



# California Community Colleges

## CONTRACTED DISTRICT AUDIT MANUAL PROCEDURE 411–SCFF DATA MANAGEMENT CONTROL ENVIRONMENT FREQUENTLY ASKED QUESTIONS

### **1. Why is a new test of the SCFF data management control environment included in the CDAM?**

Education Code section 84750.4 (m)(4)(c) requires the CDAM to include audit procedures for SCFF data and allows the Chancellor to require that districts repay any funding associated with an audit exception.

Title 5 section 58311 outlines the Principles for Sound Fiscal Management for the community college system. These regulatory principles require districts to implement and maintain effective internal controls to ensure that fiscal objectives are met, define fiscal responsibilities and establish staff accountability, adhere to appropriate fiscal policies and procedures, and maintain information systems that provide timely, accurate, and reliable fiscal information for planning, decision making and budgetary control. Compliance with these principles helps ensure that community college districts submit accurate and complete SCFF metric data to the Chancellor’s Office.

### **2. What does the testing process over the data management control environment entail?**

The districts should have processes in place to ensure accurate and complete SCFF metric data is submitted to the Chancellor’s Office. The suggested audit procedures include examples; however, this list is not inclusive. Auditors should use professional judgment to determine whether the districts have the means to achieve and report accurate data. The audit teams should also consider if there are alternative data management processes in place to ensure accurate and complete reports.

### **3. Do we have to perform all the suggested audit procedures?**

No, the suggested audit procedures are available to assist audit teams when developing their audit plan. Auditors should use their professional judgment when determining whether the suggested audit steps should be modified or expanded upon.

### **4. Does this procedure require substantive testing of the SCFF data?**

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Substantive testing is not a required procedure for the 2019-20 fiscal year, but will be a required component of state compliance testing in future years.

However, state general apportionment funding can be a significant component of revenue for many districts and may warrant testing for financial reporting purposes. We understand that some CPA firms are verifying claimed amounts to raw data, Pell and Promise Grant recipients, whether students had more than 9 units for CTE classes, and transcript support for certificates, associates degrees, and transfer degrees. The Chancellor's Office looks forward to working with the CPA firms and system stakeholders as formal state compliance substantive procedures for SCFF data are developed.

### **5. What compliance criteria requires written desk procedures, training, and ongoing monitoring of procedures?**

The criteria for testing the SCFF Control Environment, title 5 section 58311, does not specifically mention desk procedures, training, or monitoring data quality. However, the criteria does require districts to implement and maintain effective internal controls to ensure that fiscal objectives are met.

Desk procedures, staff training, and ongoing monitoring are widely considered best practices for internal controls. Publications such the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, commonly referred to as the *Green Book* include specific examples of effective control activities. We encourage auditors to reference relevant sections of the *Green Book* in the criteria section of any internal control findings.

### **6. What audit evidence can be used to support conclusions?**

Auditors are required to obtain sufficient and appropriate audit evidence as required by AU-C 500 Audit Evidence. Specifically, the *Sources of Audit Evidence* and *Audit Procedures for Obtaining Evidence* sections within the AU-C 500 include examples of testimonial (i.e. inquiries) and documentary evidence (i.e. examination of records). See the AU-C 500 for specific guidance.

The Chancellor's Office recommends that the auditor first obtain information about the data management control environment through inquiry, interviews, or questionnaires. If the district states that policies and procedures are in place, the auditor should obtain documentation and review to determine whether the procedures address each of the audit procedure sections. The policies and procedures could be at the board or administrative level. Inquiry with MIS or other staff that work with SCFF data can be used to verify whether procedures have been put into practice. If the auditor is able to observe a portion of the data reporting

process or training, they can further assess whether control procedures are functioning as intended.

**7. For the student success allocation, the procedures ask for a determination of whether management has ‘established expectations of shared ownership of data’ and provided ‘appropriate training and professional development opportunities’. Determining whether expectations have been established and training is appropriate could be somewhat subjective. What audit evidence can be used to support a conclusion for these procedures?**

The goals are to determine whether the district management has communicated their expectations to staff and provided training that will allow staff to report accurate and complete data. Since every district is different, the audit team should identify whether the district management has disseminated expectations to their staff in either a verbal or written format. Evidence could include testimony that is corroborated by multiple district staff, policies and procedures, and/or official memos that have been provided to staff. Some examples of evidence for training opportunities could include corroborating testimony of internal on-the-job training, staff time provided to attend SCFF workshops or webinars, or observation by the auditor of training time blocked out on a work calendar. ‘Appropriate’ training means that it is related to the SCFF data management duties assigned to staff and has provided staff with the ability to sufficiently perform their responsibilities.

The auditor should use their judgment to determine the need for sufficient and appropriate evidence as stated in AU-C 500 which includes testimonial (i.e. staff interviews) and/or documentary evidence (i.e. memo, policies and procedures, email, etc.).

**8. What constitutes a significant deficiency or material weakness that should be reported to management?**

The CDAM states that a significant deficiency exists if policies and procedures over SCFF data management are nonexistent, outdated, or not implemented.

Per AU-C Section 265, significant deficiency is a deficiency or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A material weakness in internal control include the following: Identification of fraud, whether or not material, on the part of senior management

Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error

Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control.

Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

The auditor should reference AU-C Section 265 for additional details. The auditor should always use professional judgment when making determinations regarding significant deficiencies and material weaknesses over data management.

Furthermore, the auditor should communicate any impact for the districts' ability to provide accurate data management. The communication to those charged with governance can be oral or written.

The Chancellor's Office recommends that deficiencies are communicated to district management as a management letter as referenced in the GAO's *Government Auditing Standards*, or *Yellow Book*, and AU-C 260. Additional guidance on communicating deficiencies can be found in 2018 GAS Section 6.39-44.

### **9. What does the Chancellor's Office consider a finding for this audit procedure?**

The auditor should exercise professional judgment when determining what constitutes a data management control environment finding. The Chancellor's Office considers each element of the CDAM suggested audit procedures to be significant to the audit objectives and recommends that any noted instance of noncompliance with elements of the CDAM procedure be classified as an audit finding, as the district's ability to maintain accurate and complete SCFF data could be impacted.

Again, the CDAM states that a significant deficiency exists if policies and procedures over SCFF data management are nonexistent, outdated, or not implemented.

### **10. Will the Chancellor's Office issue additional guidance to districts on Data Management Practices?**

Guidance for community colleges on data governance for the SCFF and other data is under development. The Chancellor's Office recommends that districts follow Green Book guidance, especially Principle 11 – Design Activities for the Information

System, when designing information systems and control activities for data management.

**11. Can you give us an example of sample language for an audit finding?**

The GAO's 2018 *Yellow Book* includes guidance on identifying, developing, and reporting on findings for government financial audits. *Yellow Book* section 6.19 states that findings may involve deficiencies in internal control. The *Green Book* includes a framework for internal controls which can be referenced for best practices in control activities.

**Criteria:** Title 5 section 58311 requires districts to implement and maintain effective internal controls to ensure that fiscal objectives are met. Internal control frameworks, such as the Government Accountability Office's Standards for Internal Control in the Federal Government, or Green Book, describe training as an essential component of (1) the principle of designing appropriate control activities related to the management of human capital and (2) the principle of demonstrating a commitment to competence through the development and retention of competent personnel capable of achieving the entity's objectives.

**Condition:** Training was not provided to staff assigned to submit SCFF Student Success data to the Chancellor's Office.

**Cause:** Management did not prioritize training due to lack of available resources. A training budget was not available and staff time was not approved for training.

**Effect or potential effect:** Weak or missing internal controls over data management, such as a lack of training, could cause the SCFF data metrics to be inaccurately reported to the Chancellor's Office, which would cause the district's total computational revenue (TCR) to be calculated incorrectly. The TCR is calculated by the Chancellor's Office to determine the maximum amount of funding for which a district is eligible. If a district's student enrollment fees and local property tax revenue do not meet or exceed the maximum TCR, state general apportionment is provided. Submission of incorrect data by a district will affect the state general apportionment revenue received by every district in the system.