

# ADMINISTRATIVE REGULATION 6401

SOUTH ORANGE COUNTY  
COMMUNITY COLLEGE DISTRICT

BUSINESS AND FISCAL AFFAIRS

## INTERNAL AUDIT

### I. PURPOSE

- A. The Internal Auditor serves the District and its employees as an objective and independent appraisal function responsible for reviewing existing and/or proposed processes across the District in order to ensure the effectiveness and adequacy of existing and/or proposed controls; compliance to laws and regulations; and accuracy and integrity of financial and operational information.
- B. The Internal Auditor is responsible for coordinating and participating in all external audits conducted and ensuring that any comments, suggestions, findings, and/or recommendations made by the external auditors are addressed and implemented in a timely manner.
- C. The Internal Auditor will investigate allegations of fraud, waste, and/or abuse.

### II. OBJECTIVE

The objective of Internal Audit is to promote effective control at a reasonable cost. Internal Audit is tasked with assisting the District and its employees in improving current operations; ensuring compliance with laws, regulations, Board Policies, and Administrative Regulations; and managing risks. These objectives are accomplished through constant analysis, appraisal, and assessment of processes for adequate and effective controls, process improvements, and ultimately, providing management with value added recommendations on activities reviewed.

### III. SCOPE

The scope of Internal Audit encompasses the evaluation of the District's system of internal controls and the quality of performance, which includes:

- Reviewing the reliability and integrity of financial and operating information;
- Reviewing the systems established to ensure compliance with policies, plans, procedures, laws, and regulations;
- Reviewing the safeguarding of assets and verifying their existence;
- Promoting continuous improvement and operational effectiveness and efficiency;
- Fostering communication between District Services and campuses, including the sharing of best practices and model policies;
- Partnering with management to analyze current and emerging risks and design controls to mitigate those risks;

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- Enhancing understanding of risk, fraud risk, internal control, ethics, and values;
- Reviewing operations and programs to determine whether results are consistent with established objectives, goals, and plans; and
- Investigating allegations or violations and completing special projects as required by management.

#### IV. RESPONSIBILITY

The Internal Auditor shall have no direct responsibility or authority over any of the activities or operations that Internal Audit staff review. The Internal Auditor cannot develop and implement policies and regulations, prepare records, or engage in activities that would typically fall under its audit purview.

##### A. WHEN TO CONTACT INTERNAL AUDIT

The Internal Auditor works with employees within all facets of the District in an effort to ensure that controls are embedded into the District's daily processes and are continuously functioning effectively. Employees should therefore contact the Internal Auditor whenever there is (are):

1. Suspected Impropriety – Contact the Internal Auditor immediately, for an investigation, when there is suspicion of fraud, abuse, waste, improprieties, violations to codes of conduct, or financial irregularities.
2. New Program Development – The Internal Auditor is available for consultation to help assess and recommend appropriate controls during the implementation of new processes.
3. Need for Validation of Control Effectiveness – The Internal Auditor is available for questions and can help review current processes in order to validate the adequacy of current controls.
4. Problem Areas – The Internal Auditor can provide consultation, review, or audit services in order to assess or recommend control improvements to business functions/areas with ineffective or inadequate controls.

##### B. AUDIT PROCESS – CONDUCTING INTERNAL AUDITS

In order to provide transparency and uniformity in conducting internal audits, the following process is established.

###### 1. Annual Audit Plan

The Internal Auditor will develop an annual audit plan through communication with senior management at the college and District sites. This plan will be developed by completing a thorough risk assessment identifying internal and external factors that can adversely affect the site's ability to operate efficiently and/or result in non-compliance with laws or regulations that govern district-wide operations. The annual internal audit plan that prioritizes the activities to audit will then be discussed with the Vice Chancellor, Business Services. Subsequently, the Internal Auditor will annually present

the audit plan to the Board Audit Subcommittee for discussion, the results of which will be adopted into the plan.

## 2. Selection

Activities to audit are selected to maximize audit coverage for addressing high risk subjects, including internal controls, and other areas of concern to the District, college management, or the Board. Prioritization of audits to conduct will largely be driven by the annual audit plan. Attempts will be made to avoid duplication of effort with external auditors.

## 3. Initiating the Audit

The Internal Auditor performs a preliminary review of applicable audit risks, gathers information about the process, function, or area to be audited, and identifies the responsible personnel. These steps are aimed at developing an initial audit program to be discussed and agreed upon with management of the area (the “Auditee”).

## 4. Audit Notification

The Internal Auditor sends initial audit notification either by email or with an audit memorandum to top operating management (applicable supervisor(s), manager(s), director(s), dean(s), vice president(s), vice chancellor(s), president(s), and/or Chancellor), and/or Board Audit Subcommittee chair, of the area to be audited, which identifies:

- a. audit subject;
- b. audit objectives;
- c. desired start date;
- d. time period of activity to be audited;
- e. support required – access to records, files, personnel, etc.;
- f. estimated timeline to complete audit; and
- g. invitation for an informal meeting (in-person or by phone) to discuss the audit plan.

## 5. Entrance Conference Meeting

The entrance conference is the audit kickoff meeting held between the Internal Auditor and the Auditee. This meeting provides an opportunity for introductions and discussion of issues such as workspace, timing of fieldwork to be conducted, clarification of auditor access required, and the audit process to be followed.

## 6. Fieldwork

During this phase, the auditor identifies and assesses internal controls, which may include, but are not limited to:

- a. process walkthroughs;
- b. interviews/discussions with faculty, classified professionals, and/or management; and
- c. tests of accounting transactions and supporting records.

Assessments of department records, communications, and discussions with management are the primary sources of information for auditors. Therefore, it is important for the Internal Auditor to obtain timely access to records and employees, in order to facilitate completion of fieldwork. It is the goal of the Internal Auditor to minimize operational disruption throughout the course of audits, while still meeting productivity and time deadlines. The Internal Auditor will make every effort to keep unit management informed of audit progress, including clear and concise understanding of any issues noted.

#### 7. End of Fieldwork

Upon completion of interviews and transaction testing, the Internal Auditor will confirm any issues or exceptions with Auditee management, initially discuss potential recommendations for management corrective action(s), and then complete documentation for the fieldwork performed. Working paper documentation retained should support identification of the audit objectives reviewed and the basis for the audit results and conclusions.

#### 8. Preliminary Exit Meeting

This meeting occurs near the end of fieldwork. Ideally, Auditee management and relevant employees meet with the Internal Auditor to informally discuss the detailed results of the review, potential significance of any issues or concerns noted, and to clear up any related misunderstandings. Additionally, this is an opportunity to identify if any subsequent changes to controls or procedures have occurred, which could mitigate the effect of issues or concerns noted. Collaboratively, potential corrective actions and implementation dates are formulated or planned to remedy any existing issues or concerns. If no significant issues are noted requiring management corrective action(s), then it is possible that the preliminary exit meeting may not be required, if mutually agreed to by the Internal Auditor and Auditee management.

#### 9. Draft Audit Report

The draft audit report is prepared by the Internal Auditor for the benefit of management. This report generally reflects the reporting of audit results and possible recommendation(s) for corrective action(s), which are formulated after the Internal Auditor has met with Auditee management for discussion. The report distribution is determined based on whether an audit of a college or District Office business function has been conducted.

##### a. Draft Audit Report Distribution – Audit of College

The Internal Auditor electronically distributes the draft audit report directly to the management team member who oversees the area under audit and the respective Vice President, and requests a response be coordinated by the college and returned to the Internal Auditor. It is preferred that the response indicates agreement or disagreement with the draft report and that it provides feedback, comments, concerns, or potential administrative changes. Additional report distribution shall

include applicable supervisor(s), manager(s), director(s), dean(s), vice president(s), president, vice chancellor(s), Chancellor, and/or Board Audit Subcommittee chair.

b. Draft Audit Report Distribution – Audit of District Services

The Internal Auditor electronically distributes the draft audit report directly to applicable management team member, and respective Vice Chancellor, of the Auditee, and requests a response be coordinated by the appropriate District Services department and returned to the Internal Auditor. It is preferred that the response indicate agreement or disagreement with the draft report and that it provides feedback, comments, concerns, or potential administrative changes. Additional report distribution shall include applicable supervisor(s), manager(s), director(s), vice chancellor(s), Chancellor, and/or Board Audit Subcommittee chair.

10. Formal Exit Meeting

After the Internal Auditor has distributed the draft report for review and has received a coordinated response from the college or District Services, an offer of a formal exit meeting will be extended, if the Auditee determines such a meeting is necessary. If the exit meeting is requested, the Internal Auditor will present:

- a. a summary of audit work performed;
- b. the audit results and conclusion;
- c. identification of issues noted; and
- d. jointly formulated action plans agreed to with the Auditee, if any.

Discussion will occur to ideally reach agreement on audit results to be reported.

If the exit meeting is determined to be unnecessary, the Internal Auditor will move forward to complete and issue the final audit report.

11. Final Audit Report

This is the final product of the audit where the conclusions and issues identified (if applicable) are presented together with management's corrective action plans. The audit report is provided in electronic form to applicable management team members.

12. Audit Follow-Up

The Internal Auditor is responsible to perform follow-up to confirm management has completed the corrective actions committed to in the audit report, or is on track toward completing the agreed upon actions. Typically, the Internal Auditor will initiate follow-up concurrently with management's projected implementation date for corrective actions. If the Internal Auditor notes actions have not been completed or initiated at that time, the Internal Auditor will perform a second follow-up 90 days later. If the Internal Auditor notes actions have not been completed or initiated again, the Internal Auditor will communicate to applicable college and/or District Services executive management. If no actions have been initiated or completed, then the Internal Auditor shall communicate same to the Vice Chancellor, Business Services.

*References:*

*California Education Code Sections 76210 et seq.*

*Administrative Regulation 3953 – HIPAA / CMLA Privacy*

*Board Policy 5040 –Student Records, Directory Information, and Privacy*

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