December 5, 2008

Denver McClendon, Chairman
Board of Trustees
Alamo Community Colleges
201 W. Sheridan
San Antonio, TX 78204

Dear Mr. McClendon and Board of Trustees:

Re: Transmittal of Capital Improvement Program (CIP) Project Reviews Reports and
ACC Management Responses

The Internal Audit Department of the Alamo Community Colleges (ACC) performed three
projects related to the $450 million Capital Improvement Program (CIP). These included reviews
of both Facilities and Information Technology (IT) CIP Projects. A sample of CIP related
transactions were reviewed from inception for the selected projects through January 2008.

The CIP has been very successful as demonstrated by the thirteen buildings and structures
costing approximately $82 million that were capitalized in fiscal year 2008. As of November,
several other buildings have been completed and occupied which will be capitalized in fiscal year
2009. Furthermore, four IT CIP projects were considered substantially completed during the
audit period. CIP success represents the efforts of many ACC employees and contractors, and it
truly exemplifies their continued commitment to fulfill ACC’s mission of empowering its
communities for success.

In August and September 2008, Internal Audit held a series of formal meetings with various
departments to discuss and review the observations noted. This culminated in an exit
conference held on September 24, 2008, and a draft report submitted in early October to ACC
Management. Information from ACC Management on a few issues was still forthcoming in early
November that resulted in revisions to the report. Internal Audit is enthusiastic about ACC
Management’s responses and corrective action plans to the CIP recommendations that were
provided on November 25, 2008. ACC Management’s responses, along with an executive
summary, and a detailed audit report with related appendices are attached for your review.

It is very positive that of the 56 unique recommendations presented in the report, ACC
Management fully or partially accepted 49. At this time, follow up procedures are being
performed to verify and confirm the completion status on 23 of these recommendations. During
fiscal year 2009 the status of the remaining fully or partially accepted recommendations will
continue to be monitored. Periodic status reports will be provided to the Board.
Internal Audit encourages ACC Management to further consider the recommendations declined related to subcontractor agreements and related insurance requirements. Internal Audit asks ACC Management to seek further clarification about the sufficiency of the prime contractor's insurance reviewed during this audit. Clearly, ACC does not have this specialized expertise in-house. Internal Audit believes that the prime contractor's net worth/capital and its insurance risk management are extremely critical on large or construction projects. This is even more important when the prime contractor is agreeing to assume the insurance risk for its subcontractors. ACC should thoroughly understand these issues so that it does not become involved in protracted litigation if an incident/accident occurs. Perhaps ACC Management can consider alternatives to mitigate the potential risks identified.

ACC’s success with the construction program to date is unprecedented. However, the audits indicate that activities and processes to accomplish this should have been more efficient and effective. Collectively, various issues represent the potential for a material weakness in ACC's procurement/payment cycle controls. It is important to note that most of the control and IT CIP project management deficiencies identified appear systemic; that means, they are not isolated to only the Facilities and IT construction projects. A Board policy to adopt and implement a formal internal control structure, such as the Enterprise Risk Management Framework, is strongly recommended in this and prior internal audit reports. The Business Process Analysis Project is also vital to begin resolving many of the control concerns raised in the report.

ACC Management and staff provided full cooperation and support during the performance of these audits. Internal Audit recognizes and thanks them for their efforts which contributed to the completion of these projects. We are available to discuss with you individually or as a group any of the information provided, or to respond to any questions that you might have. Feel free to call upon us as needed. Internal Audit also thanks the Board of Trustees for its continued support of our activities.

Sincerely,

[Signature]

Patricia M. Major CPA, CIA, CGAP, CTP, CGFM
District Director of Internal Audit

cc: Dr. Bruce Leslie, Chancellor
Mr. James McLaughlin, Vice Chancellor for Finance & Administration
Dr. Thomas Cleary, Vice Chancellor for Planning, Performance & Information Systems
Ms. Martha McCabe, District General Counsel
Mr. John Strybos, Associate Vice Chancellor for Facilities Operations & Construction Management
Ms. Diane Snyder, Associate Vice Chancellor for Finance & Fiscal Services
Ms. Linda O’Nave, Associate Vice Chancellor for Acquisitions
Mr. Roger Castro, Interim CIO & Director of Information Technologies
Ms. Carol Riley, District Ethics & Compliance Officer
Capital Improvement Program (CIP) Project Reviews

September 30, 2008

Prepared by:
ACC’s Internal Audit Department

Patricia M. Major CPA, CIA, CGAP, CTP, CGFM
Francisco Cortez CIA, CISA, CISSP
Rosaura Ramirez CPA, CIA, CTP
Oscar T. Salazar CISA, CISSP
Leticia T. Charbonneau CPA
Cynthia Munoz
Capital Improvement Program (CIP) Project Reviews

Executive Summary

September 30, 2008

Prepared by:
ACC’s Internal Audit Department

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OVERVIEW

In November 2005, taxpayers approved the largest bond issue in the history of Alamo Community Colleges (ACC). This $450 million bond package included new facilities construction at all five colleges and district-wide information technology initiatives. It was inevitable that these capital projects would rank among the most significant risk areas during the first district-wide risk assessment in summer 2006.

At the close of fiscal year 2008, thirteen buildings or structures funded with these general obligation bonds and costing about $82 million were capitalized. In addition, four IT CIP Projects were substantially complete prior to year end. As of November 2008, several other facilities at the colleges were completed and occupied which will be capitalized during fiscal year 2009. The ACC family should be proud of these historical accomplishments that will benefit students for many years. They also represent the commitment and tireless efforts of many ACC employees and contractors.

The facilities designated projects were as follows:

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<th>College</th>
<th>Construction Program Manager</th>
<th>CIP Project Amounts (in millions)</th>
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<td>Northeast Lakeview College</td>
<td>Broaddus + Project Control LLC</td>
<td>$125</td>
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<td>Northwest Vista College</td>
<td>Broaddus + Project Control LLC</td>
<td>$106</td>
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<td>Subtotal Broaddus + Project Control LLC</td>
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<td>$231</td>
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<td>San Antonio College</td>
<td>3D Foster Joint Venture</td>
<td>$79</td>
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<tr>
<td>St. Philip's College</td>
<td>3D Foster Joint Venture</td>
<td>$67.5</td>
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<td>Palo Alto College</td>
<td>3D Foster Joint Venture</td>
<td>$55</td>
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<td>Subtotal 3D Foster Joint Venture</td>
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<td>$201.5</td>
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<tr>
<td>Total CIP Project Costs</td>
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<td>$432.5</td>
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Note: * CIP means Capital Improvement Program

Information Technology Capital Improvement Program (IT CIP) Projects were as follows:

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<th>Project Groups</th>
<th>IT CIP Project Amounts (in millions)</th>
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<td>District Wide Connectivity</td>
<td>$10.1</td>
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<tr>
<td>Cyber Information Technology Center</td>
<td>$1.2</td>
</tr>
<tr>
<td>Distance Learning Systems Resources</td>
<td>$2.3</td>
</tr>
<tr>
<td>Electronic Communication Systems</td>
<td>$2.2</td>
</tr>
<tr>
<td>Network and Data Security Systems</td>
<td>$1.7</td>
</tr>
<tr>
<td>Total IT CIP Project Costs</td>
<td>$17.5</td>
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Note: * CIP means Capital Improvement Program
In developing the first risk based internal audit plan in fall 2006, the Capital Improvements Program (CIP) was also prominent based on various key criteria, including:

- Taxpayer and public interest during the five year program
- Historical one-time expenditures and the related on-going operating costs
- Broad impact on students and service delivery to clients
- Potential for substantial changes in how district personnel do business

BACKGROUND

The approved internal audit plan included several CIP related projects. It was anticipated that one major vendor contract would be reviewed for the facilities projects. Two projects were preliminarily scoped from the information technology initiatives. One was an overview of the IT CIP Projects including project management, procurement, accounting and reporting. The other was to perform a more in depth look at a particular project within the portfolio of seventeen. The selected project involved the Information Technology Infrastructure Library (ITIL) Implementation Project Review.

**Broaddus + Project Control LLC (B+PC) Contract Review**

ACC engaged two firms to assist the Facilities Operations and Construction Management Department with the oversight and management of the bond program projects. These firms were selected in early 2006 after a request for qualifications/proposal process. The scope was focused on one of the Construction Program Managers (CPMs) contracts, Broaddus + Project Control, LLC (B+PC).

Broaddus and Associates, Inc. and Project Control of Texas, Inc. (PC) formed a limited liability company, B+PC, on March 8, 2006. A contract between ACC and B+PC was signed on May 3, 2006. The initial contract term was three years; however, the contract language does allow for extensions. Its primary assignments included the new construction at Northeast Lakeview College (NLC) and Northwest Vista College (NVC). B+PC employed Historically Underutilized Businesses (HUBs) as Subcontractors to accomplish the services detailed in contract Exhibit B.

**Information Technology Capital Improvement Program (IT CIP) Projects Review**

As of January 31, 2008, $4.9 million had been expended on IT CIP Projects. In the detailed report, Table 9 summarizes the expenditures by account while Table 10 is a summary by vendor. These expenditures were extracted from ten Funds assigned to the IT CIP Projects as of January 2008. The Funds were established based on five project groups and by bond issue funding to be used. Several of the General Ledger (GL) Accounts shown in Table 9 (in the detailed report) appeared unusual for these projects, including repairs and maintenance, lab supplies and materials, office supplies, and construction – architect fees. About eleven percent of the costs were for professional
BACKGROUND, continued

services that were charged to two GL Accounts. Table 10 (in the detailed report) identified the methods of purchase. The reliance on sole source vendors and on cooperative purchases using the State Programs was notable.

Information Technology Infrastructure Library (ITIL) Implementation Project Review
The Information Technology Infrastructure Library (ITIL) Implementation Project Review was selected because it addressed two of the highest risk areas for ACC in the fall 2006 Risk Assessment Report. These risk areas were information technology processes and the capital improvement program. ITIL is a methodology or tool set for managing information technology in an organization. This governance structure is equally as important as adopting a formal internal control framework within a business. Preliminary audit work for the ITIL Project began in winter 2007. Due to realigned implementation of IT governance by new leadership, the audit project was discontinued during the planning phase. However, several observations were noted for reporting to ACC Management.

SCOPE

Broaddus + Project Control LLC (B+PC) Contract Review -
The B+PC contract with ACC, related activities, and documentation from March 2006 through January 2008 was the primary focus for this audit. Several tests were broadened to include activities through July 2008 based on findings and observations. Fieldwork was also expanded to include high level reviews of other CIP contracts/vendors. CPM fees and insurance for 3D Foster (3D/FJV) were checked and compared with B+PC. In addition, insurance compliance by the Construction Managers-at-Risk (CMRs) for NLC, Austin Commercial, and NVC, Bartlett Cocke, was verified and compared with B+PC.

IT CIP Projects Review -
This audit was planned to evaluate project management from the referendum passage in November 2005 through the spring of 2008, and to examine the five groups which represented seventeen specific projects. All IT CIP professional services expenditures were tested, which amounted to over $521,000 for fourteen purchase orders. Goods and non-professional service expenditures were tested using a stratified judgmental sample which accounted for $3.8 million for sixty purchase orders.
AUDIT METHODOLOGY

The District’s Internal Audit Department conducted this engagement in accordance with generally accepted auditing standards and the professional practice standards promulgated by the General Accountability Office (GAO), commonly referred to as the “Yellow Book,” and the Institute of Internal Auditors (IIA), also known as the “Red Book.” The District’s Internal Audit Department was reorganized in fall 2006, and has not had a peer review as required by both the governmental and general practice standards. ACC’s Audit Committee and Internal Audit Department Charters, with amendments in January 2007, were used for this engagement.

As work progressed on these audit projects, the observations and recommendations developed were essentially the same. It was also apparent that the criteria to be used for the projects and the sources of data to be analyzed were very similar. Therefore instead of issuing three separate reports, the results were consolidated. The detailed report is attached along with numerous appendices that support the findings, conclusions, and recommendations. Later in this executive summary, various references appear concerning key appendices that readers may want to review.

ACKNOWLEDGEMENTS

ACC Management and Staff were extremely cooperative during the engagements. The Facilities Operations and Construction Management Department and the Associate Vice Chancellor made themselves available and actively participated with the audit team. This was also the case with the B+PC Project Director, Mr. Patrick Renfro, and his staff.

Likewise, the current and prior Administrators and Managers in the District Information Technologies Department, and the Project Manager, a consultant provided by ECOM, cooperated fully with the audit projects. Despite several organizational changes while the audits were in progress, their efforts were very helpful to completing the audits.

The Fiscal Affairs (now known as Finance and Fiscal Services) Department Management showed great interest in understanding the audit findings and their root causes, and in evaluating if the recommendations will be part of their corrective action plan. Personnel in the Accounts Payable Section were instrumental in gathering many source documents for audit testing, and their assistance was very timely and commendable.

There was full cooperation and support from the Acquisitions Department Management and personnel during this engagement. The Materiel Management Division personnel were very enthusiastic about supporting the audit processes, and understanding how the results could improve their functions and responsibilities.
OBJECTIVES

FACILITIES CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS

Broaddus + Project Control LLC (B+PC) Contract Review

- **Project Management - CPM Fee Verification and Comparison**
  Determine if CPM fees for B+PC were: (1) properly approved by the Board of Trustees; (2) reasonable and supported by appropriate documentation; and (3) comparable to similar fees incurred by other higher education entities.

- **Project Management - Subcontractor and HUB Utilization**
  Determine if B+PC properly utilized and managed its Subcontractors, including HUBs, in compliance with requirements in B+PC contract dated May 3, 2006.

- **Project Management - Monthly SWMBE Reports and Related Logs**
  Determine if B+PC Monthly SWMBE Reports were appropriate, consistent, and accurate.

- **Project Management - B+PC Insurance Coverage Requirements**
  Determine compliance with insurance requirements in Article 13 of the B+PC contract dated May 3, 2006.

  Determine B+PC Subcontractors’ compliance with insurance requirements in B+PC contract dated May 3, 2006.

INFORMATION TECHNOLOGY CAPITAL IMPROVEMENT PROGRAM (IT CIP) PROJECTS

- **IT CIP Project Management**
  Determine if ACC Management implemented the recommendation in the August 2003 Texas School Performance Review (TSPR) relating to project management training and certification.

  Determine if the District IT Department adopted and applied formal project management methodology to the IT CIP Projects.

  Determine whether the Information Technologies (IT) Capital Improvement Program (CIP) Projects are being managed using accepted project management techniques.

- **Information Technology Infrastructure Library (ITIL) Implementation Project Review**
  Determine whether the ITIL Project expenditures were appropriate and reasonable for the work accomplished.
OBJECTIVES, continued

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS

ACC Procurement, Purchasing, and Payment Reviews

- **Goods and Services Transactions**
  Determine if expenditures for goods and non-professional services complied with the Texas government and education codes, with ACC’s policies and procedures, with appropriate procurement practices, and with best practices.

- **Segregation of Duties**
  Determine if the Banner System reflected appropriate segregation of duties for CIP goods and services procurement and related transactions.

ACC Accounting and Reporting Reviews

- **SAS 61 Management Letters**
  Determine whether observations and recommendations noted in the external auditors’ Statement of Auditing Standards (SAS) No. 61 Management Letters for Fiscal Years 2006 and 2007 relating to the CIP Projects have been addressed by ACC Management.

- **Fixed Assets – Detailed Testing**
  Determine if IT CIP expenditures were appropriately recorded and accounted for as capitalized fixed assets or controlled items.

- **Fixed Assets - Depreciation Adjustments**
  Determine if depreciation was appropriately recorded for fixed assets.

- **Construction Work-in-Progress**
  Determine if expenditures related to the IT CIP funds were appropriately recorded.

Events Subsequent To Field Work Affecting -

- **ACC Procurement, Purchasing, and Payment Reviews**
  **Goods and Services Transactions**

- **ACC Accounting and Reporting Reviews**
  **Construction Work-in-Progress**
  Determine if expenditures for goods and non-professional services complied with the Texas government and education codes, with ACC’s policies and procedures, with appropriate procurement practices, and with best practices.

  Determine if expenditures related to the IT CIP funds were appropriately recorded.
CONCLUSIONS

General -

In the early 1990s, the "Committee of Sponsoring Organizations of the Treadway Commission," which is commonly referred to as COSO, established a common definition of internal control and created a framework for evaluating the effectiveness of internal controls. Almost ten years later, this framework evolved into the Enterprise Risk Management (ERM) Model, Exhibit 1. The COSO ERM is the most widely accepted and used framework within the United States. This information is included in the report for emphasis with ACC Management since the concepts are generally unknown and not practiced by the District. To date, ACC has not adopted a formal set of management and internal control standards. This has been suggested in previous audits, and is a recommendation associated with three findings in this report. Having this in place in combination with conducting a thorough business process analysis would comprehensively address many of the issues noted in the detailed audit report.

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**EXHIBIT 1**

Committee Of Sponsoring Organizations Enterprise Risk Management (ERM) Framework

- **Internal Environment:**
  - Encompasses the tone of the organization, influencing the risk consciousness of its people and is the basis for all other components of ERM, providing discipline and structure.

- **Objective Setting:**
  - Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives.

- **Risk Assessment:**
  - Allows an entity to consider the extent to which potential events have an impact on achievement of objectives. Management assesses events from two perspectives – likelihood and impact.

- **Risk Response:**
  - Management determines how it will respond to the assessed relevant risks. Responses fall into the following categories: Avoidance, Reduction, Sharing or Acceptance

- **Event Identification:**
  - Management identifies potential events that can affect the entity and determines whether they represent opportunities or whether they might adversely affect the entity's ability to successfully implement strategy and achieve objectives.

- **Information and Communication:**
  - Pertinent information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across, and up the organization.

- **Control Activities:**
  - Policies and procedures that help ensure that management's risk responses are carried out. These occur throughout the organization at all levels and in all functions.

- **Monitoring:**
  - ERM is monitored – assessing the presence and functioning of its components over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.
CONCLUSIONS, continued

FACILITIES CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS
Broaddus + Project Control LLC (B+PC) Contract Review

Project Management - CPM Fee Verification and Comparison

ACC agreed to pay B+PC $8.25 million for three years of construction program management services. CPM fees were negotiated annually by the ACC Facilities Operations and Construction Management Department. The annual amounts were a fixed price arrangement based upon designated positions providing services and the related staff hours. As of January 2008, $4.7 million had been paid for Years 1 and 2. CPM fees paid to B+PC through spring 2008 agreed with the Board approved amounts. The fees were supported by acceptable documentation.

In addition, the B+PC CPM fees were compared with a rate schedule used by the University of Texas Systems (UTS) for similar services performed for its campuses. B+PC’s average fee percentage for new construction was 3.2 percent for the three contract years. The UTS rates ranged from 2.75 percent for projects costing more than $150 million per building to 3.25 percent for buildings costing over $50 million. ACC’s rates reflect those used by investor-owned entities whereas UTS’ rates are for a not-for-profit entity.

To assess the reasonableness of the B+PC CPM fees a comparison was made with similar data submitted by the other CPM, 3D/FJV, refer to Appendix A.8 through A.10 for this analysis. New construction CPM fees for B+PC appeared reasonable based on the following general comparisons:

- B+PC’s total compensation for the three years was $6.5 million as compared with $7.7 million for 3D/FJV.
- B+PC worked at two locations whereas 3D/FJV was overseeing four locations.
- B+PC’s average rates per year ranged from $128 to $138 while 3D/FJV’s yearly rate averages ranged from $91 to $111.
- B+PC’s fees were based on 49,400 staff hours whereas 3D/FJV’s fees were based on 79,600 hours over the three years.
- B+PC’s average hourly rate for three years was about $131 as compared with $97 for 3D/FJV.

Project Management - Subcontractor and HUB Utilization

Contract Exhibit C stated that B+PC would use two HUB Subcontractors, and that they would be paid $129,400. It did not indicate whether this was for each year or for the three year period. This seemed vague and inadequate for verification purposes. Through the spring of 2008, B+PC had contracts and payments to HUB Subcontractors in amounts that substantially exceeded the contract requirement.
CONCLUSIONS, continued

For their monthly Small, Women and Minority-Owned Business Enterprises (SWMBE) Reports, Project Control of Texas, Inc. (PC) was listed as a qualified small business. The contract permitted the inclusion of small businesses with HUB data. However, it was unclear if the Board knew that PC would be part of their utilization performance statistics. The SWMBE reported payments to HUBs were compared with their contracts and the annual CPM fee schedules. It was noted that payments to the HUBs in Year 2 were about $60,000 less than the CPM fee schedule amounts that were billed to ACC. Therefore, ACC should consider pursuing a recovery of this amount from B+PC.

**Project Management - Monthly SWMBE Reports and Related Logs**

B+PC provided ACC with numerous monthly SWMBE reports since the contract began. Approximately, twelve monthly reports were reviewed and evaluated. There were a series of errors and mistakes on all of them. In addition, the review was complicated by B+PC frequently modifying the reporting format which made trend analysis difficult.

**Project Management - B+PC Insurance Coverage Requirements**

B+PC supplied ACC with many certificates of insurance for each of the LLC partners. All available insurance documentation was reviewed for this audit. B+PC did not comply with various requirements related to insurance which was evaluated as a significant risk exposure for ACC. Also, the insurance risk exposure included B+PC Subcontractors since these firms were not included as additional insureds on the LLC partners’ policies. The gaps were not detected, reported and corrected by ACC’s internal controls during the audit. B+PC and ACC need to resolve the issues as soon as possible. ACC has no individual designated as the primary process owner for this responsibility. No one employed at the district has appropriate knowledge and experience in the insurance and risk fields for such large projects.

INFORMATION TECHNOLOGY CAPITAL IMPROVEMENT PROGRAM (IT CIP) PROJECTS

**IT CIP Project Management**

ACC has partially responded to the Texas School Performance Review’s recommendation regarding the training of personnel in appropriate project management methods and practices. However, the action taken was much less than that recommended which appeared to have adversely affected the success of the IT CIP Projects as of spring 2008.

The District IT Department did adopt and apply formal project management methodology for the IT CIP Projects. However, it was not done in a timely manner, and the application of the methodology during the audit period was insufficient. The situation was compounded by the lack of proper training and knowledge on project management techniques and tools.
CONCLUSIONS, continued

These appeared to have adversely impacted the IT CIP Projects in several ways. Most significant was the ability to provide Management and the Board with accurate and timely progress status and cost data. ACC Management recognized in late 2007 that problems were affecting the success of the IT CIP Projects. Changes were initiated including engaging outside project management expertise to supplement the IT Department resources.

Information Technology Infrastructure Library (ITIL) Implementation Project Review

This project was improperly defined, scoped and planned after the November 2005 referendum. It appeared that this project involved establishing process standards rather than implementing new technology hardware and software. About $75,000 has been spent through June 2008 which should be expensed instead of capitalized. It was questionable whether bond proceeds should fund the readiness assessment study and the general consulting work performed. The Vice Chancellor for Planning, Performance and Information Systems has initiated major changes to the Cyber Information Technology Control Center which included this specific project.

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS

ACC Procurement, Purchasing, and Payment Reviews

Goods and Services Transactions

No specific evidence of fraud was detected in the substantial transaction testing performed. Audit results indicated only three expenditures that appeared noncompliant. A vendor, Webct, was paid $3,000 for two invoices that showed no amount due because of offsetting credits available. Another vendor, AEON Technologies, was paid $104,000 for 75 percent of a purchase order based on the apparent authorization of an Acquisitions Buyer. It was undetermined if this level of services was actually performed.

Substantial detailed testing involving requisitions, purchase orders, invoices, and receiver transactions indicated numerous internal control issues. These involved vendor invoicing inadequacies, ACC manual processes, and Banner System functionality. Since the control problems extend beyond just the Facilities and IT CIP Project transactions, multiple significant control deficiencies were noted. Mitigation of these problems by other controls was not effectively demonstrated.

Segregation of Duties

Transaction testing highlighted segregation of duties concerns involving processes used for procurements and payments as well as Banner System functions, controls and security/access. These processes are principally used by the Acquisitions and Fiscal Affairs (now known as Finance and Fiscal Services) Departments.
CONCLUSIONS, continued

The Banner issues relate mainly to individuals in those Departments. The overlapping responsibilities and/or the access combination conflicts extend beyond just the Facilities and IT CIP Project transactions. Combined with the significant control deficiencies previously mentioned, these represent the potential for material weakness in ACC's procurement/payment cycle controls.

ACC Accounting and Reporting Reviews
SAS 61 Management Letters
Four of the six conditions noted as control deficiencies in FY 2007 potentially related to the CIP Projects. As of August 2008, these were still outstanding, and no formal corrective action plan for these specific issues has been provided to the external auditors.

Fixed Assets – Detailed Testing
From various analyses performed for these audits, it was clear that capitalizing, by specific asset, or expensing costs, if necessary, for the Facilities CIP Projects would be difficult and probably impossible for the IT CIP Projects. ACC Management did not appropriately plan and prepare for the Capital Programs by establishing the requisite cost/project business processes in the beginning for User Departments. These were still not available at the conclusion of these audits. Without proper leadership and the related support structure from ACC Management, it was futile to conduct appropriate testing and verification of costs for capitalized assets and those remaining in work-in-progress.

As of January 2008, $4.9 million had been expended for 316 invoices, yet complete costs are unknown for the E-Learning Management (Blackboard) Systems, the Network Infrastructure/Hardening Project, the Internet Redundancy Project, and the Wireless System placed in service for accounting purposes in FY 2007. Approximately thirteen IT CIP Projects remain to be completed, and this could represent another $12 million in costs. Detailed fixed asset and controlled item testing was performed against processes used for similar non-CIP transactions. Various issues, discrepancies, and errors were encountered as explained in the detailed report.

Fixed Assets - Depreciation Adjustments
During the audit testing for fixed assets, a $1.6 million depreciation adjustment for prior years was encountered for FY 2008. While the number of assets needing depreciation adjustments was small, the amount was significant in relation to the annual depreciation expense. If appropriate controls were in place, these should have been detected in a timely manner if being monitored regularly. Had appropriate data cleansing processes been performed for the Banner System go-live, these issues should have been detected as
CONCLUSIONS, continued

well. The adjusted records, including the IT CIP assets tested, also indicated Banner functionality issues with validating data required for depreciation calculations.

Construction Work-in-Progress
From various CIP analyses performed for these audits, it was clear that ACC Management did not plan and prepare for the Capital Programs by establishing the requisite cost/project business processes in the beginning for User Departments. Substantial manual activities were developed ad hoc by users, mainly Facilities and IT. Coordination and guidance for the combined efforts from the Fiscal Affairs (now known as Finance and Fiscal Services) Department was essential for success. However, Fiscal Affairs (now known as Finance and Fiscal Services) has not provided written accounting guidelines or procedures to assist the Acquisitions, Facilities, and IT Departments in the proper classification of CIP expenditures since the program began in 2006. The SAS 61 Management Letter issued in January 2007 recommended developing this documentation and training employees on its use. During these internal audits of the CIP Projects, the lack of written accounting guidelines and procedures was evident in various areas reviewed.

Financial data used in IT CIP Project reports and presentations was not reconciled to the Banner Fund/Account information. This was primarily because the Fund Codes provided to the IT Department for tracking IT CIP expenditures from inception through January 2008 were inadequate. The IT Department working with Fiscal Affairs (now known as Finance and Fiscal Services) established seventeen new Fund Codes in June 2008 to facilitate the recording and reporting of future costs for these projects which may amount to over $12 million.

The Fiscal Affairs (now known as Finance and Fiscal Services) Department performed annual reviews of the IT CIP Funds in FY 2006 and 2007 and prepared various journal entries for year-end reclassifications, accruals and allocations. The observations noted in the detailed report indicated that this process should have been more timely and thorough for the $5 million spent on IT CIP Projects through January 31, 2008. As a result, ACC’s annual financial statements for FY 2007, and possibly for 2006, reflected several timing differences, errors and inaccuracies. It is important to note that the combined value of these exceptions was not a material amount in comparison with the net assets and/or net revenues. These exceptions were not detected by the routine internal controls for financial reporting that have been in place for many years.
CONCLUSIONS, continued

Events Subsequent To Field Work Affecting -
ACC Procurement, Purchasing, and Payment Reviews
Goods and Services Transactions

ACC Accounting and Reporting Reviews
Construction Work-in-Progress

The Acquisitions Department did not detect and prevent the former ACC CIO and staff from discussions and negotiations with a vendor that appear questionable based on the written documentation. ACC paid $1.1 million for this software license, related maintenance, and the additional consulting required by the vendor. Indications are that competitive bids may have been available at that time for products with similar functionality.

During the review of other IT CIP software procurements for much smaller amounts, it was noted that Acquisitions advised the IT Department that future years maintenance could not be paid for with bond proceeds or capitalized.

It appears from the records that the Legal Services Department did review this contract in March 2007; however, their review would not involve questioning the User's accounting and financial terms/conditions. There is no indication that the Fiscal Affairs (now known as the Finance and Fiscal Services) Department had an opportunity to evaluate this procurement for the accounting classification, for the cost benefit and paying for five years of support, and for the use of bond proceeds versus operating funds for this purchase. The invoice, see Appendix I.3d, showed a single line item of $965,437.

ACC's Board was not informed about the details of this very large purchase; rather it was handled and reported as a routine type transaction despite the amount involved.

The Finance and Fiscal Services Department did thoroughly review this transaction in fall 2008. At which time, Management felt that the value of future maintenance should be deferred and expensed in those operating periods. However, no adjustment was made to reclassify these expenditures as funded with operating rather than bond proceeds. They may further review the funding issue during fiscal year 2009.

As a result of the delayed reviews and limited analyses by various ACC Departments, the former IT Department CIO and the Blackboard Project Manager appeared to override ACC's internal controls. In addition, the activities related to this procurement may not be in compliance with Texas and Education Codes.
RECOMMENDATIONS

FACILITIES CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS

_Broadus + Project Control LLC (B+PC) Contract Review_

_Project Management - CPM Fee Verification and Comparison_

ACC Management should:
- Use appropriate project management methodology to assure that Board minute orders for CIP Projects are complete and accurate, including renovation project cost estimates for the fees included.
- Evaluate the hourly rate components for future CPM fee negotiations with large project vendors such as B+PC to ensure that the labor burden, administrative/general, insurance, and other components are reasonable and appropriate.

_Project Management - Subcontractor and HUB Utilization_

B+PC should:
- Improve its procedures to ensure compliance with all contract provisions that relate to its Subcontractors.
- Better document the agreements with its Subcontractors by including specific measurable services/deliverables to be performed and insurance coverages.
- Provide ACC with copies of the Year 3 contracts with CNG Engineering and Dean Design.
- Ensure that reports and relevant documentation submitted to ACC are accurate and that all information required to be reported is provided as required by the contract.

ACC Management should:
- Establish a formal contracting function to review and monitor compliance by large and/or project vendors such as B+PC.
- Establish and distribute guidelines for the contracting, managing, and reporting of all Subcontractors for large project vendors such as B+PC.
- Review Subcontractor agreements to ensure that all required terms and conditions are present, especially high risk areas such as insurance and/or indemnifications.
- Monitor B+PC’s management of Subcontractors to ensure that contract provisions are followed.
- Review reports and documentation submitted by B+PC relating to its Subcontractors to ensure that all information is accurate and is provided as required.
RECOMMENDATIONS, continued

FACILITIES CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued

Broaddus + Project Control LLC (B+PC) Contract Review, continued

Project Management - Monthly SWMBE Reports and Related Logs

B+PC should:
- Provide accurate and reliable reporting for its and other vendors' SWMBE goals and utilization.

ACC Management should:
- Ensure that reports on SWMBE payments are reliable and accurate. In May 2008, ACC filled a position to monitor SWBME activities and reporting. The individual has been working with the various contractors, including B+PC, to improve the HUB analysis and reporting.
- Evaluate the finding regarding the actual HUB payments made by B+PC and consider requesting a recovery of about $60,000 in CPM fees.

Project Management - B+PC Insurance Coverage Requirements

B+PC should:
- Provide ACC insurance coverage for the limited liability company (LLC) issued in the name of the LLC; or,
- If legal and appropriate, the limited liability company owners should list B+PC LLC as additional insured for all their coverages.
- Include ACC as an additional insured for all liability coverages, excluding workers compensation and professional liability.
- Submit separate insurance policy endorsements for the additional insured provisions to ACC with the certificates of insurance.
- Implement procedures to ensure that Subcontractors adhere to the same insurance coverage requirements as those for the CPM, if applicable; or
- Add Subcontractors as additional insureds to the B+PC certificates of insurance and provide policy endorsements to ACC.

ACC Management should:
- Designate a specific department, section, or position with the proper training, experience, and knowledge in the insurance field with the responsibility for the controls to prevent and to detect any problems with the insurance coverage required by this and other contracts.
RECOMMENDATIONS, continued

FACILITIES CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued
Broaddus + Project Control LLC (B+PC) Contract Review, continued
Project Management - B+PC Insurance Coverage Requirements, continued

ACC Management should;

- Consider co-sourcing with an insurance broker to administer an owner controlled insurance program for the CIP projects and other large contracts. Tarrant County College District works with an experienced insurance broker to administer its construction projects, as noted in Table 8.
- Develop formal procedures, including checklists, to perform the review of insurance documentation submitted. These should include but are not limited to:
  - Develop formal reporting of vendor non-compliance to ACC Management immediately.
  - Establish tickler files to monitor expiration dates of coverage so the contractor always has insurance in place as required.
  - Direct that the insurance documentation be sent to a specific department instead of to the Office of the Chancellor.
  - Determine whether the general liability insurance should be the “claims-made” or “occurrence” form.
  - Ensure that coverage deductibles meet the contract requirements.
  - Establish retention guidelines for certificates and endorsements of insurance.
  - Follow-up on post construction insurance coverage requirements for this project.
- Establish an ACC website link to provide contractors with the requirements for insurance coverage limits and other issues, as referred to in Table 8.
  - The University of California, Santa Barbara has several resources on their website to provide guidance on certificates of insurance including a “Quick Tip” on the critical items that should be checked when reviewing a certificate of insurance, refer to Appendix D.7 for more information.
  - This should detail the minimum insurance requirements, such as that used by Alameda County, as shown in Appendix D.8.
- Consider enhancing insurance requirements in future contracts for large construction projects and other large contracts to:
  - Add aggregate limits for the liability insurance coverage.
  - Require that insurance companies used by vendors be rated an "A" or higher by A.M. Best which indicates the strong financial condition of the insurance company. Refer to Table 7 for examples of other colleges.
  - Include a waiver of subrogation for all or certain coverages to prevent third parties from recovering damages from ACC.
- Develop controls to assure consistency across Subcontractor agreements and, when applicable, to impose the same insurance coverage requirements as those for a CPM.
RECOMMENDATIONS, continued

INFORMATION TECHNOLOGY CAPITAL IMPROVEMENT PROGRAM (IT CIP) PROJECTS

IT CIP Project Management

ACC Management should:

- Propose a policy to the Board of Trustees for their approval requiring action on audits, regulatory/compliance reviews, and consultants’ reports.
- Approve, adopt, and fund a formal project management methodology for ACC.
- Assign responsibility for the independent monitoring of information provided to external and internal parties, such as the Board and Citizens’ Bond Oversight Committee, to ensure that data presented is accurate, reliable and supportable.
- Ensure that IT and other personnel responsible for managing projects are skilled in formal project management methodology and that they are certified.

Information Technology Infrastructure Library (ITIL) Implementation Project Review

ACC Management should:

- Expense in FY 2008 approximately $75,000 spent to date based on the generally accepted accounting standards.
- Consider using operating funds instead of IT CIP bond proceeds for these costs.

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS

ACC Procurement, Purchasing, and Payment Reviews

Goods and Services Transactions

B+PC should:

- Submit all required documentation with invoices, per contract requirements, to include subcontractor invoices and the HUB Monthly Report; or
- Obtain written authorization from ACC Management to change the contract terms.

ACC Management should:

- Propose a policy to the Board of Trustees for their approval to:
  - Adopt and implement a formal internal control framework, such as the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management framework.
  - Formally authorize the criteria for cooperative program purchases.
- Perform a thorough business process analysis (BPA) of the procurement and payment cycle to include optimal utilization of Banner System control functionality.
- Implement interim controls to monitor the most critical segregation of duties combinations and/or overlaps until the BPA results are implemented.
RECOMMENDATIONS, continued

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued
ACC Procurement, Purchasing, and Payment Reviews, continued
Goods and Services Transactions, continued

- Consider discontinuing the printing and retention of RQ documents to realize about $175,000 or more in annual cost savings.
- Consider modifying the vendor PO document to include additional print lines so that the ACC PO file copy printing and retention can be discontinued to realize about $175,000 or more in annual cost savings.
- Develop formal written purchasing guidelines for users that provide step-by-step procedures in the procurement process and provide more training.
- Consider adopting a modified version of the "State of Texas Contract Management Guide".
- Consider pursuing a review of the $104,000 payment to AEON Technologies to determine if additional documentation should be provided, or if any payment recovery action should be initiated.
- Consider pursuing a review of the $3,000 paid to Webct Educational Technologies to determine if a cost recovery action should be initiated.

Segregation of Duties
ACC Management should:

- Propose to the Board of Trustees a policy to adopt:
  - A formal internal control framework, such as the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management framework.
  - A formal IT Governance framework, such as the Information Technology Infrastructure Library (ITIL).
- Perform a thorough business process analysis (BPA) of the procurement/payment cycle to include:
  - Optimal configuration and use of Banner System control functionality.
  - Appropriate segregation of duties, user access and security methodology.
- Implement interim controls to monitor the most critical segregation of duties combinations and/or overlaps until the BPA results are implemented.
  - The Acquisitions Department can assign RQ and direct payment method origination to the Director's Administrative Assistant.
  - Vendor master file should be assigned to the P/C Specialist, and a back up person, however, these individuals should not have access to prepare RQs, POs, JEs, Invoices and/or Receivers.
  - Fiscal Affairs (now known as Finance and Fiscal Services) can establish monitoring for AP Section transactions by someone not in that department.
RECOMMENDATIONS, continued

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued
ACC Procurement, Purchasing, and Payment Reviews, continued
Segregation of Duties, continued
- Communicate with and train employees on the new policies and the BPA changes; and
- Immediately remove Banner System Finance Module access for terminated employees.

ACC Accounting and Reporting Reviews
SAS 61 Management Letters
ACC Management should propose two key policy revisions to the Board of Trustees for their approval. ACC Policy CDC (Local) on Accounting: Audits should include accountability for audits, for compliance reviews, and for special report results as well as timely action on recommendations. There should also be a link to the ACC Policy CDA (Local) on Accounting: Financial Reports and Statements, for appropriate and timely action by ACC Management on SAS 61 Management Letter recommendations.

Fixed Assets – Detailed Testing
ACC Management should require that appropriate cost and project management business processes are implemented as soon as possible to ensure the successful completion of remaining CIP Projects. This includes providing completion reports that properly account for and classify the expenditure of debt proceeds.

ACC Fiscal Affairs (now known as Finance and Fiscal Services) Department Management should:
- Provide more leadership and guidance on generally accepted cost accounting and financial reporting practices to other departments.
- Document the controls, including accounting procedures for fixed asset processes.
- Assume primary responsibility for Banner fixed asset accounting and reporting, including depreciation.
- Implement more Banner System functionality to maintain fixed asset information to improve the quality and reliability of these records, and to reduce or eliminate the inefficiencies of maintaining Wise Track.
- Ensure that the data fields used for depreciation calculations, especially "Total Adjusted Cost" are reconciled to the depreciation transactions and report.
- Modify the Wise Track System to track only the controlled items, and improve the accuracy and reliability of these records.
RECOMMENDATIONS, continued

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued

ACC Accounting and Reporting Reviews, continued

Fixed Assets - Depreciation Adjustments
ACC Fiscal Affairs (now known as Finance and Fiscal Services) Department Management should:

- Document the controls, including accounting procedures for fixed asset processes.
- Assume primary responsibility for Banner fixed asset accounting and reporting, including depreciation.
- Implement more Banner System functionality to maintain fixed asset information to improve the quality and reliability of these records, and to reduce or eliminate redundancies and inefficiencies.
- Ensure that the data fields used for depreciation calculations, especially “Total Adjusted Cost” are reconciled to the depreciation transactions and report.
- Modify the Wise Track System to track only the controlled items, and improve the accuracy and reliability of these records.
- State depreciation conventions used in the annual financial statement footnote.

Construction Work-in-Progress
ACC Management should:

- Propose to the Board of Trustees a policy to adopt:
  - A formal internal control framework, such as the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management framework.
- Perform a thorough business process analysis (BPA) of the accounting/reporting cycle to include:
  - Optimal configuration and use of Banner System control functionality.
  - Expenditure classification, capitalization and depreciation accounting policies and related procedures.
- Improve monitoring and reporting for the remaining Capital Improvement Program Projects.
- Communicate with and train employees on the new policies and the BPA changes.

ACC Fiscal Affairs (now known as Finance and Fiscal Services) Department Management should:

- Prepare the appropriate accounting corrections before the fiscal year 2008 closing.
- Implement monthly IT CIP expenditures and classification reviews for the thirteen remaining projects to properly capture the costs in a timely manner.
RECOMMENDATIONS, continued

CAPITAL IMPROVEMENT PROGRAM (CIP) PROJECTS, continued

Events Subsequent To Field Work Affecting -

ACC Procurement, Purchasing, and Payment Reviews
Goods and Services Transactions

ACC Accounting and Reporting Reviews
Construction Work-in-Progress

ACC Management should:
- Propose a policy to the Board of Trustees for their approval to:
  - Adopt and implement a formal internal control framework, such as the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management framework.
  - Formally authorize the criteria for cooperative program purchases.
- Require that appropriate cost and project management business processes are implemented as soon as possible to ensure the successful completion of remaining CIP Projects. This includes:
  - Providing completion reports that properly account for and classify the expenditure of debt proceeds.
  - Approve, adopt, and fund a formal project management methodology for ACC.
  - Ensure that IT and other personnel responsible for managing projects are skilled in formal project management methodology and that they are certified.
- Establish a formal contracting function to review and monitor compliance by large and/or project vendors.

ACC Fiscal Affairs (now known as Finance and Fiscal Services) Department Management should:
- Provide more leadership and guidance on generally accepted cost accounting and financial reporting practices to other departments.
- Document the controls, including accounting procedures for fixed asset processes.