and relation to the code of conduct or other behavioral guidelines.

RISK ASSESSMENT

Entity-Wide Objectives

- Extent to which the entity-wide objectives provide sufficiently broad statements and guidance on what the entity desires to achieve, yet are specific enough to relate directly to this entity.

- Effectiveness with which the entity-wide objectives are communicated to employees and board of directors.

- Relation and consistency of strategies with entity-wide objectives.

- Consistency of business plans and budgets with entity-wide objectives, strategic plans and current conditions.

Activity-Level Objectives

- Linkage of activity-level objectives with entity-wide objectives and strategic plans.

- Consistency of activity-level objectives with each other.

- Relevance of activity-level objectives to all significant business processes.

- Specificity of activity-level objectives.

- Adequacy of resources relative to objectives.

- Identification of objectives that are important (critical success factors) to achievement of entity-wide objectives.

- Involvement of all levels of management in objective setting and the extent to which they are committed to the objectives.

Risks

- Adequacy of mechanisms to identify risks arising from external sources.

- Adequacy of mechanisms to identify risks arising from internal sources.

- Identification of significant risks for each significant activity-level objective.

- Thoroughness and relevance of the risk analysis process, including estimating the significance of risks, assessing the likelihood of their occurring and determining needed actions.

RISK ASSESSMENT

Managing Change

- Existence of mechanisms to anticipate, identify and react to routine events or activities that affect achievement of entity or activity-level objectives (usually implemented by managers responsible for the activities that would be most affected by the changes).

- Existence of mechanisms to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of top management.

CONTROL ACTIVITIES

Control Activities

- Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.

- Identified control activities in place are being applied properly.

INFORMATION AND COMMUNICATION

Information

- Obtaining external and internal information and providing management with necessary reports on the entity's performance relative to established objectives.

- Providing information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.

- Development or revision of information systems based on a strategic plan for information systems – linked to the entity's overall strategy – and responsive to achieving the entity-wide and activity-level objectives.

- Management's support for the development of necessary information systems is demonstrated by the commitment of appropriate resources – human and financial.

INFORMATION AND COMMUNICATION

Communication

- Effectiveness with which employees' duties and control responsibilities are communicated.

- Establishment of channels of communication for people to report suspected improprieties.

- Receptivity of management to employee suggestions of ways to enhance productivity, quality or other similar improvements.

- Adequacy of communication across the organization (for example, between procurement and production activities) and the completeness and timeliness of information and its sufficiency to enable people to discharge their responsibilities effectively.

- Openness and effectiveness of channels with customers, suppliers and other external parties for communicating information on changing customer needs.

- Extent to which outside parties have been made aware of the entity's ethical standards.

- Timely and appropriate follow-up action by management resulting from communications received from customers, vendors, regulators or other external parties.

MONITORING

Ongoing Monitoring

- Extent to which personnel, in carrying out their regular activities, obtain evidence as to whether the system of internal control continues to function.

- Extent to which communications from external parties corroborate internally generated information or indicate problems.

- Periodic comparison of amounts recorded by the accounting system with physical assets.

- Responsiveness to internal and external auditor recommendations on means to strengthen internal controls.

- Extent to which training seminars, planning sessions and other meetings provide feedback to management on whether controls operate effectively.

- Whether personnel are asked periodically to state whether they understand and comply with the entity's code of conduct and regularly perform critical control activities.

- Effectiveness of internal audit activities.

MONITORING
Separate Evaluations • Scope and frequency of separate evaluations of the internal control system. • Appropriateness of the evaluation process. • Whether the methodology for evaluating a system is logical and appropriate. • Appropriateness of the level of documentation.
Reporting Deficiencies • Existence of mechanism for capturing and reporting identified internal control deficiencies. • Appropriateness of reporting protocols. • Appropriateness of follow-up actions.

APPENDIX D – DOCUMENTS REVIEWED

The documents listed below were reviewed during the risk assessment and considered in conducting our interviews with management.

- 2008 Bond Performance Audit Report
- 2009 Financial Audit Management Letter
- 2006 Self Study for Reaffirmation of Accreditation
- 2006 WASC Accreditation Report and Midterm Report
- 2008/2009 Annual Budget and Management Plan
- 2008 Annual Financial Report
- 2008/2009 Annual Budget
- Human Resource Department Administrative, Classified, and Faculty Handbooks
- Financial Aid Handbook
- Shared Governance Handbook
- California Community Colleges Budget and Accounting Manual
- California Community Colleges Contracted District Audit Manual
- California Community Colleges Contract Guide for Instructional Service Agreements
- 2004 CCSF Grants Manual
- California Community Colleges Student Attendance Accounting Manual
- Board Policies
- Academic Personnel Policies
- Classified Employees Policies
- Student Activities, Student Governance, and Student Services Policies
- Instructional Program Policies

- Physical Facilities and Planning Policies
- Business Services Policies
- Computer Usage Policy
- Web Site Standards and Practices
- Web Page Development Guide
- California State Chancellor Legal Advisory 04-01.5
- Citizen's Bond Oversight Committee 2008 Report
- CCSF Organizational Chart
- 2009/2010 Institutional Annual Plan
- Strategic Plan Implementation Schedule 2003-2008
- Collective Bargaining Agreement between the San Francisco Community College District (SFCCD) and the Department Chairperson Council 2009-2012
- Collective Bargaining Agreement between SFCCD and American Federation of Teachers (AFT) 2121, 2009-2012
- Collective Bargaining Agreement for the San Francisco Building and Construction Trade Council Unions (SFBCTCU), July 1, 2007-June 30, 2010
- Collective Bargaining Agreement between SFCCD and Service Employees International Union (SEIU 1021), 2007-2010
- Collective Bargaining Agreement between SFCCD and Stationary Engineers Local 39, 2008-2010
- Accounting Policy Manual
- ITS Policy Manual
- Network Diagram

APPENDIX E – INTERVIEWED PERSONNEL

The following District personnel were interviewed as part of the risk assessment and internal audit planning process.

Name	Title
Dr. Don Griffin	Chancellor
Dr. Alice Murillo	Vice Chancellor of Academic Affairs
Martha Lucey	Dean of Marketing and Public Information
Doug Re	Director of IT Systems and Operations
Ronald Lee	Legal Counsel
Clara Starr	Dean of Human Resources
Jorge Bell	Dean of Financial Aid
Phyllis McGuire	Dean of Evans Campus
John Bilmont	Chief Financial Officer
Peter Goldstein	Vice Chancellor of Finance and Administration
Steven Hale	Employee Relations Manager
Donald Lind	Payroll Director
Attila Gabor	Shared Governance Coordinator
Amy Sandro	Controller
David Liggett	Facilities Director
Kathy Hennig	Purchasing Manager

APPENDIX F – INTERNAL AUDIT SPECIALTY SKILL REQUIREMENTS

The chart below shows the distribution of total internal audit project hours by specialty audit skill. A diverse skill set is required to address the District's internal audit needs due to the varied risks presented by the District's size and complexity.

Construction
7%

District Governance
8%

General
33%

Compliance
20%

IT
14%
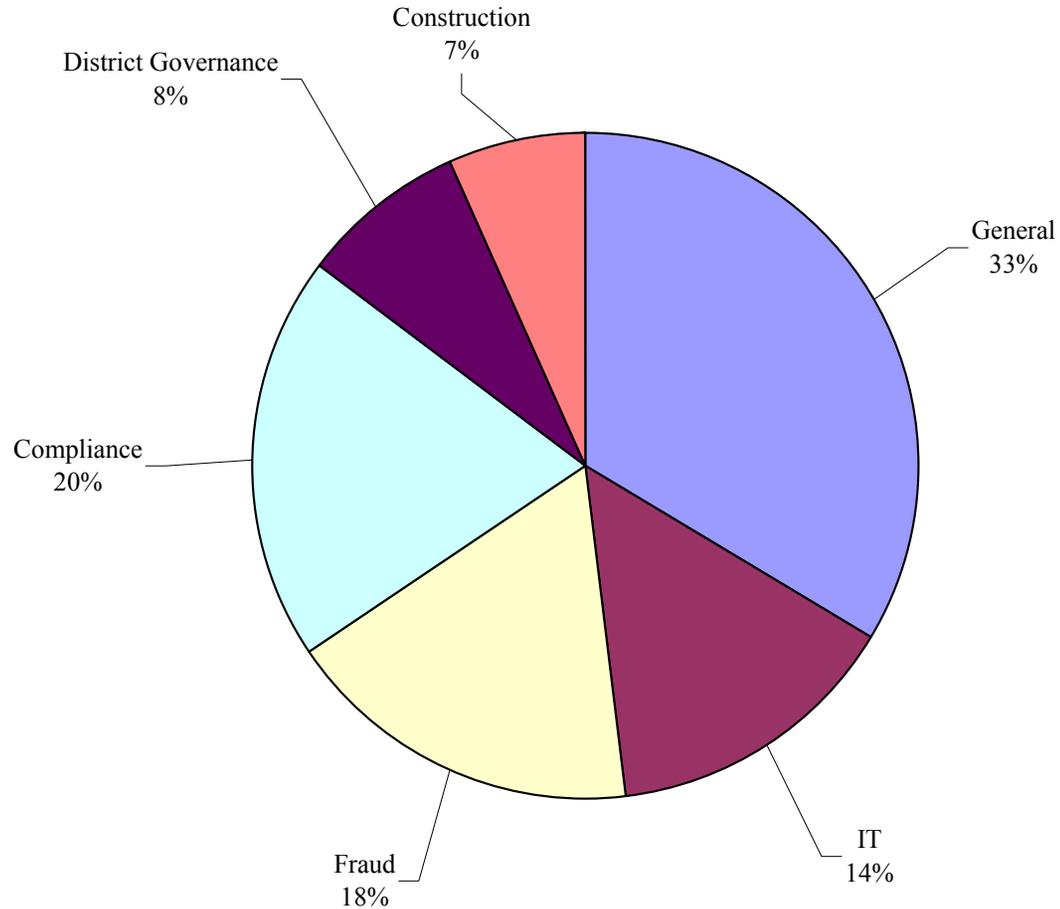
Fraud
18%

This chart was based on an analysis of each proposed internal audit skill requirement as shown below:

Audit Name	Audit Skill Requirement						
	General	IT	Fraud	Compliance	District Governance	Construction	General Admnistration
User Access / Segregation of Duties		350					
Financial Close	350						
Construction Management						450	
Budgeting Process Controls	325						
Payroll	250						
District Governance Structure Assessment					400		
Legal Controls				150	150		
Human Resources				275			
Procurement Controls	275						
Systems Change Management		175					
System Development		225					
NonInstructional Assignments	225						
Cash Handling	275						
Property, Plant and Equipment	225						
Financial Aid				250			
Instructional Service Agreements	150			200			
Accounts Payable	225						
Business Continuity		225					
Grant Management Controls				250			
Student Attendance				225			
Special Requests*			1,200				1,200
Administration, Coordination, Updates							3,900
Total Specialty Hours	**2,300**	**975**	**1,200**	**1,350**	**550**	**450**	**5,100**

* Special requests include fraud investigations. Approximately 50% of special request time is expected to be fraud related.