KPMG

Los Angeles Community College District

Report on Audited Basic Financial Statements

June 30, 2004

LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2004

Los Angeles County, California:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Los Angeles Pierce College
- Los Angeles Southwest College
- Los Angeles Trade Technical College
- Los Angeles Valley College
- West Los Angeles College

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Table of Contents

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Table of Contents

INTRODUCTION

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LOS ANGELES COMMUNITY COLLEGES

CITY * EAST * HARBOR * MISSION * PIERCE * SOUTHWEST * TRADE-TECHNICAL * VALLEY * WEST

OFFICE OF THE CHANCELLOR
Peter J. Landsberger, Chancellor

December 31, 2004

Members, Board of Trustees
Los Angeles Community College District

I have received and reviewed and am pleased to submit the Annual Financial Report of the Los Angeles Community College District (District) for the fiscal year ended June 30, 2004. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditor's Report, the Basic Financial Statements, the Supplemental Information, the Current Year State Findings and Recommendations, and the Current Year Federal Findings & Questioned Costs including the Status of Prior Year Findings and Recommendations. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

The introductory section contains the objectives of the audit as well as my remarks. The Independent Auditor's Report provides the auditor's opinion on the audit. The Management's Discussion and Analysis provides the management information and analysis on the district's financial changes and condition for the year. The basic financial statements include the three financial statements, as well as the notes to the basic financial statements and supplemental schedules. Supplementary information includes the combining and individual funds and account group financial statements and schedules, a description of the organization of the District, a schedule of full-time equivalent students and apprenticeship clock hours and a reconciliation of the financial statements to the Annual Financial and Budget report submitted to the State of California. Also included in this section are the independent auditor's reports on the internal accounting and administrative controls of the District as well as the State and Federal compliance required by the California State Department of Finance and the Single Audit Act of 1984. The final section provides the current year's audit findings and recommendations as well as the implementation status of the auditor's prior year recommendations.

The District is responsible for the accuracy, completeness and fairness of the financial statements, including all disclosures. We believe that the data presented are accurate in all material respects and present fairly the financial activities of the District's various Funds, and that the informative disclosures are sufficient to provide an understanding of the District's fiscal affairs. The auditor's opinions included in the annual report reflect our belief.

District Background

The District and its nine campuses provide a broad range of educational services to students within the Los Angeles area. The nine Los Angeles community colleges comprise the nation's largest community college system - the result of a movement which had its beginning in the California State Legislature in 1907, the year the Caminetti Bill was passed, permitting high schools to offer postgraduate courses. The Ballard Act of 1917 and the Deering Act of 1929 assured financial support for the State's community colleges.

In March 1931, a separate Los Angeles Junior College District was created and granted a taxing power of its own and was designed to serve a larger area than the city. The Board of Education and the Superintendent of Los Angeles County Schools assumed administrative control of the District. Due to the dramatic expansion during the postwar period, the state's two-year junior colleges were moved away from the secondary education system and into higher education. In 1967, Governor Reagan authorized establishment of a Board of Governors for the California Community Colleges. In that same year, legislation passed which provided for a separate community college Board of Trustees and administration. The first Trustees of the Los Angeles Community College District were sworn into office on July 1, 1969.

The Los Angeles Community College District serves approximately 118,000 students, employs approximately 3,674 full-time and 9,994 part-time personnel and covers a service area of more than 800 square miles.

Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2004 decreased 4.5 percent from the previous year.

Enrollment figures (credit student headcounts) by campus for the 2003-2004 fiscal year were as follows:

	Fall	Spring
East Los Angeles College	21,596	21,139
Los Angeles City College	16,983	16,479
Los Angeles Harbor College	9,102	8,727
Los Angeles Mission College	7,749	7,393
Los Angeles Pierce College	18,241	17,645
Los Angeles Southwest College	6,353	6,095
Los Angeles Trade-Technical College	12,935	12,515
Los Angeles Valley College	17,865	17,178
West Los Angeles College	9,804	9,139
Instructional Television	1,813	1,616
Total Districtwide	**122,441**	**117,926**

Your attention is directed to the Independent Auditor's Report, the Management's Discussion and Analysis, and the Basic Financial Statement sections which represent the complete representation of the district's financial information.

Sincerely,

Peter J. Landsberger
Chancellor

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2004

This section presents Management's Discussion and Analysis (MD&A) of the Los Angeles Community College District's (the District) financial activities during the fiscal year ended June 30, 2004. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities as of June 30, 2004 by $270.4 million (net assets). Of this amount, $18.6 million (unrestricted net assets) may be used to meet the District's ongoing obligations and $29.7 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions. The remaining component of the District's net assets represents $222.1 million of amounts invested in capital assets, net of related debt.
- The District's total net assets decreased $7.5 million during the fiscal year ended June 30, 2004. A significant portion of the decrease in the District's net assets was a result of increases in operating expenses incurred in the fiscal year ended June 30, 2004.
- The District's investment in capital assets increased by $106.9 million or 21.6% during the year ended June 30, 2004. Capital construction projects related primarily to the Proposition A and AA Bonds which accounted for $76.7 million in capital expenditures at June 30, 2004. The District also acquired one property, valued at $1.4 million, for Los Angeles Southwest College, and one property, valued at $6.1 million, for Los Angeles Trade-Technical College.
- The District's total long-term debt increased by $79.6 million or 13.3% during the fiscal year ended June 30 2004. During fiscal year 2004, the District issued $189.7 million of Taxable General Obligation Bonds, which was passed by voters in 2003. The issuance will be used to finance construction, improvement of college and support facilities at the various campuses of the District, and to payoff $86.5 million in Certificates of Participation (COPS) and refinance other outstanding debts of the District and colleges.

Overview of the Financial Statements

The District follows the financial reporting guidelines established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* These statements require the District to report its financial statements at an entity wide level under the business-type activity reporting model, instead of the traditional reporting by fund type. This Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The Districts basic financial statements include four components: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses, and Changes in Net Assets; (3) Statement of Cash Flows; and (4) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets represents the entire District's combined assets, liabilities, and net assets, including Associated Student Organization financial information. Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets represents the revenues received, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District.

The Statement of Cash Flows presents detailed information about the cash activity of the District during the year. The purpose of these financial statements is to summarize the financial information of the District, as a whole, and to present a long-term view of the District's finances.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Los Angeles Community College District. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. Readers are also able to determine how much the institution owes vendors, investors, and lending institutions.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final net asset category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Statement of Revenue, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the District, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Financial Analysis of the District as a Whole

As of June 30, 2004, the District's net assets have decreased 2.7% to $270.4 million from $277.9 million at June 30, 2003. The $7.5 million decrease in net assets resulted from a $91.0 million decrease in current assets, a $94.5 million increase in net capital assets, a $28.3 million increase in current liabilities, and a $55.3 million increase in long-term liabilities.

Summary Schedule of Net Assets

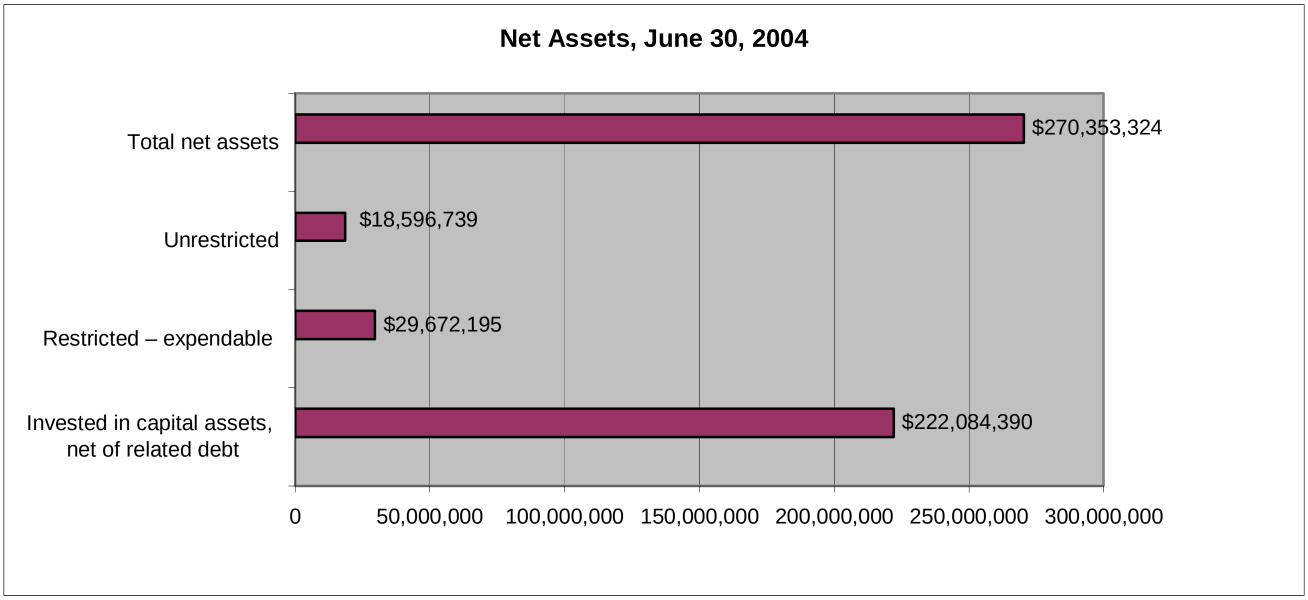
June 30, 2004 and 2003

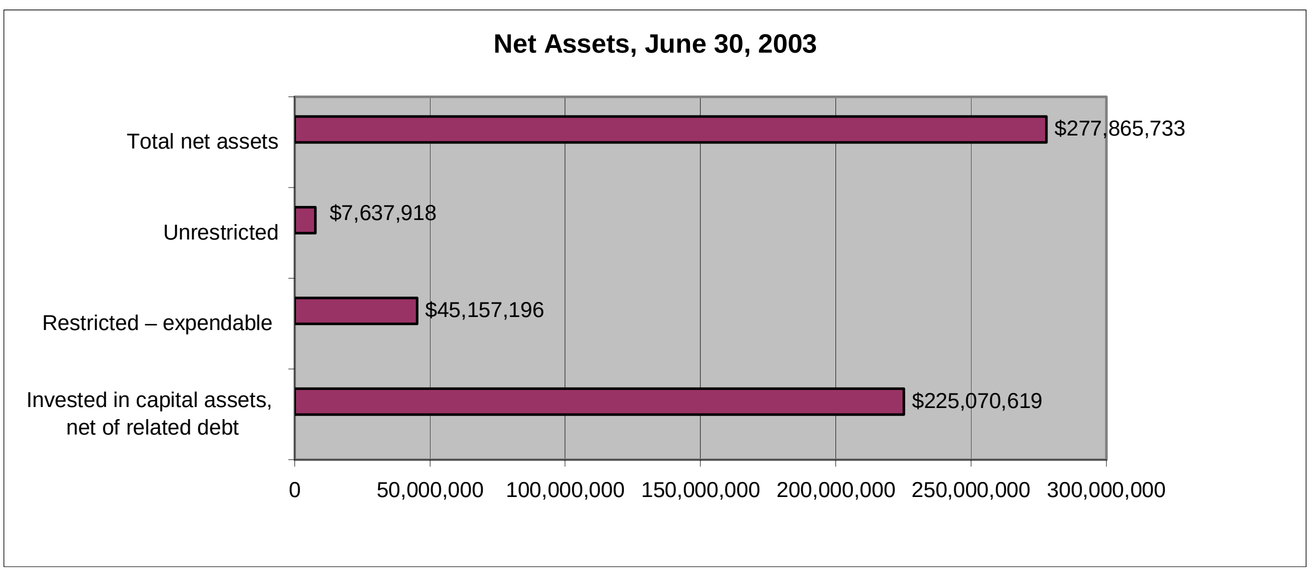
	2004	2003	Increase (decrease)
Assets:			
Current and other assets	$ 647,133,331	665,603,529	(18,470,198)
Capital assets, net	423,846,193	329,296,359	94,549,834
Total assets	1,070,979,524	994,899,888	76,079,636
Liabilities:			
Current liabilities	126,520,501	98,204,326	28,316,175
Noncurrent liabilities	674,105,699	618,829,829	55,275,870
Total liabilities	800,626,200	717,034,155	83,592,045
Net assets:			
Invested in capital assets, net of debt	222,084,390	225,070,619	(2,986,229)
Restricted – expendable	29,672,195	45,157,196	(15,485,001)
Unrestricted	18,596,739	7,637,918	10,958,821
Total net assets	$ 270,353,324	277,865,733	(7,512,409)

In 2004, the District spent $106.9 million in capital assets and depreciated $12.3 million of such assets. The District also transferred the bond proceeds from Propositions A and AA to the County Treasury which resulted in a $148.6 million decrease in restricted investments and a $91.4 million increase in restricted cash and cash equivalents during fiscal 2004. The $18.4 million decrease in current and other assets is due in part to the $106.9 million of capital expenditures, $82.4 million increase in net bond proceed available for capital expenditures, and $7.5 million in net loss including depreciation expense of $12.3 million.

The $28.3 million increase in current liabilities is due in part to a $5.2 million increase in vendor payables, a $19.5 million increase in current liabilities for debt service payments, and a $2.4 million increase in deferred revenues. The increase in current liabilities is due in part to the $55.5 million of debt services payments related to long-term debts that become due within a year as of June 30, 2004 compared with the $35.2 million of debt services payments to long-term debts that become due within a year as of June 30, 2003.

The $55.3 million net increase in long-term liabilities is primarily due to a net $60.2 million increase in long-term debt, a $6.9 million decrease in capital lease obligations, and a $1.1 million decrease in accrued vacation benefits. The increase in long-term debt liabilities is partially due to $189 million of taxable General Obligation Bonds issued on July 29, 2003 in which $86.5 million was used to refinance the District's outstanding Certificates of Participation Notes (COPS).





As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by $270.4 million at June 30, 2004. A significant portion of the District's net assets represents $472 million of cash, cash equivalents, and investments restricted for capital projects and $423.9 million of capital assets. As stated earlier, the District spent $106.9 million for additional capital assets during fiscal 2004. These capital asset expenditures are included in the Statement of Net Assets. Also, the District depreciated its capital assets by approximately $12.3 million for the year ended June 30, 2004 resulting in a net increase in capital assets of $94.6 million. The District's net assets also include $676.4 million of long-term debt for revenue bonds and general obligation bonds. The majority of the District's long-term debt is used to fund the construction and acquisition of capital assets.

Summary Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

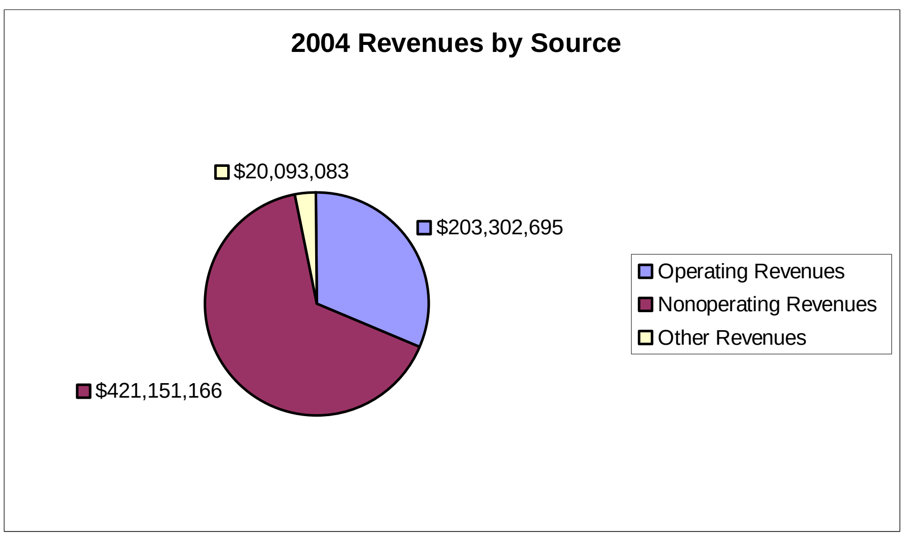
	2004	2003	Change
Revenues:			
Operating revenues:			
Net tuition and fees	$ 34,933,192	32,163,334	2,769,858
Grants and contracts, noncapital	136,210,828	131,284,428	4,926,400
Other	32,158,675	30,628,208	1,530,467
Nonoperating revenues:			
State apportionments, noncapital	233,197,594	250,047,306	(16,849,712)
Property taxes	128,467,415	118,266,341	10,201,074
Investment income	17,106,021	24,979,696	(7,873,675)
Other	42,380,136	38,091,833	4,288,303
Other revenues:			
State apportionments, capital	17,412,941	13,545,470	3,867,471
Local property taxes and revenues, capital	2,680,142	2,078,201	601,941
Total revenues	644,546,944	641,084,817	3,462,127
Expenses:			
Operating expenses:			
Salaries	312,263,765	327,070,110	(14,806,345)
Employee benefits	98,014,693	96,956,596	1,058,097
Supplies, materials, and other operating expenses and services	214,123,002	185,546,720	28,576,282
Other	19,080,149	19,071,982	8,167
Total operating expenses	643,481,609	628,645,408	14,836,201
Nonoperating expenses:			
Interest expense	5,221,336	4,331,558	889,778
Other	3,356,407	10,962,154	(7,605,747)
Total expenses	652,059,352	643,939,120	8,120,232
Change in net assets	$ (7,512,408)	(2,854,303)	(4,658,105)

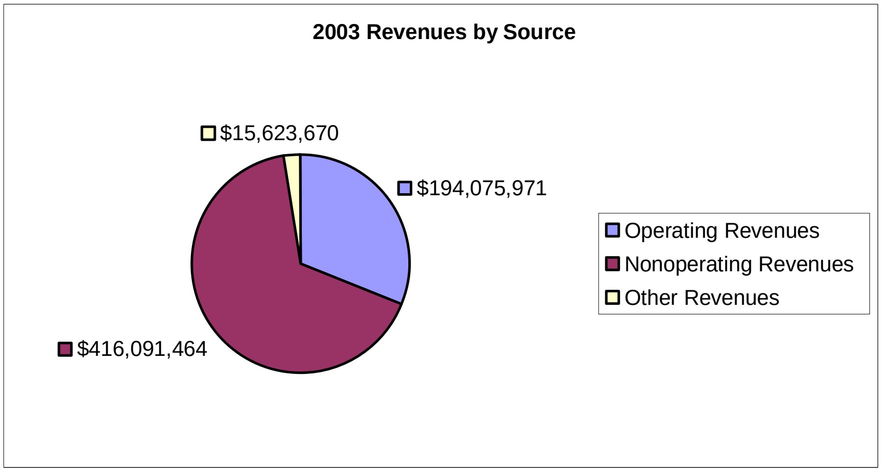
The summary of revenues, expenses, and changes in net assets reflects a decrease of $7.5 million in the net assets at the end of the year as explained below.

In 2004, operating revenue for tuition and fees, grant and contracts, noncapital resulted in a net increase of $9.2 million, which includes a $2.8 million increase in tuition and fees, a $1.3 million increase in federal funded programs, a $1.6 million increase in state-funded categorical programs, a $2.1 million increase in local revenue, and a $1.5 million increase in auxiliary enterprise sales and charges.

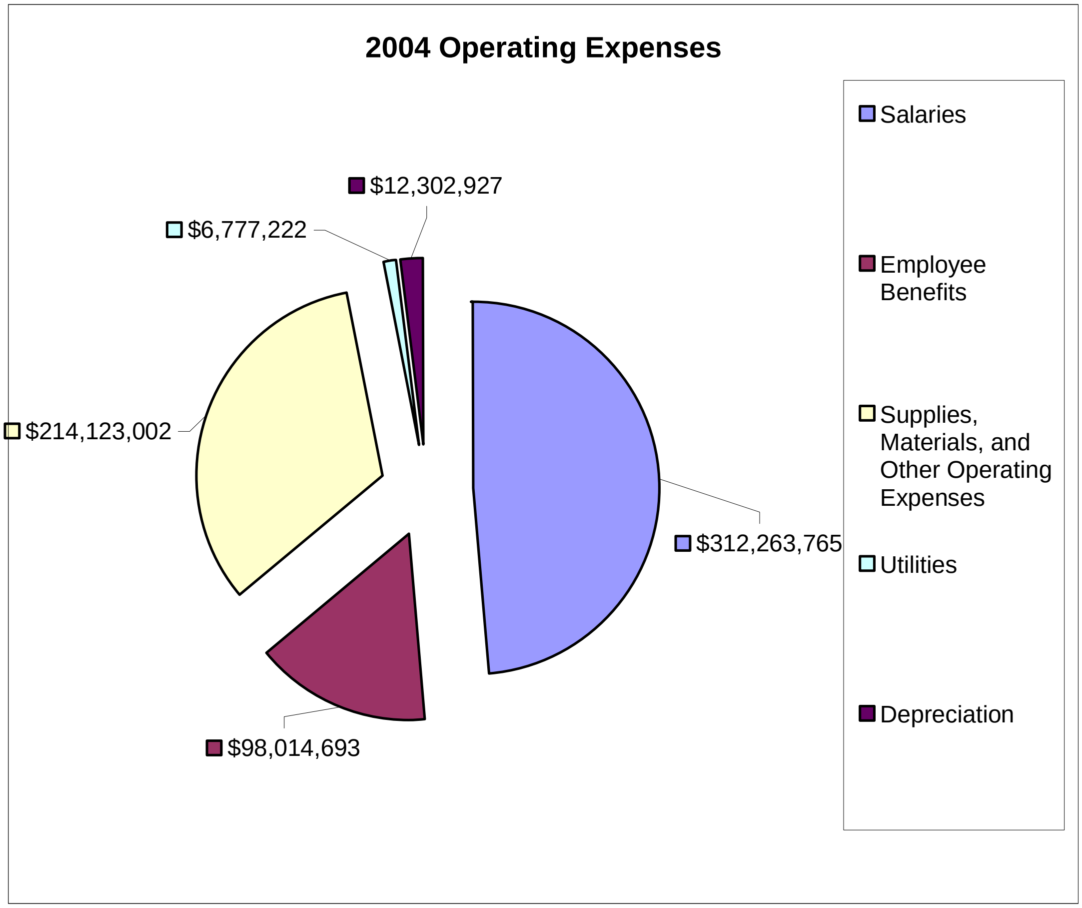
Nonoperating revenues includes $16.8 million decrease in state apportionments in part due to a $10.2 increase in property tax collection, an $8 million decrease in investment income, a $4.2 million increase in other nonoperating revenue, and a $7.6 million reduction in other nonoperating expenses. The reduction in investment income is due to the lower interests earned from the $464.7 million of long-term investments with Salomon Smith Barney, Inc., which was transferred to the County Treasurer during fiscal 2004.

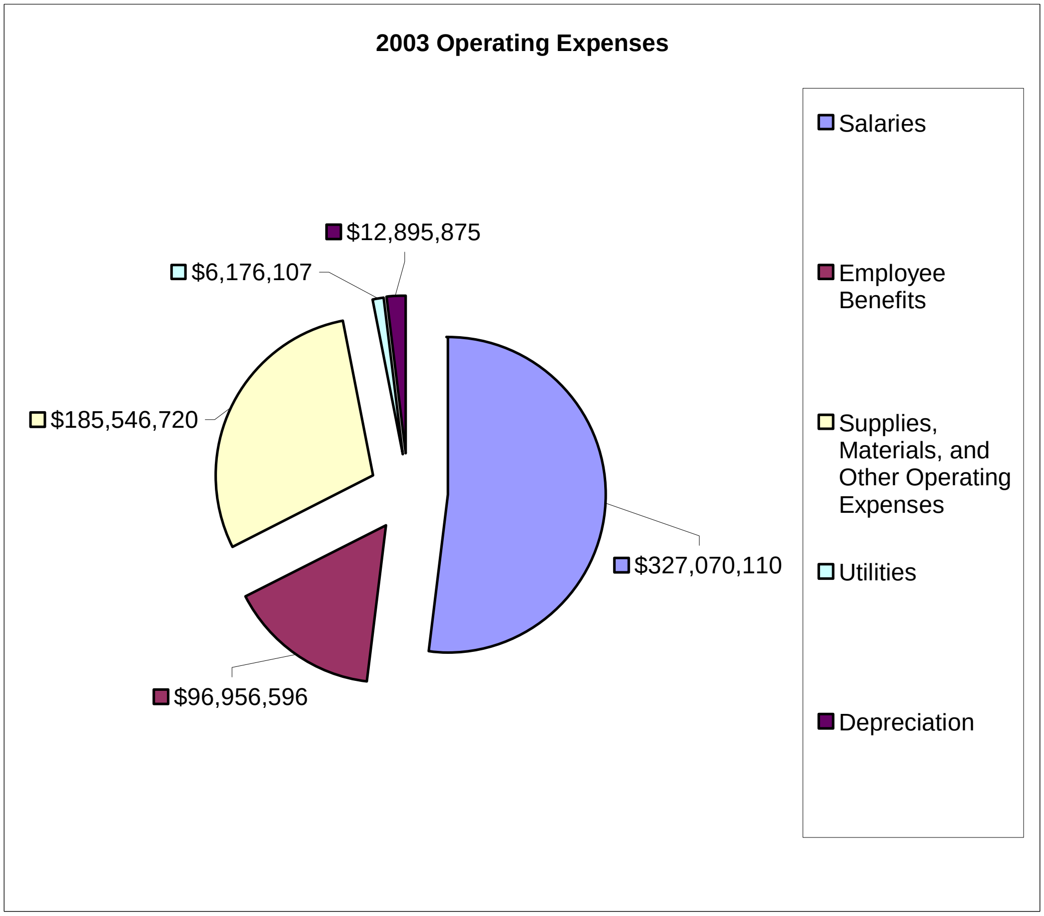
Operating expenses increased $14.8 million, due primarily to a $14.8 million decrease in salaries resulting from the District's midyear class offerings reduction, retirement incentives and hiring freeze, a $1 million increase in employee benefits, and $28.6 million increase in supplies, materials, and other operating expenses and services. The increase in other operating expenses and services resulted primarily from the issuance costs associated with the District's debt issuances.




2003 Revenues by Source
$15,623,670
$194,075,971
$416,091,464
Operating Revenues
Nonoperating Revenues
Other Revenues

Salary expenses represent 48.5% of the District's total operating expenses. Salary expenses decreased by $14.8 million in 2004 due to significant reductions in class offerings, retirement incentives, limited layoffs, hiring freeze, and no salary increase. Employee benefits increased by $1.1 million during the year ended June 30, 2004.




2003 Operating Expenses
$12,895,875
$6,176,107
$185,546,720
$327,070,110
$96,956,596
Salaries
Employee Benefits
Supplies, Materials, and Other Operating Expenses
Utilities
Depreciation

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2004 and 2003 totaled $423.9 million and $329.3 million, respectively (net of accumulated depreciation). This investment is comprised of a broad range of capital assets including land, buildings, construction in progress, works of art, infrastructure and machinery, and equipment. All capital assets are capitalized and depreciated. The following schedules summarize the activity of the District's capital assets for the years ended June 30, 2004 and 2003:

Capital Assets, Net

	2004			
	Balance at July 1, 2003	**Additions/ Transfers**	**Disposals/ Transfers**	**Balance at June 30, 2004**
Land	$ 32,499,839	7,493,867	—	39,993,706
Land improvements	30,856,097	422,570	—	31,278,667
Buildings	316,172,413	8,065,358	—	324,237,771
Construction in progress	73,722,369	94,967,951	(6,965,464)	161,724,856
Works of art	518,000	—	—	518,000
Equipment	38,762,110	2,868,479	—	41,630,589
Infrastructure	2,895,800	—	—	2,895,800
Total	495,426,628	113,818,225	(6,965,464)	602,279,389
Less accumulated depreciation	(166,130,269)	(12,302,927)	—	(178,433,196)
Net capital assets	$ 329,296,359	101,515,298	(6,965,464)	423,846,193

Capital Assets, Net

	2003			
	Balance at July 1, 2002	**Additions/ Transfers**	**Disposals/ Transfers**	**Balance at June 30, 2003**
Land	$ 32,499,839	—	—	32,499,839
Land improvements	30,812,500	43,597	—	30,856,097
Buildings	286,104,044	30,068,369	—	316,172,413
Construction in progress	35,397,727	63,958,023	(25,633,381)	73,722,369
Works of art	518,000	—	—	518,000
Equipment	34,568,887	4,193,223	—	38,762,110
Infrastructure	2,895,800	—	—	2,895,800
Total	422,796,797	98,263,212	(25,633,381)	495,426,628
Less accumulated depreciation	(153,234,394)	(12,895,875)	—	(166,130,269)
Net capital assets	$ 269,562,403	85,367,337	(25,633,381)	329,296,359

For the years ended June 30, 2004, the District recorded an additional $106.9 million in capital assets and $12.3 million in depreciation. During the year ended June 30, 2004, the District's investments in facility master plans, construction, and building improvements increased due to funding from Propositions A and AA, which are recorded in the District's Building Fund. The District had a significant number of building projects ongoing funded from Propositions A and AA bond money. A total of $95 million of capital outlay funds were spent for assets under construction. In addition, the District acquired properties at a cost of $1.4 million for the Los Angeles Southwest College and $6.1 million for the Los Angeles Trade-Technical College.

Long-Term Debt

At June 30, 2004 and 2003, the District had $676.4 million and $596.8 million in long-term debt, respectively. The District's long-term debt increased during the year ended June 30, 2004 as a result of the issuance of $189 million of Proposition AA General Obligation Bonds to fund capital improvements projects and to refinance all COPS and other outstanding debts.

Summary of Outstanding Long-Term Debt

June 30, 2004 and 2003

		2004	2003
Revenue Bonds:			
Energy and Water Efficiency Revenue Bonds – Phase IV	$	1,995,000	2,280,000
Energy and Water Efficiency Revenue Bonds – Phase V		851,570	973,223
Refunding COPS:			
1993 Series A		—	4,505,000
1999 Series A		—	6,385,000
2001 Series A		—	27,310,000
2002 Series A		—	48,335,000
General obligation bonds, 2001 Series A		483,930,000	507,030,000
General obligation bonds, 2003 Series AA		189,685,000	—
Total long-term debt	$	676,461,570	596,818,223

The District's debt rating from Moody's is AA2 and the debt rating from Standard and Poors is AA-.

Further information regarding the District's capital assets and long-term debt can be found in notes 6, 10, and 12 in the accompanying notes to the basic financial statements.

Economic Factors

State Economy

In March 2004, the voter passed Proposition 57 to refinance a portion of the inherited debt and enact a new requirement for a State balanced budget. The passage of the Proposition has temporarily brought relief to the state's fiscal crisis. In fiscal year 2004-05, the California Community College system received a 7% increase in funding from the prior year. The State gave California Community Colleges approximately 10.25% of Proposition 98 funds. The increases have provided a 2.41% COLA and an additional $20 million in enrollment growth revenue to the District. In fiscal year 2005-06, the State has an $8-$10 billion budget gap. In light of the uncertainty of the State's financial deficit, the District will continue to monitor college financial plans and review other cost-savings and revenue-generating measures to minimize any deficit gaps. The measures include limited hiring at college campuses; District initiated employee transfers in lieu of new hires and further reductions in nonsalary expenditures where possible. The District has also increased its contingency reserve from 2% ($7.8 million in 2003-04) to 3% ($12 million) for fiscal year 2004-2005 to cover unforeseen events. The District ended the year with an increase in its ending balance to over 5% of its annual expenditures. This was a result of adhering to several cost-saving measures during the year.

Capital Projects

In April 2001, the District became the first community college district in the state of California to pass a property tax financed bond, Proposition A, under the new requirements of the Strict Accountability in Local School Construction Act of 2000. Valued at $1.245 billion, the District's Proposition A Bond Construction Program stands as one of the largest community college bonds ever passed in California. The bond measure was designed to implement a capital improvement program for each of the nine colleges within the Los Angeles Community College District.

In May 2003, the District passed another General Obligation Bond – Proposition AA, for $980 million. The bond measure was designed to finance construction, building acquisition, equipment, improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years.

The District is in the third year of the Proposition A and the second year of Proposition AA Bond construction projects. Approximately $289.8 million has been spent to date for Proposition A and AA combined for several capital projects at all nine colleges and to refinance outstanding debt (Certificates of Participation Notes) at both the district and colleges. In July 2004, another $103.9 million in taxable bonds were issued to fund various joint ventures, nongovernment revenue providing projects and to fund owner controlled insurance programs. The District anticipates completion of these capital projects by the year 2012.

Student Enrollment and State Funding

The student enrollment fee was increased from $18 per unit to $26 per unit beginning with the Fall 2004 semester. In 2004-05, the State provided 3% enrollment growth for apportionments and $27 million for unfunded FTES for California Community Colleges. The District has budgeted $20 million in enrollment growth in enrollment revenue for a 7.6% increase in enrollment to ensure receipt of these funds. The District continues to educate more than 10,000 students annually without any additional funding to support the costs. Although the State has provided additional growth revenue ($8.2 million in 2004-05) for unfunded FTES, the District still has not been fully funded for all students that it educates. The District continues to seek legislative changes to provide for additional funding for enrollment, to strengthen efforts to modernize facilities and renew programs and services to ensure access to students and community.

KPMG

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Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the accompanying basic financial statements of the Los Angeles Community College District (the District) as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Los Angeles Community College District as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 12, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis on pages 1 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The management's discussion and analysis does not include 2002 financial information that accounting principles generally accepted in the United States of America requires to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental financial information and other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements, and the accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The supplemental financial information on pages 38 through 49 and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information on pages 35 through 37 and pages 50 through 53 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

November 12, 2004

BASIC FINANCIAL STATEMENTS

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2004 and 2003

Assets		**2004**	**2003**
Current assets:			
Cash and cash equivalents	$	86,961,636	34,807,912
Short-term investments (note 3)		45,810	3,359,919
Accounts receivable, net of allowance (note 4)		53,685,863	23,672,988
Notes receivable, current portion (note 4)		—	2,815,000
Student loans receivable, current portion (note 4)		428,910	464,368
Deposit with bond trustee		3,841,479	60,569,332
Deposit with Superior Court (note 12)		17,500,000	—
Inventory		8,389,528	6,872,846
Prepaid expenses and other assets		451,927	38,134
Total current assets		171,305,153	132,600,499
Noncurrent assets:			
Restricted cash and cash equivalents (note 3)		155,886,836	64,495,754
Restricted investments (note 3)		316,220,406	464,793,752
Student loans receivable, noncurrent portion (note 4)		3,720,936	3,713,524
Capital assets (note 6):			
Land		39,993,706	32,499,839
Land improvements		31,278,667	30,856,097
Buildings		324,237,771	316,162,413
Construction in progress		161,724,856	73,722,369
Works of art		518,000	518,000
Machinery and equipment		41,630,589	38,762,110
Infrastructure		2,895,800	2,895,800
Accumulated depreciation		(178,433,196)	(166,130,269)
Capital assets, net		423,846,193	329,286,359
Total assets	$	1,070,979,524	994,889,888

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2004 and 2003

Liabilities and Net Assets	2004	2003
Current liabilities:		
Accounts payable	$ 56,578,163	51,260,996
Deferred revenue	9,221,659	6,871,601
Compensated absences payable – current portion	1,207,415	720,223
General liability claims payable – current portion	314,224	191,524
Workers' compensation claims payable – current portion	6,254,972	5,754,747
Other accrued liabilities	3,426,285	2,273,386
Amounts held in trust for others	1,849,128	2,609,270
Long-term debt – current portion	46,806,653	27,341,653
Capital leases – current portion	862,002	1,180,926
Total current liabilities	126,520,501	98,204,326
Noncurrent liabilities:		
Compensated absences payable – noncurrent portion	10,444,099	11,537,427
General liability claims payable – noncurrent portion	1,790,776	1,498,000
Workers' compensation claims payable – noncurrent portion	30,332,028	27,508,253
Long-term debt – noncurrent portion	629,654,917	569,476,570
Capital leases – noncurrent portion	1,883,879	8,809,579
Total noncurrent liabilities	674,105,699	618,829,829
Total liabilities	800,626,200	717,034,155
Net assets:		
Invested in capital assets, net of related debt	222,084,390	225,070,619
Restricted for:		
Expendable:		
Scholarships and loans	5,991,189	5,537,867
Capital projects	5,351,091	9,680,572
Debt service	—	11,843,238
Other special purposes	18,329,915	18,095,519
Unrestricted	18,596,739	7,637,918
Total net assets	270,353,324	277,865,733
Total liabilities and net assets	$ 1,070,979,524	994,899,888

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

		2004	2003
Operating revenues:			
Tuition and fees	$	55,556,901	45,046,210
Less scholarship discounts and allowances		(20,623,709)	(12,882,876)
Net tuition and fees		34,933,192	32,163,334
Grants and contracts, noncapital:			
Federal		89,270,746	88,021,756
State		32,937,820	31,357,123
Local		14,002,262	11,905,549
Auxiliary enterprise sales and charges		32,158,675	30,628,208
Total operating revenues		203,302,695	194,075,970
Operating expenses:			
Salaries		312,263,765	327,070,110
Employee benefits		98,014,693	96,956,596
Supplies, materials, and other operating expenses and services		214,123,001	185,546,720
Utilities		6,777,222	6,176,107
Depreciation		12,302,927	12,895,875
Total operating expenses		643,481,608	628,645,408
Operating loss		(440,178,913)	(434,569,438)
Nonoperating revenues (expenses):			
State apportionments, noncapital		233,197,594	250,047,306
Local property taxes		128,467,415	118,266,341
State taxes and other revenue		1,620,763	1,574,420
Investment income – noncapital		1,536,978	790,539
Investment income – capital		15,569,043	24,189,157
Interest expense on capital asset-related debt		(5,221,337)	(4,331,558)
Other nonoperating revenue		40,759,373	36,517,413
Other nonoperating expense		(3,356,407)	(10,962,154)
Total nonoperating revenues		412,573,422	416,091,464
Loss before other revenues		(27,605,491)	(18,477,974)
State apportionments, capital		17,412,941	13,545,470
Gifts and grants, capital		2,135,893	1,526,125
Local property taxes and revenues, capital		544,249	552,076
Changes in net assets		(7,512,408)	(2,854,303)
Net assets:			
Beginning of year		277,865,732	280,720,035
End of year	$	270,353,324	277,865,732

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Tuition and fees	$ 33,716,280	31,431,170
Grants and contracts	131,743,418	139,344,014
Payments to suppliers	(206,789,276)	(173,999,215)
Payments for utilities	(6,777,222)	(6,176,107)
Payments to employees	(311,037,847)	(327,070,108)
Payments for benefits	(94,876,094)	(85,391,102)
Bookstore and cafeteria sales	32,599,708	32,748,022
Other receipts (payments)	270,034	(1,304,408)
Net cash used in operating activities	(421,150,999)	(390,417,734)
Cash flows from noncapital financing activities:		
State appropriations	208,943,558	259,486,888
Property taxes	128,029,122	118,266,341
State taxes and other revenue	1,620,763	1,574,420
Other receipts	40,219,514	27,550,080
Net cash provided by noncapital financing activities	378,812,957	406,877,729
Cash flows from capital financing activities:		
Proceeds from capital debt	189,685,000	43,650,000
Capital appropriations	20,093,083	15,623,670
Purchases of capital assets	(105,809,207)	(70,505,378)
Principal paid on capital debt and leases	(118,233,467)	(62,042,885)
Interest paid on capital debt and leases	(5,221,336)	(4,331,558)
Deposit with bond trustee	56,727,853	(2,624,491)
Deposit with superior court	(17,500,000)	—
Net cash provided by (used in) capital financing activities	19,741,926	(80,230,642)
Cash flows from investing activities:		
Interest on investments	14,253,467	25,842,265
Proceeds from sale/maturity of investments	617,268,154	49,889,943
Purchases of investments	(465,380,699)	(3,221,872)
Net cash provided by investing activities	166,140,922	72,510,336
Net increase in cash and cash equivalents	143,544,806	8,739,689
Cash and cash equivalents – beginning of year	99,303,666	90,563,977
Cash and cash equivalents – end of year	$ 242,848,472	99,303,666
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	$ (440,178,913)	(434,569,438)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,302,927	12,895,875
Changes in assets and liabilities:		
Receivables, net	(4,965,979)	9,025,494
Inventories	(1,516,682)	1,614,385
Other assets	(413,793)	194,589
Accounts payable	7,745,286	10,116,216
Deferred revenue	2,350,058	198,817
Deposits held for others	(760,142)	(2,365,359)
General liability	415,476	(54,476)
Workers' compensation	3,324,000	11,052,000
Compensated absences	(606,136)	567,480
Other liabilities	1,152,899	906,683
Net cash used in operating activities	$ (421,150,999)	(390,417,734)
Noncash capital financing activity:		
Equipment acquired through new capital lease obligations	$ 947,190	2,318,789

See accompanying notes to basic financial statements.

(1) Organization and Reporting Entity

The District is a political subdivision of the state of California and is located within the County of Los Angeles. The District's operations consist principally of providing educational services to the local residents of the District. In conjunction with educational services, the District also provides supporting student services such as the operation of campus bookstores and cafeterias. The District consists of nine community colleges located within the County of Los Angeles.

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's board of trustees. The District's basic financial statements of the District include the financial activities of the District and the combined totals of the trust and agency funds which primarily represent Associated Student Organizations and various scholarships within the District. Associated Student Organizations are recognized agencies of the Los Angeles Community College District and were organized in accordance with provisions of the California Education Code to control the administration of student funds. The financial affairs of the Associated Student Organizations are administered under the direction of the College Financial Administrators at the respective colleges, with the supervision and guidance of the District's Senior Vice Chancellor of Operations.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) Financial Reporting

The basic financial statements required by GASB Statements Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The District is considered a special-purpose government under the provisions of GASB Statement No. 35. Accordingly, the District has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method. The effect of internal activity between funds or groups of funds has been eliminated from these basic financial statements. The District's operating revenue includes tuition, fees, and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

(c) Cash and Cash Equivalents

The District participates in the common investment pool of the County of Los Angeles, California, which is stated at cost, which approximates market value. For purposes of the statement of cash flows, the District considers all cash and investments pooled with the County plus any other cash deposits or investments with initial maturities of three months or less to be cash and cash equivalents.

(d) Inventory

Bookstore, cafeteria, and supply inventories are recorded at cost on the first-in, first-out basis and expended on the consumption method.

(e) Properties and Depreciation

Properties are carried at cost or at appraised fair market value at the date received in the case of properties acquired by donation and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Land improvements	15 years
Buildings	50 years
Building improvements	20 years
Equipment	3 to 7 years
Vehicles	5 years
Infrastructure	15 years
Leasehold improvements	7 years

The District's capitalization threshold is as follows:

Movable equipment	$ 5,000 and above
Land, building, and infrastructure	50,000 and above

(f) Accrued Employee Benefits

The District has accounted for vacation leave benefits which have been earned as a liability within the statements of net assets. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

(g) Deferred Revenue

A majority of the deferred revenue balance represents cash collected in advance for tuition and student fees and will be recognized as revenue in the period in which it is earned. Deferred revenue also includes an amount relating to the District's office lease expense computed under the straight-line method.

(Continued)

(h) Capitalized Interest

It is the District's policy to offset interest income against interest costs for construction projects financed with tax-exempt borrowings.

(i) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, and expenses in the accompanying basic financial statements. Actual results could differ from those estimates.

(j) Reclassifications

Certain reclassifications have been made to amounts previously reported to conform with the current year presentation. Such reclassifications had no affect on previously reported net assets.

(3) Cash and Investments

Cash and investments at June 30, 2004 and 2003 consist of the following:

		2004	2003
Cash in County Treasury	$	226,186,783	80,056,184
Cash in banks		16,661,689	19,247,482
Total cash and cash equivalents		242,848,472	99,303,666
Investments		316,266,216	468,153,671
Total cash and investments	$	559,114,688	567,457,337

As provided for by the State of California Education Code, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through county investment activities. Each respective fund's share of the total pooled cash is included in the accompanying combined balance sheet under the caption Cash in County Treasury. Interest earned on such pooled cash balances is distributed to the participating funds based upon each fund's average cash balance during the distribution period. The California Government Code requires California banks and savings and loan associations to collateralize the District's deposits by pledging government securities as collateral. All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. At no time during the year did the value of the collateralized property fall below 110% of uninsured deposits.

Under provisions of the District's investment policy, and in accordance with Sections 53601 and 53602 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government or Its Agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit

- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements.

At June 30, 2004, the District had cash in banks with a carrying value and bank balance of $16,661,689 and $38,898,356, respectively. Of the bank balance, $347,079 was covered by federal depository insurance, of which $38,551,277 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. At June 30, 2003, the District had cash in banks with a carrying value and bank balance of $19,247,481 and $36,769,196, respectively. Of the bank balance, $345,440 was covered by federal depository insurance, of which $36,423,756 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. The difference between the carrying value and the bank balance represents items in transit in the normal course of business and cash on hand.

The District accounts for investments held in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which establishes fair value standards for investments held by governmental entities.

At June 30, 2004 and 2003, the District's investments consist primarily of U.S. government securities and corporate notes and bonds which are carried at fair value, based on quoted market values.

Specifically identifiable investments are classified as to credit risk by three categories and summarized below as follows: Category 1 includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name and deposits insured or collateralized with securities held by the District; Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; and Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name.

All certificates of deposit are collateralized as required by California state law for any amount exceeding FDIC or FSLIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

	June 30, 2004 Fair market value
Noncategorized investments:	
Investment in County Treasury	$ 312,633,881
Certificates of deposit	3,632,235
Total investments	$ 316,266,116
Cash in County Treasury	$ 226,186,783

	June 30, 2003 Fair market value
Noncategorized investments:	
Master repurchase agreement	$ 464,793,752
Certificates of deposit	3,359,919
Total investments	$ 468,153,671
Cash in County Treasury	$ 80,056,184

The District's noncategorized investments earned an average interest rate of 1.32% in fiscal year 2003/2004.

(4) Accounts, Notes, and Other Receivables

Accounts, notes, and other receivable at June 30, 2004 and 2003 are summarized as follows:

	2004	2003
Tax delinquencies	$ 14,393,105	14,074,480
Federal and state programs	14,631,065	17,819,060
State lottery	6,600,000	2,508,817
Interest receivable	1,118,051	351,687
Notes receivable	—	2,815,000
Accounts receivable – principal apportionment	20,213,640	—
Accounts receivable – campus students	1,653,119	1,422,038
Accounts receivable – credit memos	733	1,448,335
Accounts receivable – NSDL/nursing loans	4,150,945	3,713,524
Other	12,456,682	9,022,028
Less allowance for doubtful accounts	(17,381,631)	(22,509,089)
Total, net	$ 57,835,709	30,665,880

(Continued)

The allowance for doubtful accounts is maintained at an amount sufficient to fully reserve tax delinquencies as well as the possible uncollectibility of other receivable balances.

Tax delinquencies represent prior and current year unpaid/unreceived property taxes which were assessed and billed by Los Angeles County during the 2003/2004 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts which remain unpaid/unreceived by the District within 60 days of fiscal year-end are considered delinquent. The Los Angeles County board of supervisors is the taxing authority which levies and collects tax revenues.

(5) Accounts Payable

Accounts payable at June 30, 2004 and 2003 are summarized as follows:

		2004	2003
Vendors payable	$	18,778,361	13,893,737
Capital Outlay & Program Management – DMJM		14,182,973	10,918,626
Payroll accrual		10,348,567	9,122,649
Grants		8,029,147	5,537,420
Principal apportionment		2,661,248	3,402,912
Interest payable		1,513,866	2,591,686
L.A. Sheriff's Department		884,535	1,868,018
Financial aid payable		179,466	1,890,301
Election expense payable		—	1,748,425
Claims payable		—	287,222
Total	$	56,578,163	51,260,996

(6) Capital Assets

A summary of changes in capital assets follows (in thousands):

	Balance at July 1, 2003	Additions/ Transfers	Disposals/ Transfers	Balance at June 30, 2004
Capital assets not being depreciated:				
Land	$ 32,499,839	7,493,867	—	39,993,706
Construction in process	73,722,369	94,967,951	(6,965,464)	161,724,856
Works of art	518,000	—	—	518,000
Total capital assets, not being depreciated	106,740,208	102,461,818	(6,965,464)	202,236,562
Capital assets being depreciated:				
Land improvements	30,856,097	422,570	—	31,278,667
Buildings	316,172,413	8,065,358	—	324,237,771
Equipment	38,762,110	2,868,479	—	41,630,589
Infrastructure	2,895,800	—	—	2,895,800
Total capital assets being depreciated	388,686,420	11,356,407	—	400,042,827
Less accumulated depreciation	(166,130,269)	(12,302,927)	—	(178,433,196)
Total capital assets being depreciated, net	222,556,151	(946,520)	—	221,609,631
Total	$ 329,296,359	101,515,298	(6,965,464)	423,846,193

(Continued)

	Balance at July 1, 2002	Additions/ Transfers	Disposals/ Transfers	Balance at June 30, 2003
Capital assets not being depreciated:				
Land	$ 32,499,839	—	—	32,499,839
Construction in process	35,397,727	63,958,023	(25,633,381)	73,722,369
Works of art	518,000	—	—	518,000
Total capital assets, not being depreciated	68,415,566	63,958,023	(25,633,381)	106,740,208
Capital assets being depreciated:				
Land improvements	30,812,500	43,597	—	30,856,097
Buildings	286,104,044	30,068,369	—	316,172,413
Equipment	34,568,887	4,193,223	—	38,762,110
Infrastructure	2,895,800	—	—	2,895,800
Total capital assets being depreciated	354,381,231	34,305,189	—	388,686,420
Less accumulated depreciation	(153,234,394)	(12,895,875)	—	(166,130,269)
Total capital assets being depreciated, net	201,146,837	21,409,314	—	222,556,151
Total	$ 269,562,403	85,367,337	(25,633,381)	329,296,359

(7) Lease Commitments

The District leases various assets, as lessee, under operating lease agreements. Lease payments under operating leases (including month-to-month leases) approximating $5,374,180 have been charged as expenses in the accompanying combined statement of revenues, expenditures, and changes in net assets.

At June 30, 2004, minimum lease commitments under long-term lease contracts, including the District's central office lease, were as follows:

Year ending June 30:	
2005	$ 3,737,903
2006	3,668,300
2007	3,224,737
2008	2,995,143
2009	2,509,715
2010-2014	10,155,551
Total	$ 26,291,349

(8) Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System. In addition, employees not participating in the State Teachers' Retirement System or the Public Employees' Retirement System may participate in the Public Agency Retirement System, which is a defined contribution plan. On September 2, 2003, the District offered to its employees the Cash Balance Plan to every part-time faculty member who is not a mandatory CalSTRS Defined Benefit Program member.

(a) Plan Descriptions and Provisions

State Teachers' Retirement System (STRS) – All full-time certificated employees participate in the STRS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. An actuarial valuation by employer is not available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Employees attaining the age of 60 with five years of credited California service (service) are eligible for normal retirement and are entitled to a monthly benefit of 2% of their final compensation for each year of service. Final compensation is defined as the highest average salary earned during three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90% of final compensation are available to members with five years of service. A family benefit is available if the deceased member had at least one year of service and was an active member or on disability leave. After five years of credited service, members become 100% vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, Sec. 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the STRS Executive Office.

California Public Employees' Retirement System (PERS) – All full-time classified employees participate in the PERS, an agent multiple-employer contributory public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. The Los Angeles Community College District is part of a cost-sharing pool within PERS. An actuarial valuation by employer is not available. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

Employees are eligible for retirement at the age of 50 and are entitled to a monthly benefit of 1.1% of final compensation for each year of service credit. The rate is increased if retirement is deferred beyond the age of 50, up to age 63. Retirement compensation is reduced if the plan is coordinated with Social Security.

The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest through the date of separation.

Benefit provisions for PERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Sec. 20000 et seq.). PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the PERS Executive Office.

State Teachers' Retirement System (STRS) – Defined Benefit and Cash Balance Benefit Program

On September 2, 2003, the District offered to its employees the Cash Balance Plan to every part-time faculty member who is not a mandatory CalSTRS Defined Benefit Program member the option of participating in one of the following three retirement plans; CalSTRS Cash Balance Benefit Program, the CalSTRS Defined Benefit Program, or the Public Agency Retirement System (PARS).

Public Agency Retirement System (PARS)

The Omnibus Budget Reconciliation Act of 1990 (Section 11332) extends the Social Security tax to state and local government employees not participating in a qualified public retirement system. Internal Revenue Code 3121 (b)(7)(F) proposed regulations allows employers to establish an alternative retirement system in lieu of Social Security taxes. Such an alternative system was authorized on June 26, 1991 to be established by the end of calendar year 1991 for certain employees not participating in STRS or PERS.

On December 4, 1991, the District's board of trustees adopted PARS, a defined contribution plan qualifying under Sections 401 (a) and 501 of the Internal Revenue Code, effective January 1, 1992, for the benefit of employees not participating in STRS or PERS who were employed on that date or hired thereafter. The District has contracted with the Phase 11 Insurance Services, in which Imperial Trust Company serves as the trustee, to manage the assets of the PARS plan.

Total contributions to PARS are 7.50%. The employer contribution is 4.00% and the employee contribution is 3.50%. Contributions are vested 100% for employees. Employees can receive benefits when they retire at age 60, become disabled, terminate employment, or die.

(b) Contributions Required and Contributions Made

For fiscal year 2003-2004, the District is required by statute to contribute 8.25%, 10.42%, 4.25%, and 4.00% of gross salary expenditures to STRS, PERS (pooled), Cash Balance, and PARS respectively. Participants are required to contribute 8.00%, 7.00%, 3.75%, and 3.50% of gross salary to STRS, PERS, Cash Balance, and PARS respectively.

The District's contributions for the years ended June 30, 2004, 2003 and 2002 are as follows:

		Contributions	Percent of required contributions
STRS:			
2004	$	13,819,205	100%
2003		14,019,805	100
2002		11,435,718	100
PERS:			
2004	$	9,784,984	100%
2003		2,605,393	100
2002		—	100
Cash Balance STRS:			
2004	$	620,415	100%
PARS:			
2004	$	630,306	100%
2003		1,392,368	100
2002		1,923,942	100

The District's contribution represented 0.61% of the total contributions required of all participating employers in STRS, PERS, Cash Balance, and PARS. The District's employer contributions to STRS, PERS, Cash Balance, and PARS met the required contribution rate established by law.

(c) Postretirement Benefits

The District provides postretirement health benefits to its retirees who meet plan eligibility requirements. Substantially all retirees of the District may become eligible for those benefits if they reach the appropriate eligibility requirements for retirement while working for the District. The retirement eligibility for PERS' retirees is a minimum age of 50 and minimum years of service of five. The retirement eligibility for STRS retirees is a minimum age of 55 and minimum years of service of five or a minimum age of 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from 7 years to 20 years, which vary by employee class. The District's expenditures for postretirement health benefits are recognized when incurred. During the fiscal years ended June 30, 2004 and 2003, expenditures of $20,319,798 and $16,667,587, respectively, were recognized for postretirement health benefits.

(9) Commitments and Contingencies

The District receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying basic financial statements.

(Continued)

The District is a defendant in various lawsuits at June 30, 2004. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. At June 30, 2004 and 2003, the total value of these contracts to be paid over the course of two years approximated $313,243,037 and $205,114,402, respectively. The increase in commitments is due to increases in capital construction projects for Propositions A and AA.

(10) Long-Term Liabilities

The following is a summary of long-term liabilities of the District for the years ended June 30, 2004 and 2003:

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004	Due within one year
Refunding certificates of participation	$ 86,535,000	—	(86,535,000)	—	—
General Obligation Bonds, 2001 Series A	507,030,000	—	(23,100,000)	483,930,000	10,000,000
General Obligation Bonds, 2003 Series A, B, and C	—	189,685,000	—	189,685,000	36,400,000
Revenue bonds	3,253,223	—	(406,653)	2,846,570	406,653
Workers' compensation claims payable	33,263,000	9,578,972	(6,254,972)	36,587,000	6,254,972
General liability	1,689,000	730,224	(314,224)	2,105,000	314,224
Vacation benefits payable	12,257,650	601,279	(1,207,415)	11,651,514	1,207,415
Capital lease obligations	9,990,505	947,190	(8,191,814)	2,745,881	862,002
Total	$ 654,018,378	201,542,665	(126,010,078)	729,550,965	55,445,266

	Balance at July 1, 2002	Additions	Deletions	Balance at June 30, 2003	Due within one year
Refunding certificates of participation	$ 84,915,000	43,650,000	(42,030,000)	86,535,000	3,835,000
General Obligation Bonds, 2001 Series A	525,000,000	—	(17,970,000)	507,030,000	23,100,000
Revenue bonds	3,659,876	—	(406,653)	3,253,223	406,653
Workers' compensation claims payable	22,211,000	16,806,747	(5,754,747)	33,263,000	5,754,747
General liability	1,744,000	136,524	(191,524)	1,689,000	191,524
Vacation benefits payable	11,079,542	1,898,331	(720,223)	12,257,650	720,223
Capital lease obligations	8,580,506	2,318,789	(908,790)	9,990,505	1,180,926
Total	$ 657,189,924	64,810,391	(67,981,937)	654,018,378	35,189,073

(a) Refunding Certificates of Participation

A portion of the proceeds of the sale of the Series A, B, and C – General Obligation Bonds (which was passed by voters on May 20, 2003) was used to pay off various refunded obligations totaling $86,535,000. As a result, the refunded COPS and related obligations were defeased in substance and thus the related debt and trust assets removed from the district's financial statements.

(b) General Obligation Bonds

On April 10, 2001, the voters of the County of Los Angeles passed Proposition A, a $1.2 billion General Obligation Bond measure.

On June 7, 2001, the District issued the 2001 Series A General Obligation Bonds in the amount of $525,000,000 with an average interest rate of 4.63% maturing in 2026. The proceeds of this first series of general obligation bonds are to be used to finance the construction, equipping, and improvement of college and support facilities at nine colleges.

Debt service requirements to maturity of the general obligation bonds at June 30, 2004 are as follows:

	2001 Series A		
	Principal	**Interest**	**Total**
Year ending June 30:			
2005	$ 10,000,000	24,537,831	34,537,831
2006	3,655,000	24,269,300	27,924,300
2007	4,630,000	24,113,956	28,743,956
2008	5,670,000	23,920,831	29,590,831
2009	6,775,000	23,669,190	30,444,190
2010 – 2014	53,570,000	112,426,606	165,996,606
2015 – 2019	98,650,000	92,536,075	191,186,075
2020 – 2024	163,115,000	57,364,501	220,479,501
2025 – 2026	137,865,000	10,380,126	148,245,126
Total	$ 483,930,000	393,218,416	877,148,416

On May 20, 2003, the voters of the County of Los Angeles passed Proposition AA, a $980 million General Obligation Bond measure.

On July 29, 2003, the District issued the 2003 Series A, B, and C General Obligation Bonds in the amount of $189,685,000, with various interest rates ranging from 2% to 5% maturing in 2023. The Bond measure was designed to finance and refinance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges.

Debt service requirements to maturity of the general obligation bonds at June 30, 2004 are as follows:

	2003 Series A, B, and C		
	Principal	**Interest**	**Total**
Year ending June 30:			
2005	$ 36,400,000	6,883,117	43,283,117
2006	36,980,000	5,932,992	42,912,992
2007	34,305,000	4,633,617	38,938,617
2008	2,455,000	3,871,265	6,326,265
2009	2,505,000	3,795,388	6,300,388
2010 – 2014	14,140,000	17,307,257	31,447,257
2015 – 2019	17,735,000	13,567,000	31,302,000
2020 – 2024	22,645,000	8,545,987	31,190,987
2025 – 2028	22,520,000	2,320,750	24,840,750
Total	$ 189,685,000	66,857,373	256,542,373

(c) Revenue Bonds

On March 1, 1995, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase IV, Series 1995A, for funding of energy conservation design and construction projects at Los Angeles Pierce College in the amount of $4,063,000. Until the termination date on October 1, 2010, the amount of $285,000 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2004 and 2003, $1,995,000 and $2,280,000 were outstanding, respectively.

On June 1, 1996, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase V, Series 1996 A, for funding of energy conservation design and construction projects at Los Angeles Southwest College in the amount of $1,581,488. Until the termination date on August 1, 2010, the amount of $121,653 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2004 and 2003, the outstanding balance was $851,570 and $973,223, respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2004 are as follows:

		Revenue bonds		
		Principal	Interest	Total
Year ending June 30:				
2005	$	406,653	—	406,653
2006		406,653	—	406,653
2007		406,653	—	406,653
2008		406,653	—	406,653
2009		406,653	—	406,653
2010 – 2011		813,305	—	813,305
Total	$	2,846,570	—	2,846,570

(d) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2004 are as follows:

		Lease purchase financing		
		Principal	Interest	Total
Year ending June 30:				
2005	$	862,002	191,559	1,053,561
2006		925,468	130,454	1,055,922
2007		553,618	58,741	612,359
2008		367,048	15,717	382,765
2009		2,470	231	2,701
2010 – 2014		35,275	—	35,275
Total	$	2,745,881	396,702	3,142,583

(11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of $500,000 for each workers' compensation claim, $250,000 per employment practices claims, $100,000 for each general liability claim up to an amount aggregate of $300,000; thereafter, self-insured decreases to $10,000 per each claim up to $25,000,000 per claim. The District currently reports all of its risk management activities in the statement of net assets. The balance of all outstanding workers' compensation and incurred general liability claims is estimated based on information provided by an outside actuarial study performed in 2002. The amount of the outstanding liability at June 30, 2004 and 2003 includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date.

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment yield assumption at 1.5%.

Changes in the balances of workers' compensation and general liability claims during fiscal years ended June 30, 2004 and 2003 were as follows:

		Balance at July 1, 2003	Current year claims and changes in estimates	Claim payments	Balance at June 30, 2004
Workers' compensation	$	33,263,000	9,578,972	(6,254,972)	36,587,000
General liability		1,689,000	730,224	(314,224)	2,105,000

		Balance at July 1, 2002	Current year claims and changes in estimates	Claim payments	Balance at June 30, 2003
Workers' compensation	$	22,211,000	16,806,747	(5,754,747)	33,263,000
General liability		1,744,000	136,524	(191,524)	1,689,000

During the years ended June 30, 2004 and 2003, the District made total premium payments of approximately $1,535,506 and $1,108,841, respectively, relating to both general liability and property claims.

(12) Subsequent Events

On July 1, 2004, the District issued $14,735,000 of 2004-2005 Tax Revenue Anticipation Notes (TRANS) maturing on June 24, 2005 at an interest rate of 3.0%. The notes are to be repaid from unrestricted monies such as taxes, income, revenues, cash receipts, and other monies intended as receipts for the General Fund of the District. The purpose of the issue was to provide funds to pay budgeted expenses, including current operating and other expenses and obligations of the District, prior to the receipt of certain anticipated taxes and other revenues received during the District's 2004-2005 fiscal year. The principal amount of the note, together with the interest, is payable in equal amounts during January and April 2005.

On May 26, 2004, the Board of Trustees approved the District's purchase of the property located at 770 Wilshire Boulevard for $17,500,000. The acquisition of this property will give the district ownership and control of its administrative office headquarters and reduce the District's annual occupancy costs, enabling the District to have more funds available for other educational purposes. The District made an initial deposit of $17,500,000 to the Superior Court on June 2, 2004 in its process of obtaining the property through eminent domain. The mandatory settlement hearing date is scheduled for March 25, 2005 and a court date is scheduled for April 2005.

On October 12, 2004, the District issued $103,900,000 Series A and B – Taxable General Obligation Bonds with various interest rates ranging from 3.17% to 6.44%, for Proposition A and AA, which was passed by voters on May 2001 and May 2003, respectively. The Bond measure was designed to finance and refinance construction, building acquisition, equipment and improvement of college and support facilities at the various campuses of the District, and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years.

(13) Supplementary Information – Local Tax Assessment and Valuation (Unaudited)

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property, which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution. (See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.)

The California State-reimbursed exemption currently provides a credit of $7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals, and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

LOS ANGELES COMMUNITY COLLEGE DISTRICT
SUMMARY OF ASSESSED VALUATIONS
FISCAL YEARS 1998-99 THROUGH 2003-04

Fiscal year	Local secured	Utilities	Unsecured	Total before redevelopment	Total after redevelopment
1998-99	$ 255,887,007,978	455,053,112	21,843,105,699	278,185,166,789	260,821,372,037
1999-00	273,329,473,215	345,386,897	22,901,421,645	296,576,281,757	277,029,580,280
2000-01	291,725,439,435	334,166,624	24,455,208,606	316,514,814,665	293,858,405,633
2001-02	311,073,692,090	366,311,302	26,558,685,481	337,998,688,873	313,794,103,657
2002-03	331,732,106,353	479,791,023	25,821,193,010	358,033,090,386	331,113,645,710
2003-04	357,678,671,379	489,141,868	25,293,229,310	383,461,042,557	355,170,843,908

Source: California Municipal Statistics, Inc.

SECURED TAX CHARGES AND DELINQUENCIES FOR THE DISTRICT'S EXISTING DEBT SERVICE LEVY[1]

	Secured tax charge	Amt. Del. June 30	% Del. June 30
2001-02	$ 49,065,416	1,320,950	2.69%
2002-03	48,324,282	1,356,579	2.81

Source: California Municipal Statistics, Inc.
[1] The delinquency levels for the basic (1% of assessed valuation) levy within the District is slightly lower than the rates shown in the table.

Major Taxpayers and Concentration

The following chart lists the 20 largest property taxpayers located with in the boundaries of the District, which together hold property valued at less than 4% of the Assessed Valuation for the District as a whole.

LOS ANGELES COMMUNITY COLLEGE DISTRICT
2003-04 Largest Local Secured Taxpayers

	Property owner	Primary land use	2003-04 Assessed valuation	% of total [1]
1.	Atlantic Richfield Co.	Oil and Gas Production	2,019,854,658	0.56%
2.	Tosco Corp.	Oil and Gas Production	1,056,730,048	0.30
3.	Universal Studios Inc.	Motion Picture	952,484,865	0.27
4.	Douglas Emmett Realty Funds 1995-2000	Office Building	796,607,999	0.22
5.	Ultramar Inc.	Oil and Gas Production	786,783,561	0.22
6.	Anheuser Busch Inc.	Industrial	722,041,340	0.20
7.	MCA Inc.	Office Building	712,445,216	0.20
8.	Equilon Enterprises LLC	Office Building	647,798,597	0.18
9.	One Hundred Towers LLC	Office Building	511,890,334	0.14
10.	Maguire Partners, 355 S. Grand LLC	Office Building	446,436,322	0.12
11.	2121 Avenue of the Stars LLC	Office Building	352,695,600	0.10
12.	Paramount Pictures Corp.	Motion Picture/Television Studio	347,769,229	0.10
13.	Duesenberg Investment Company	Office Building	323,930,616	0.09
14.	Trizechahn Hollywood LLC	Retail/Entertainment	322,655,519	0.09
15.	1999 Stars LLC	Office Building	309,889,084	0.09
16.	BP 10880 Wilshire LLC/BP 10960 Wilshire LLC	Office Building	293,868,358	0.08
17.	Twentieth Century Fox Film Corp.	Motion Picture/Television Studio	291,828,007	0.08
18.	Century City Mall LLC	Shopping Center/Mall	282,988,800	0.08
19.	Prime Park La Brea Holdings	Office Building/Apartments	273,900,524	0.08
20.	Maguire Partners 222 West Fifth LLC	Office Building	258,000,000	0.07
			11,710,598,677	3.27%

Source: California Municipal Statistics, Inc.
[1] 2003-04 Local Secured Assessed Valuation was $357,678,671,379

Tax Rates

The following table sets forth typical tax rates for property within the District for fiscal years 1999-00 through 2003-04:

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Historical Tax Rates
Typical Tax Rate per $100 of Assessed Valuation (TRA 0067)

	1999-00	2000-01	2001-02	2002-03	2003-04
Countywide 1%	1.000000	1.000000	1.000000	1.000000	1.000000
City of Los Angeles	0.031113	0.026391	0.040051	0.042312	0.050574
Los Angeles Unified School District	0.031528	0.040765	0.048129	0.036973	0.077145
Los Angeles Community College District	—	—	—	0.014598	0.019857
County of Los Angeles	0.001422	0.001314	0.001128	0.001033	0.000992
Los Angeles County Floor Control District	0.001765	0.001552	0.001073	0.000881	0.000462
Metropolitan Water District	0.008900	0.008800	0.007700	0.006700	0.006100
Total	1.074728	1.078822	1.098081	1.102497	1.155130

Source: California Municipal Statistics, Inc.

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SUPPLEMENTAL FINANCIAL INFORMATION

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Balance Sheet

June 30, 2004

Assets

Cash in County Treasury	$	21,658,938
Cash in banks		3,758,537
Cash in revolving fund		167,830
Investments		446,612
Accounts, notes, interest, and loans receivable, net		41,496,252
Due from other funds		9,238,777
Prepaid expenses and other assets		451,927
Total assets	$	77,218,873

Liabilities and Fund Equity

Liabilities:		
Accounts payable	$	31,138,478
Due to other funds		2,486,363
Deferred revenue		8,629,443
General liability claims payable		1,689,524
Workers' compensation claims payable		1,900,000
Total liabilities		45,843,808
Fund equity:		
Restricted		9,644,985
Unrestricted		21,730,080
Total fund equity		31,375,065
Total liabilities and fund equity	$	77,218,873

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

Revenues:		
Federal revenues:		
Higher Education Acts	$	9,266,825
Job Training Partnership Act		2,144,888
Temporary Assistance for Needy Families (TANF)		986,361
Vocational Education Act		6,119,361
Veterans Education		8,362
College Work-Study		2,037,692
Seog		96,855
Pell (Beog)		85,395
Other		1,858,533
Total federal revenues		22,604,272
State revenues:		
State apportionments		220,968,995
Tax relief subvention		1,620,763
State lottery		12,228,599
Extended opportunity program		4,371,646
Disabled Students Programs and Services		6,579,431
CA Works Opportunity and Responsibility to Kids		4,394,120
Matriculation program		2,135,893
Instructional Equipment/Modem Technology		4,843,658
Telecommunication and Technology		760,051
Other		10,473,058
Total state revenues		268,376,214
Local revenues:		
Local property taxes		128,467,415
Enrollment fees		14,795,513
Tuition and fees, net of scholarship discounts and allowance		8,738,015
Community service fees		6,295,171
Parking fees		2,635,734
Health service fees		1,418,850
Interest		784,452
Other		11,932,737
Total local revenues		175,067,887
Total revenues		466,048,373
Expenditures:		
Current:		
Academic salaries		188,811,816
Classified salaries		111,722,676
Employee benefits		92,452,841
Books and supplies		9,252,350
Contract services, student grants, and other operating expenditures		37,153,580
Capital outlay and equipment replacement		10,350,789
Other		1,594,652
Total expenditures		451,338,704
Excess of revenues on expenditures		14,709,669
Other financing uses:		
Transfers out		(3,486,418)
Net increase in fund balances		11,223,251
Fund balances at July 1, 2003		20,151,814
Fund balances at June 30, 2004	$	31,375,065

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Balance Sheet

June 30, 2004

Assets		**Special Reserve Fund**	**Child Development Fund**	**Bookstore Fund**	**Cafeteria Fund**	**Total**
Cash in County Treasury	$	49,693,669	2,459,200	—	—	52,152,869
Cash in banks		2,266,992	76,830	1,274,684	249,202	3,867,708
Cash in Revolving Fund		—	—	141,467	8,189	149,656
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		6,087,293	1,494,360	1,331,363	112,711	9,025,727
Due from other funds		322,992	302,619	886,213	413,735	1,925,559
Inventory		—	—	8,298,360	91,168	8,389,528
Total assets	$	58,370,946	4,333,009	11,932,087	875,005	75,511,047
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	$	4,481,718	376,486	694,103	24,284	5,576,591
Due to other funds		2,171,607	3,782,645	2,173,746	819,788	8,947,786
Deferred revenue		—	—	584,119	—	584,119
Total liabilities		6,653,325	4,159,131	3,451,968	844,072	15,108,496
Fund equity:						
Capital projects		51,717,621	—	—	—	51,717,621
Unrestricted		—	173,878	3,760,938	30,933	3,965,749
Reserve for program and capital expenditures		—	—	4,719,181	—	4,719,181
Total fund equity		51,717,621	173,878	8,480,119	30,933	60,402,551
Total liabilities and fund equity	$	58,370,946	4,333,009	11,932,087	875,005	75,511,047

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

		Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Revenues:						
Federal revenues:						
Tuition and fees	$	—	109,235	—	—	109,235
Other		286,149	374,340	—	120,530	781,019
Total federal revenues		286,149	483,575	—	120,530	890,254
State revenues:						
State apportionment		17,412,941	—	—	—	17,412,941
Other		—	5,335,281	—	111,461	5,446,742
Total state revenues		17,412,941	5,335,281	—	111,461	22,859,683
Local revenues:						
Food service sales		—	—	—	2,599,083	2,599,083
Bookstore sales		—	—	29,559,592	—	29,559,592
Interest		625,314	—	3,572	—	628,886
Other		2,929,807	76,793	—	—	3,006,600
Total local revenues		3,555,121	76,793	29,563,164	2,599,083	35,794,161
Total revenues		21,254,211	5,895,649	29,563,164	2,831,074	59,544,098
Expenditures:						
Current:						
Academic salaries		1,931	3,183,847	—	—	3,185,778
Classified salaries		2,230,057	1,260,929	4,054,036	998,473	8,543,495
Employee benefits		589,582	887,828	1,064,076	302,503	2,843,989
Books and supplies		18,996	234,658	20,010,589	1,770,347	22,034,590
Contract services, student grant, and other operating expenditures		7,987,633	804,034	900,870	44,904	9,737,441
Utilities		—	1,300	325,984	240	327,524
Capital outlay and equipment replacement:						
Building		18,377,469	26,112	35,405	—	18,438,986
Equipment		1,565,475	51,323	128,574	1,232	1,746,604
Total expenditures		30,771,143	6,450,031	26,519,534	3,117,699	66,858,407
Excess (deficit) of revenues over expenditures		(9,516,932)	(554,382)	3,043,630	(286,625)	(7,314,309)
Other financing sources:						
Transfers in		39,840,216	474,952	44,387	381,641	40,741,196
Net increase (decrease) in fund balances		30,323,284	(79,430)	3,088,017	95,016	33,426,887
Fund balances at July 1, 2003		21,394,337	253,308	5,392,102	(64,083)	26,975,664
Fund balances at June 30, 2004	$	51,717,621	173,878	8,480,119	30,933	60,402,551

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Balance Sheet

June 30, 2004

Assets

Cash held with trustee	$	3,841,479
Due from other funds		887,271
Total assets	$	4,728,750

Liabilities and Fund Equity

Liabilities:		
Reserve for refunding certificates of participation	$	—
Total liabilities		—
Fund equity:		
Capital projects		4,728,750
Debt service		—
Total fund equity		4,728,750
Total liabilities and fund equity	$	4,728,750

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

Revenues:		
Interest	$	8,697,260
Total local revenues		8,697,260
Expenditures:		
Current:		
Contracted services and other operating expenditures		
Debt service:		
Principal		97,333,228
Interest		5,221,336
Bond issuance cost		8,344,861
Total expenditures		110,899,425
Deficit of revenues over expenditures		(102,202,165)
Other financing sources:		
Transfers out		(37,259,214)
Proceeds from issuance of debt		107,303,490
Total other financing sources		70,044,276
Increase in fund balances		(32,157,889)
Fund balances at July 1, 2003		36,886,639
Fund balances at June 30, 2004	$	4,728,750

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Balance Sheet

June 30, 2004

Assets		
Cash in County Treasury	$	464,856,969
Cash in banks		4,214,026
Cash in revolving fund		451
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		988,002
Due from other funds		1,065,393
Deposit with Superior Court		17,500,000
Total assets	$	488,624,841
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	$	18,070,629
Due to other funds		583,194
Total liabilities		18,653,823
Fund equity:		
Reserved for capital expenditures		469,971,018
Total fund equity		469,971,018
Total liabilities and fund equity	$	488,624,841

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

Local revenues:	
Interest	$ 6,871,783
Total revenues	6,871,783
Expenditures:	
Contract services, student grant, and other operating expenditures	14,436,624
Capital outlay and equipment replacement:	
Land	7,894,765
Buildings	76,715,076
Equipment	1,159,984
Other	408,113
Total expenditures	100,614,562
Deficit of revenues over expenditures	(93,742,779)
Other financing sources:	
Proceeds from issuance of debt	82,381,511
Total other financing sources	82,381,511
Net decrease in fund balances	(11,361,268)
Fund balances at July 1, 2003	481,332,286
Fund balances at June 30, 2004	$ 469,971,018

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Balance Sheet

June 30, 2004

Assets

Cash in County Treasury	$	151,888
Cash in banks		839,733
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		6,262,850
Due from other funds		444,716
Total assets	$	7,699,187

Liabilities and Fund Equity

Liabilities:		
Accounts payable	$	1,656,204
Due to other funds		1,544,373
Amounts held in trusts		1,849,128
Total liabilities		5,049,705
Fund equity:		
Reserved		2,649,482
Total fund equity		2,649,482
Total liabilities and fund equity	$	7,699,187

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

Revenues:		
Federal revenues:		
Seog	$	2,223,909
Pell (Beog)		59,700,936
Other		3,960,608
Total federal revenues		65,885,453
State revenues:		
Extended opportunity program		6,111,425
Other		5,801,038
Total state revenues		11,912,463
Local revenues:		
Interest		123,640
Other		376,666
Total local revenues		500,306
Total revenues		78,298,222
Expenditures:		
Other operating expenses and services		77,551,045
Total expenditures		77,551,045
Net decrease in fund balances		747,177
Other financing uses:		
Operating transfers out		—
Net decrease in fund balances		747,177
Fund balances at July 1, 2003		1,902,305
Fund balances at June 30, 2004	$	2,649,482

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Balance Sheet

June 30, 2004

Assets		East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Cash in banks	$	156,188	341,571	61,913	217,115	118,403	54,885	1,097,448	1,182,807	433,418	3,663,748
Investments		1,365,395	—	359,430	—	892,477	58,893	507,770	1,758	—	3,185,723
Accounts, notes, interest, and receivable, net of allowance for doubtful accounts		—	53,268	(380)	—	194	9,797	—	—	—	62,879
Capital assets		11,936	—		—	183,788	9,711	110,792	221,655	53,673	591,555
Total assets	$	1,533,519	394,839	420,963	217,115	1,194,862	133,286	1,716,010	1,406,220	487,091	7,503,905
Liabilities and Fund Equity											
Liabilities:											
Accounts payable	$	1,390	27,134	6	—	3,024	17,756	76,296	—	10,655	136,261
Deferred revenue		6,864	—	—	—	—	—	—	—	1,233	8,097
Long-term liabilities (note 2)		—	—	11,831	—	—	11,309	10,281	—	—	33,421
Scholarship and trust		1,300,600	965	—	138,694	535,869	57,316	668,366	200,946	259,413	3,162,169
Other liabilities		—	—	—	—	29,928	—	—	200,767	—	230,695
Total liabilities		1,308,854	28,099	11,837	138,694	568,821	86,381	754,943	401,713	271,301	3,570,643
Fund equity:											
Investment in fixed assets		11,936	—	—	—	183,788	9,711	110,792	221,655	53,673	591,555
Fund balances – designated for future expenditures		212,729	366,740	409,126	78,421	442,253	37,194	850,275	782,852	162,117	3,341,707
Total fund equity		224,665	366,740	409,126	78,421	626,041	46,905	961,067	1,004,507	215,790	3,933,262
Total liabilities and fund equity	$	1,533,519	394,839	420,963	217,115	1,194,862	133,286	1,716,010	1,406,220	487,091	7,503,905

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2004

		East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Revenues:											
Interest	$	3,726	976	4,023	1,209	7,786	1,050	19,776	33,877	2,188	74,611
Other		77,788	128,047	72,423	23,999	145,437	34,185	172,818	37,959	99,922	792,578
Total revenues		81,514	129,023	76,446	25,208	153,223	35,235	192,594	71,836	102,110	867,189
Expenditures:											
Contract services and other operating expenditures		90,894	81,987	33,213	16,294	178,650	74,850	65,099	53,895	76,520	671,402
Total expenditures		90,894	81,987	33,213	16,294	178,650	74,850	65,099	53,895	76,520	671,402
Net increase (decrease) in fund balances		(9,380)	47,036	43,233	8,914	(25,427)	(39,615)	127,495	17,941	25,590	195,787
Fund balances at July 1, 2003		234,045	319,704	365,893	69,507	651,468	86,520	833,572	986,566	190,200	3,737,475
Fund balances at June 30, 2004	$	224,665	366,740	409,126	78,421	626,041	46,905	961,067	1,004,507	215,790	3,933,262

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2004

The Los Angeles Community College District was established on July 1, 1969 and is comprised of an area of approximately 882 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the year. The District currently operates nine colleges as follows:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Los Angeles Pierce College
- Los Angeles Southwest College
- Los Angeles Trade Technical College
- Los Angeles Valley College
- West Los Angeles College.

The Board of Trustees for the fiscal year ended June 30, 2004 was comprised of the following members:

Board of Trustees

Name	Office	Term expires
Mona Field	President	June 1, 2007
Georgia L. Mercer	Vice President	June 1, 2007
Sylvia Scott-Hayes	Member	June 1, 2007
Warren T. Furutani	Member	June 1, 2007
Kelly G. Candaele	Member	June 1, 2005
Nancy Pearlman	Member	June 1, 2005
Michael D. Waxman	Member	June 1, 2005
Elizabeth Saldivar	Student Trustee	May 1, 2005

Administration

Mr. Peter J. Landsberger, Chancellor *
Mr. Darroch "Rocky" Young, Senior Vice Chancellor *
Mr. Larry H. Eisenberg, Executive Director, Facilities Planning and Development
Ms. Camille A. Goulet, General Counsel
Ms. Jeanette L. Gordon, Controller

* Interim

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2004

College Presidents

Mr. Ernest H. Moreno	East Los Angeles College
Dr. Doris P. Givens *	Los Angeles City College
Dr. Linda M. Spink	Los Angeles Harbor College
Dr. Adriana D. Barrera	Los Angeles Mission College
Dr. Thomas W. Oliver **	Los Angeles Pierce College
Dr. Audre Levy	Los Angeles Southwest College
Dr. Daniel A. Castro	Los Angeles Trade Technical College
Dr. Tyree Wieder	Los Angeles Valley College
Mr. Francisco Quiambao	West Los Angeles College

* Interim.
** Acting.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Full-Time Equivalent Students and Apprenticeship Clock Hours

Year ended June 30, 2004

The District operates nine community colleges within the County of Los Angeles. The schedule of workload measures for both state residents (program-based funding) and nonresidents is as follows:

	Resident reported data	**Nonresident reported data**
Categories:		
Credit full-time equivalent students (FTES):		
Weekly census	68,661	2,464
Daily census	7,011	179
Actual hours of attendance	3,090	57
Independent study/work experience	865	9
Summer intercession	7,537	192
Total	87,164	2,901
Noncredit FTES:		
Actual hours of attendance	5,955	
Summer intercession	898	
Total	6,853	
Fall census credit student headcount	122,441	
Gross square footage – existing facilities	5,075,163	
FTES in leased (or rented) space of less than 100%	1,105	

Apprenticeship clock hours **Reporting periods**	**Total hours annual report**
July 1, 2003 – December 31, 2003	16,489
January 1, 2004 – April 15, 2004	—
April 16, 2004 – June 30, 2004	16,281
	32,770

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements (CCFS 311)

Year ended June 30, 2004

		Balance
June 30, 2004 total net assets per annual financial budget report	$	560,010,399
Adjustments and reclassifications increasing (decreasing) fund balance:		
Booked to adjust the prior year's fund balance:		
To record prior year District Office accrued rent		(8,225,945)
To record prior year other liability		429,180
To record deferred enrollment fees		(22,264)
To record prior year reserve to equity – part-time faculty health insurance		772,346
To record prior year general liability expense based on actuarial study		(1,689,524)
To record prior year reserve to equity – student loan receivable		(2,167,892)
To record prior year reserve to equity – bookstore fund		3,889,085
To adjust prior year District Office accrued rent		3,291,201
To adjust prior year COPs proceeds		24,569,965
To reinstate prior year fixed assets, net of accumulated depreciation		328,799,043
To reinstate prior year debt – compensated absences		(12,257,650)
To reinstate prior year debt – workers' compensation		(31,363,000)
To reinstate prior year debt – revenue bonds		(3,253,223)
To reinstate prior year debt – capital lease		(9,990,505)
To reinstate prior year debt – COPs and Prop A		(592,916,280)
June 30, 2004 unaudited ending fund balance		259,874,936
Current period's audit adjustments:		
To adjust District Office accrued rent at 6/30/2004		(148,294)
To adjust deferred enrollment fees at 6/30/2004		(575,630)
To adjust reserve to equity – bookstore fund at 6/30/2004		830,096
To writeoff receivables		(11,996)
To adjust allowance for doubtful accounts		(820,634)
To reclass capital outlay expenditures to fixed assets		105,811,331
To reclass capital outlay expenditures to deposit with superior court		17,500,000
To record depreciation expense for current year		(12,302,927)
To adjust reserve for general liability existed at 6/30/2004 per actuarial study		(415,476)
To adjust reserve for vacation benefit liability at 6/30/2004		606,136
To adjust revenue bonds payable at 6/30/2004 and payments made in FY03/04		406,653
To adjust reserve for workers' compensation payable at 6/30/2004		(3,324,000)
To reclass capital lease payments		8,191,814
To reclass COPS payoff		86,535,000
To adjust prior year COPS proceeds		(25,218,685)
To record current year principal payments of general obligation bonds		23,100,000
To reclass new general obligation bonds proceeds		(189,685,000)
		10,478,388
June 30, 2004 audit adjusted ending net assets	$	270,353,324

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2004

Description	Federal CFDA or project number	Revenue recognized Federal	State	Total	Expenditures
General Fund					
U.S. Department of Education:					
Direct programs:					
Higher Education Act:					
Strengthening Institutions	84.031	$ 4,819,832	—	4,819,832	4,819,832
Student Support Services	84.042	1,154,381	—	1,154,381	1,154,381
Talent Search	84.044	496,995	—	496,995	496,995
Upward Bound	84.047	1,218,101	—	1,218,101	1,222,653
Educational Opportunity Centers	84.066	218,587	—	218,587	218,587
Comprehensive Program	84.116	1,466,746	—	1,466,746	1,466,746
Business and International Education	84.153	65,971	—	65,971	65,971
No Child Left Behind Act:					
Quality Childcare Initiative	84.215	127,158	—	127,158	127,158
Student financial assistance:					
Pell Grant	84.063	85,395	—	85,395	47,435
FSEOG	84.007	96,854	—	96,854	107,581
Federal Work-Study	84.033	2,037,692	—	2,037,692	2,283,734
Pass-through California Department of Education:					
Vocational and Applied Technology Education Act:					
Title IC	84.048	4,868,662	—	4,868,662	4,703,151
Title II	84.243	1,250,699	—	1,250,699	1,247,365
Subtotal U.S. Department of Education		17,907,073	—	17,907,073	17,961,589
U.S. Department of Energy:					
Direct programs:					
Developing the Foundations for a SMART Technology Training	81.049	59,660	—	59,660	59,660
Subtotal U.S. Department of Energy		59,660	—	59,660	59,660
U.S. Department of Labor:					
Pass-through City of Los Angeles:					
Welfare to Work Project – 101628	17.253	13,198	—	13,198	13,198
Welfare to Work Project – 101674	17.253	57,071	—	57,071	57,071
Welfare to Work Project – P120A020063	17.253	40,193	—	40,193	40,193
Welfare to Work Project – CF21927	17.253	21,944	—	21,944	21,944
WIA-Youth Opportunity – 101812	17.259	18,573	—	18,573	83,392
Workforce Investment Act – R281820, R282413	17.258	960,105	—	960,105	960,105
WIA Com Career Title I – Adult – CJ22262	17.258	242,328	—	242,328	242,328
WIA Com Career Title I – Dislocated – CJ22294	17.260	339,615	—	339,615	340,550
Subtotal pass-through City of Los Angeles		1,693,027	—	1,693,027	1,758,781
Pass-through County of Los Angeles:					
WIA Community Jobs Project, Probation to Work	17.260	116,460	—	116,460	116,460
WIA Dislocated Worker DPN-CK22453	17.260	16,112	—	16,112	16,112
Subtotal pass-through County of Los Angeles		132,572	—	132,572	132,572
Subtotal U.S. Department of Labor		1,825,599	—	1,825,599	1,891,353
U.S. Department of Health and Human Services:					
Pass-through California Department of Education:					
Temporary Assistance for Needy Families	93.558	986,361	—	986,361	1,007,826
Pass-through National College Association:					
National Youth Sports	93.570	66,546	—	66,546	66,546
Subtotal U.S. Department of Health and Human Services		1,052,907	—	1,052,907	1,074,372
National Science Foundation:					
Direct programs:					
Chemical Technology	47.076	24,619	—	24,619	114,499
Subtotal National Science Foundation		24,619	—	24,619	114,499

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2004

Description	Federal CFDA or project number	Revenue recognized Federal	State	Total	Expenditures
U.S. Department of Housing and Urban Development:					
Direct programs:					
Hispanic Serving Institution	14.514	$ 702,246	—	702,246	702,246
Child Development Work-Study	14.512	110,652	—	110,652	110,652
Pass-through City of Los Angeles:					
Family Development Network-99389	14.218	779,305	—	779,305	827,689
Subtotal U.S. Department of Housing and Urban Development		1,592,203	—	1,592,203	1,640,587
National Aeronautics and Space Administration:					
Pass-through United Negro College Foundation					
Curriculum Improvement Partnership Award Program	1260.15C4	32,820	—	32,820	32,820
Subtotal National Aeronautics and Space Administration		32,820	—	32,820	32,820
Total federal		22,494,881	—	22,494,881	22,774,880
State Assistance programs:					
Disabled Students Program and Services		—	4,843,658	4,843,658	6,269,968
State Matriculation		—	4,394,120	4,394,120	4,476,528
Instructional Equipment/Modern Technology:					
One-Time Block Grant		—	—	—	948,882
Instructional Equipment/Deferred Maintenance		—	2,135,893	2,135,893	1,174,582
Extended Opportunity Program and Services		—	6,579,432	6,579,432	6,489,958
CalWORKS Program		—	4,543,887	4,543,887	4,571,335
Telecommunication and Technologies		—	760,051	760,051	1,357,404
Economic Development		—	1,506,201	1,506,201	1,971,123
FSS – Fund for Student Success		—	308,170	308,170	340,722
Transfer and Articulation Program		—	50,328	50,328	51,630
Other state assistance programs		—	8,152,727	8,152,727	8,471,750
Total state assistance programs		—	33,274,467	33,274,467	36,123,882
Total General Fund		22,494,881	33,274,467	55,769,348	58,898,762
Special Revenue Fund					
U.S. Department of Agriculture:					
Direct programs:					
Summer Food Service	10.559	231,991	—	231,991	231,991
Pass-through California Department of Education:					
Child Care Food Programs	10.558	190,931	—	190,931	222,202
Subtotal U.S. Department of Agriculture		422,922	—	422,922	454,193
U.S. Federal Emergency Management Administration:					
Pass-through California Governor's Office of Emergency Services:					
Hazard Mitigation Grants	97.039	286,149	—	286,149	126,457
Subtotal U.S. Federal Emergency Management Administration		286,149	—	286,149	126,457
U.S. Department of Health and Human Services:					
Pass-through California Department of Education:					
Child Development Block Grant	93.596	183,409	—	183,409	194,590
Subtotal U.S. Department of Health and Human Services		183,409	—	183,409	194,590
Total federal		892,480	—	892,480	775,240
State Assistance Programs:					
Child Development Pre-School Care		—	2,307,496	2,307,496	2,318,206
Child Development Services		—	189,166	189,166	174,209
Family Child Care Homes Network		—	1,006,737	1,006,737	1,028,059
Total state assistance programs		—	3,503,399	3,503,399	3,520,474
Total Special Revenue Fund		892,480	3,503,399	4,395,879	4,295,714

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2004

Description	Federal CFDA or project number		Revenue recognized Federal	Revenue recognized State	Revenue recognized Total	Expenditures
Student Financial Aid Fund						
U.S. Department of Education:						
Pell Grant	84.063	$	59,700,935	—	59,700,935	59,680,612
Direct Loan	84.268		3,960,608	—	3,960,608	3,961,902
Federal Perkins Loan Program	84.038		—	—	—	3,858,828
FSEOG	84.007		2,223,909	—	2,223,909	2,254,801
Subtotal U.S. Department of Education			65,885,452	—	65,885,452	69,756,143
U.S. Department of Health and Human Services:						
Direct program:						
Nursing Student Loans	93.364		—	—	—	292,118
Subtotal U.S. Department of Health and Human Services			—	—	—	292,118
Total federal			65,885,452	—	65,885,452	70,048,261
State assistance programs:						
CAL Grants			—	5,801,038	5,801,038	5,689,672
Extended Opportunity and Services			—	6,111,425	6,111,425	6,144,609
Total state assistance programs			—	11,912,463	11,912,463	11,834,281
Total Student Financial Aid Fund			65,885,452	11,912,463	77,797,915	81,882,542
Grand total federal		$	89,272,813	—	89,272,813	93,598,381
Grand total state assistance programs		$	—	48,690,329	48,690,329	51,478,637
Grand total All Funds (General, Special Revenue, Financial Aid)		$	89,272,813	48,690,329	137,963,142	145,077,018

See accompanying notes to schedule of expenditures of federal and state awards.

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(1) General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of the Los Angeles Community College District. The Los Angeles Community College District reporting entity is defined in the District's basic financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal and State Awards is the presented using the modified-accrual basis of accounting.

(3) Reconciliation to Financial Statements

Amounts reported in the accompanying schedule agree with the amounts reported in the related financial statements, with the exception of state revenues, which can be reconciled to the annual financial report, as follows:

Total state revenues in accompanying schedule	$	48,690,329
Add:		
General Fund:		
Basic and equalization aid		220,968,995
State lottery		12,228,599
Tax relief subvention		1,620,763
Other state funds		283,390
Total other General Fund revenues		235,101,747
Special Revenue Fund:		
Community College Construction Act		12,943,251
Scheduled Maintenance Program		4,469,690
Other state funds		1,943,343
Total other Special Revenue Fund revenues		19,356,284
Total state revenues in fund financial statements	$	303,148,360

(4) Federal Perkins Loans

For the year ended June 30, 2004, the District advanced loans totaling $388,457 for the Federal Perkins Loans Program (CFDA Number 84.038). As of June 30, 2004, the District had an outstanding loan balance of Federal Perkins Loans in the amount of $3,858,828. These loan balances outstanding are included in the schedule of federal expenditures of federal and state awards.

(Continued)

(5) Nursing Student Loans

During the year ended June 30, 2004, the District processed approximately $58,594 of new loans under the Student Nursing Program (CFDA Number 93.364). As of June 30, 2004, the District had an outstanding loan balance of Nursing Student Loans in the amount of $292,118. These loan balances outstanding are included in the schedule of expenditures of federal and state awards.

(6) Subrecipients

The District did not provide any funds to subrecipients during the year ended June 30, 2004.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report on State Compliance Requirements

We have audited Los Angeles Community College District's (the District) compliance with the following compliance requirements based on Section 400 (revised May 2004) of the California Community Colleges' *Contracted District Audit Manual* during the year ended June 30, 2004, except the requirements discussed in the fifth paragraph of this report.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

- Required Data Elements (424)
- Apportionment for Instructional Service Agreements/Contracts (423)
- Residency Determination for Credit Courses (425)
- Concurrent Enrollment of K-12 Students in Community College Courses (427)
- Enrollment Fee (432)
- Salaries of Classroom Instructors (50% law) (421)
- Gann Limit Calculation (431)
- Open Enrollment (435)
- Matriculation – Uses of Matriculation Funds (428)
- Allocation of Costs (DSP&S and EOP&S) (429)
- EOPS Administrator/Director Requirements (430)
- Scheduled Maintenance Program (434).

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for findings S-04-01 through S-04-15 described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2004.

This report is intended solely for the information and use of the District's management, the board of trustees, audit committee, and others within the District, the California Community Colleges Chancellor's Office, The California Department of finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2004

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the basic financial statements of the Los Angles Community College District (the District) as of and for the year ended June 30, 2004 and have issued our report thereon, dated November 12, 2004 We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Los Angeles Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2004

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Compliance

We have audited the compliance of the Los Angeles Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-04-02, F-4-04, F-04-06, F-04-07, F-04-09, F-04-11 through F-04-16, and F-04-18.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items F-04-01, F-04-03, F-04-05, F-04-08, F-04-10, and F-04-17.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the board of trustees, management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2004

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinion**.

(b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **None reported**.

Material weaknesses: **No.**

(c) Noncompliance which is material to the basic financial statements: **No**.

(d) Reportable conditions in internal control over major programs: **Yes, Findings F-04-01, F-04-03, F-04-05, F-04-08, F-04-10 and F-04-17**.

Material weaknesses: **No**.

(e) The type of report issued on compliance for major programs: **Unqualified opinion**.

(f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, See Findings F-04-01 to F-04-18**.

(g) Major programs:

- U.S. Department of Education
  - Student Financial Assistance Cluster

    CFDA 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)
    CFDA 84.033 Federal Work-Study Program (FWS)
    CFDA 84.038 Federal Perkins Loans (FPL)
    CFDA 84.063 Federal Pell Grant Program (PELL)
    CFDA 84.268 Federal Direct Student Loans (DIRECT LOAN)
    CFDA 93.364 Nursing Student Loans (NSL)

  - TRIO Cluster

    CFDA 84.042 Student Support Services
    CFDA 84.044 Talent Search
    CFDA 84.047 Upward Bound
    CFDA 84.066 Educational Opportunity Centers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$2,807,951**

(i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

(3) Summary of Current Year Findings and Questioned Costs Relating to Federal Awards

Finding 04-01 Eligibility – Lack of Eligibility and Aid Packaging Controls

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In four of the five campuses selected for review of control procedures over eligibility, we noted that there appeared to be a lack of effective controls in place to ensure compliance with the specified requirements. For example, there was no evidence of a formal monitoring process over the manual procedures performed during the in-take of the student's application and/or the packaging of the aid:

- Trade Technical College does not have a formal monitoring process over the manual elements of the eligibility and packaging processes.
- East College only has one person perform the eligibility checks regardless of level of the student financial aid employee, and does not have a formal monitoring process over the manual elements of the eligibility and packaging processes.
- LA City College and Pierce College both adopted electronic processing of applications and utilize financial aid assistants to complete checklists to assess eligibility, but there is no evidence of a formal monitoring process over the manual elements of that process of the file by a supervisor.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output.

- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Effect

By not having of formal process for monitoring of the eligibility procedures and packaging, the campuses run a greater risk of noncompliance with these requirements.

Recommendation

We recommend that the District instruct campuses to develop and implement monitoring policies and procedures.

Questioned Costs

None.

District's Response

The District concurs with the finding. The District will initiate a review process to improve the current monitoring policy and procedures at each college.

Finding 04-02 Eligibility – Financial Aid Awards Granted More Than Student's Financial Need

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In 3 instances out of the 125 sampled, it was noted that students were awarded more financial aid than their financial need.

- One student at City College was awarded $9,107 with a financial need of only $8,073.
- Another student at City College was awarded $11,489 with a financial need of only $10,780.
- A third student at City College was awarded $12,352 with a financial need of only $10,955.

Criteria

An overaward is created when a student's aid package exceeds its financial need. The institution may be financially responsible for overpayments to students caused by institution error. An institution may only award FWS employment to a student if the award, combined with the other resources the student receives, does not exceed the student's financial need (34 CFR 673.5).

Effect

City College overawarded $3,140 in financial aid to these three students.

Recommendation

We recommend that the District strengthen its control policies overpackaging of federal student financial aid awards, through some form of monitoring process to help ensure that students are not awarded in excess of their financial needs.

Questioned Costs

$3,140

District's Response

The District concurs with this finding. The awarding of a state grant after the start of the academic year resulted in a Federal Work-Study (FWS) overaward. The college believes that these are isolated cases since the majority of students are awarded state grants at the beginning of the academic year. The Financial Aid Technician in charge of the Cal Grant program acknowledges the problem and will make a better effort in monitoring potential overawards and communicating with the FWS Coordinator. The college will transfer salary charges out of the Federal Work-Study program into another program to correct the overdrafts.

Finding 04-03 Matching, Level of Effort and Earmarking and Reporting – Lack of Formal Policy to Identify Type of Work Performed under the Work-Study of Student Claimed for Matching Requirements and Reported on FISAP

Programs affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

Per our review of the supporting documentation used to report the various matching and earmarking requirements for the FISAP, we noted that the campuses are tracking their work-study students as either on-campus or off-campus workers but there is not a consistent policy on how to identify and track the students that are either working for a private-for-profit company, community service, reading or math tutor within one of the two above categories. Some campuses keep a manual log of students, while others use a segregated account within the general ledger to track the funds paid to those particular students.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Federal share of 100% is allowable when the work is performed by the student for the institution, a public agency, or a private nonprofit organization and either (1) the institution is designated an eligible institution under the Developing Hispanic Serving Institution Program, Strengthening Institutions Program, the American Indian Tribally Controlled Colleges and Universities Program, the Alaskan Native and Native Hawaiian-Serving Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Historically Black Graduate Institutions Program, or (2) the student is employed as a reading tutor for children who are in preschool through elementary school or the student is employed in a family literacy program that provides services to families with preschool age or elementary school children, or the student is employed as a mathematics tutor for children in elementary school through the ninth grade (34 CFR section 675.26).

Effect

By not having a formal process for tracking and compiling the data used to meet various required federal matching, earmarking, and reporting requirements, the campuses run a greater risk of noncompliance with these requirements.

Recommendation

We recommend that the District develop and implement policies and procedures that would ensure that all campuses identify and track students separately that meet various matching and earmarking requirements, so as to ensure more accurate data to help reduce the risk of potential noncompliance and inaccurate reporting.

Questioned Costs

None

District's Response

The District has a formal policy in place for the matching and earmarking requirements for the Federal Work-Study Program. The District will review and update the financial aid policy and procedures manual to include all necessary provisions related to the Federal Work-Study matching, earmarking, and reporting requirements. However, each college makes its own informed decision with regard to institutional matching contributions to better serve the students.

Finding 04-04 Reporting – Inconsistent FISAP Reporting

Programs affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

Per our review of the nine FISAP reports filed by the District's campuses for 2003-04, we noted errors in regards to reporting student data for the Federal work-study program, which appear to indicate deficiencies in internal controls over FISAP reporting. East Los Angeles College reported it had one student who earned $1 as a reading tutor for children and another student who earned $1 as a math tutor for the award year July 1, 2003 through June 30, 3004.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, Auditee Responsibilities, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Effect

The College noted above reported inaccurate information on its annual FISAP reports, which would constitute noncompliance with reporting requirements.

Recommendation

We recommend that the College strengthen its review and approval process over its FISAP reporting to include a more thorough detailed review performed by an individual, separate from the preparer, which also includes tracing the data reported to supporting documentation.

Questioned Costs

None

District's Response

The District concurs with the finding and will improve the review process to ensure that the FISAP reports are properly prepared.

Finding 04-05 Verification – Lack of Verification Process Controls

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In four of the five colleges selected for review of control procedures over verification, we noted that there were no effective controls in place to ensure compliance with the specified requirements. For example, there was no monitoring of the work performed by the financial aid assistant that verifies the students' file with completed verification documentation:

- Trade Technical College and East Los Angeles College do not have a formal monitoring process of the files that are selected for verification by the financial aid workers.
- City College and Pierce College both adopted electronic processing of applications and utilize financial aid assistants to complete checklists to assess eligibility, but there is no evidence of a formal monitoring process of the files by a supervisor.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output
- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Effect

By not having a formal process for monitoring of the verification procedures, the campuses run a greater risk of noncompliance with these requirements.

Recommendation

We recommend that the District instruct campuses to develop and implement monitoring policies and procedures.

Questioned Costs

None

(Continued)

District's Response

The District will initiate a review process to improve current verification process controls. Additionally, two different staff persons perform a first and a second review on every verified file at Trade-Tech. At Pierce, files are reviewed by Financial Aid Technicians.

Finding 04-06 Verification – No Documentation in Student Files for Income Discrepancies Found During Verification Procedures

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In 3 of the 25 students sampled for verification at Southwest College, we noted that the support provided by the student in the verification process did not match the income reported on the ISIR. The campus did not indicate the corrections and recalculation in the student's file to show its effect (or lack thereof) on the students expected family contribution.

Criteria

If there would be no change to the Pell grant, the student does not have to submit corrections for reprocessing unless something such as a data match item must be changed. The rule is similar for the Campus-Based and Stafford programs – you can award aid based on the original data if your recalculation shows the corrections would not change the student's EFC. Of course, for any program you can still require the student to make the corrections and submit them on a SAR or electronically for reprocessing.

Effect

These changes in the student verified income did not have any impact on the amount of student expected family contribution or the amount of award eligible, but the files did not indicate that the financial aid worker made this assessment independently of the audit.

Recommendation

We recommend that the District instruct campuses to strengthen monitoring policies and procedures that would ensure that a sample of files are reviewed by a second student financial aid employee, preferably a supervisor, that cannot only correct errors found but can also provide feedback to employees that are making the initial calculations so as to prevent the same errors from recurring in the future.

Questioned Costs

None

(Continued)

District's Response

The District concurs with the finding. The policy and procedure is to document all files when changes are made based upon review of all documentation in a student's file. The verification procedures and documentation will help ensure that the campuses are in compliance with the verification guidelines.

Finding 04-07 Special Tests and Provisions (Disbursements To or on Behalf of Students) – Inconsistent Controls over Disbursements to Students

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

The District utilizes an automated process for disbursements to students to help ensure that the proper timing and amounts are paid to only eligible students. The District has programmed into its system specified criteria to compare against the timing and amounts to be disbursed. Any disbursements that do not meet the specified criteria are kicked out onto a weekly exception report per campus. In our sample of 30 exception reports tested, the District was unable to provide support for 18 reports that showed evidence of review.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Evidence of failure to perform tasks that are a significant part of internal control, such as reconciliations not prepared or not timely prepared
- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Effect

The reviewing and resolution of exception reports are critical when relying upon an automated control. There is a significant risk of noncompliance if these reports are not reviewed and resolved in a timely manner.

Recommendation

We recommend that the District formalize its review process over these exception reports to ensure that students' disbursements are made accurately, timely, and in accordance with student financial aid guidelines.

Questioned Costs

None

District's Response

The District concurs with the finding. The current District disbursement setup process produces an exception report prior to the disbursement run. These reports are printed and reviewed by the Financial Aid Office at each college. If adjustments are needed, the Financial Aid Office will make the corrections on the financial aid records. The District will require copies of the review and they will be maintained in the Financial Aid Office.

Finding 04-08 Special Tests and Provisions (Return of Title IV) – Controls over the Return of Title IV Calculations

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In all five of the Colleges selected for review of their procedures over return of title IV calculations, we noted that there appeared to be a lack of effective controls in place to ensure compliance with the specified requirements. For example, there no evidence of a formal monitoring process over the manual aspects (i.e. drop dates entered into the excel template) of the calculations made of the return amounts due back by the student and institution. Without this monitoring process manual input errors can lead to inaccurate calculations and noncompliance.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output
- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Effect

By not having a formal process for monitoring of the return of Title IV calculations, the colleges run a greater risk of noncompliance with these requirements.

Recommendation

We recommend that the District instruct campuses to develop and implement monitoring policies and procedures.

Questioned Costs

None

District's Response

The District will initiate the review process to improve and ensure that there are appropriate reviews and approvals of Title IV calculations.

Finding 04-09 Special Tests and Provisions (Return of Title IV) – Return of Title IV Calculations

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

(Continued)

Condition

In our sample of 125 return of Title IV calculations at 5 colleges, we noted that the midpoint method was not used for 7 students out of the 15 students that dropped out without providing official notification to the respective campuses.

- All three students sampled from Pierce College that dropped without official notification were calculated not using the midpoint method.
- All four students sampled from Southwest College that dropped without official notification were calculated not using the midpoint method.

Criteria

For institutions not required to take attendance, if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the withdrawal date is the midpoint of the payment period or, if applicable, the period of enrollment (34 CFR Section 668.22(c)).

Effect

By the campuses not using the midpoint method, the calculation of amounts owed back by the students in our sample was overstated by $1,679 and the amount calculated as owed back by the institution was overstated by $432.

Recommendation

We recommend that the District review the policies for the calculations of return of Title IV funds for these two campuses to ensure that they are compliant with the criteria for schools not required to take attendance with students that cease attendance without providing official notification to the institution.

Questioned Costs

None

District's Response

The District concurs with the finding. The District's Title IV Policy is to use the midpoint (50%) of the enrollment period as the withdrawal date for students who stop attending without notification. The campus inadvertently did not use the midpoint date for students listed. The policy will be emphasized to ensure campus is in compliance.

Finding 04-10 Special Tests and Provisions (Borrower Data Transmission and Reconciliation) – No Evidence of Monthly Borrower Reconciliations for Federal Direct Loans

Programs affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

During our procedures performed over Borrower Data Transmission and Reconciliation for Federal Direct Loans, the District's campuses were unable to provide documentation to support that they performed the required monthly reconciliations of the School Account Statements (SAS) from the Common Origination and Disbursement (COD).

Criteria

Each month, the COD provides institutions with a SAS data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records (34 CFR Sections 685.102(b), 685.301, and 303).

The Direct Loan School Guide states that a school has completed its monthly reconciliation when: (a) all differences between the DLSS and the school's internal records have been resolved or documented; (b) timing issues have been identified and will be tracked for reconciliation in the next month's DLSS; (c) any necessary corrective actions have been taken to ensure that all the prior month's issues will reconcile in the following month; and (d) all reconciliation efforts have been documented for future reference and review.

Effect

By not maintaining documentation of these reconciliations, there is no audit evidence that these were actually performed on a timely basis as required, thus they are out of compliance with part (d) of this regulation.

Recommendation

We recommend that the District advise its campuses to comply with this requirement by requiring that a formal documented reconciliation be performed on a monthly basis and be retained by the campuses for audit purposes in accordance with federal record retention requirements.

Questioned Costs

None

District's Response

The District concurs with the finding. The District will develop a consistent policy for reconciling the Federal Direct Loans on a monthly basis.

Finding 04-11 Special Tests and Provisions (Disbursements To or on Behalf of Students) – Late and Inaccurate Borrower Data Transmissions

Programs affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.048), Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA #84.007), Federal Direct Student Loan (CFDA #84.268), Federal Pell Grant Program (CFDA #84.063), Federal Work-Study Program (CFDA #84.033), and Nursing Student Loans (CFDA #93.364)

Condition

In our sample of 25 direct loan disbursements made during the fiscal year, we noted one student disbursement at City College that was transmitted to the Direct Loan Servicing System (DLSS) more than 30 days subsequent to the disbursement date and four other student disbursements the campus could not provide support that the disbursements were transmitted within 30 days of the disbursement date.

Criteria

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB 1845-0021).

Effect

Schools that do not comply may have their eligibility for Title IV student aid revoked or fines imposed.

Recommendation

We recommend that the District monitor its disbursement transmissions more closely to ensure that they are made within the required time frames to comply with Title IV regulations.

Questioned Costs

None

District's Response

The District concurs with the finding. This was an isolated event when the office was relocating and the computers were down.

Finding 04-12 Allowable Costs – No Approved or Submitted Indirect Cost Proposal for Claim Indirect Costs

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.044), Talent Search (CFDA #84.047), Upward Bound (CFDA #84.066), and Educational Opportunity Centers (CFDA #84.066)

Condition

During our procedures performed over indirect costs for the Trio Cluster programs, we noted that indirect costs of 8% were being claimed for the programs but neither the District nor any of its nine campuses had a currently approved indirect cost rate. We further inquired with the District's cognizant agency, the Department of Health and Human Services, which confirmed that the District had also not submitted an current indirect cost proposal to be granted a provisional rate.

Criteria

A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. To obtain an indirect cost rate, a grantee must submit an indirect cost proposal to its cognizant agency and negotiate an indirect cost rate agreement. The Secretary may establish a temporary indirect cost rate for a grantee that does not have an indirect cost rate agreement with its cognizant agency (34 CFR 75.560).

Effect

The District is claiming expenditures that it is not entitled to claim without the approved indirect cost proposal.

Recommendation

We recommend that the District work with its cognizant agency to complete and submit its indirect cost proposal as soon as possible to ensure that future indirect costs charged to the program will be allowed.

Estimated Questioned Costs

$229,000 – Represents approximately 8% of all total TRIO Cluster expenditures.

District's Response

The District has an existing approved indirect cost rate with the Department of Health and Human Services that needs to be updated. Although the Los Angeles Valley College did not have current year expenditures under the Trio Cluster programs, this college does have a current approved indirect cost rate of 31%. The District is in communication with the TRIO Cluster Federal agency to confirm the allowable 8% indirect rate for the programs.

Finding 04-13 Matching, Level of Effort and Earmarking – Proper Classification of Participants for Earmarking Requirements

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), and Upward Bound (CFDA #84.066)

Condition

For 2 of the 25 students sampled for eligibility and proper classification for earmarking requirements for the Upward Bound Program, we noted both students were classified as both low-income and first-generation college students, but upon review of the supporting documentation we noted that they only met the eligibility criteria for one of the categories.

- One student from Southwest College was identified as low-income and a first-generation college student, but per review of student's application, we noted that he did not qualify as low income.
- The other student also from Southwest College was classified as low-income and a first-generation college student, but per review of the student's application, we noted that he was not a first-generation college student.

Criteria

Not less than two-thirds of the project's participants must be low-income individuals who are potential first-generation college students. The remaining participants must be either low-income individuals or potential first-generation college students (34 CFR Sections 645.21 and 645.6).

Effect

Although the misclassification of these two participants did not affect the overall compliance of Southwest College with the two-thirds earmarking requirement for the year, it indicates a lack of controls over the compilation of data and reporting of participants to calculate the earmarking requirements.

Recommendation

We recommend that the District review its current policy and procedures over the classification of participants to ensure that they are more accurately classified and reported to ensure true compliance with earmarking requirements.

Questioned Costs

None

District's Response

The District concurs with the finding. The Upward Bound Program has a vacancy for the director position over the last two years. The Director will improve the internal control process to ensure the program is in compliance. The colleges will now conduct an internal program review and has been receiving parental signatures for verification of income and eligibility. This verification is acceptable by the U.S. Department of Education per federal regulations.

Finding 04-14 Matching, Level of Effort and Earmarking and Reporting – Proper Classification of Participants for Earmarking Requirements for the Student Support Services Program

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.044)

Condition

For 2 of our sample of 25 students sampled for eligibility and proper classification for earmarking requirements for the Student Support Services (SSS) program for the 2003-2004, we noted both students were classified as both low-income and first-generation students by Southwest College. Upon review of the supporting documentation, we noted that one of the students was not a first-generation student but did come from a low-income family. The other student was not from a low-income family but was a first-generation student.

We also noted that the financial data reported for earmarking and eligibility requirements indicated that 100% of the students were both low income and disabled, but per review of the narrative performance report, only 55% of program participants are low income and disabled. Although this fulfills the criteria for earmarking requirements, actual amounts are being reported inaccurately in the performance report.

(Continued)

Criteria

At least two-thirds of the students served by an SSS project must be low-income individuals who are the first generation college students or individuals with disabilities. Not less than one-third of the individuals with disabilities must also be low-income individuals. The remaining students served must be low-income individuals, first-generation college students, or individuals with disabilities (34 CFR Sections 646.7 and 646.11).

Effect

Although the misclassification of these participants in our sample appeared to not affect the overall compliance of Harbor College with this two-thirds earmarking requirement for the year, we are unable to determine if the program is truly in compliance with the earmarking requirements. There appears to be a lack of controls over the compilation of data and reporting of participants to calculate the earmarking requirements.

Recommendation

We recommend that the District review its current policy and procedures over the classification of participants to ensure that they are more accurately classified and reported to ensure true compliance with earmarking requirements.

Questioned Costs

None

District's Response

The District concurs with the finding. The colleges will now conduct an internal program review.

Finding 04-15 Reporting – Inconsistent Program Reports and Ineligible Graduates Participating in the Student Support Services Program

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.044)

Condition

We also noted that the number of student participants reported on the financial data report submitted to the DOE by Harbor College indicated 162 participants, but the number of participants in the performance report indicated 152 participants. Per discussion with the program director, the financial data report included graduates from the college that are still receiving limited program services, but per review of the eligibility requirements, graduates would not be eligible for program services.

We further noted that there is no formal review or sign-off of the annual performance and participant reports, nor are there any reviews of these reports by the District personnel to ensure consistency of reporting between campuses.

(Continued)

Criteria

Eligible Participants – A student is eligible to participate in our SSS project if the student meets all of the following requirements: (a) is a citizen or national of the United States or meets the residency requirements for Federal student financial assistance; (b) is enrolled at the grantee institution or accepted for enrollment in the next academic term at that institution; (c) has a need for academic support as determined by the grantee in order to pursue successfully a postsecondary educational program; and (d) is a low-income individual, a first-generation college student, or an individual with disabilities (34 CFR Sections 646.3 and 646.7).

Effect

It appears that these ten students would not meet eligibility requirement (b) for a student to be enrolled at the grantee institution or accepted for enrollment in the next academic term at that institution. Program narrative reports should be consistent with financial data reported for the same program for the same time period.

Recommendation

We recommend that the District review its eligibility determinations to ensure that they are compliant with program guidelines. We also recommend that the District review its current policy and procedures over the program reporting to ensure that the program and fiscal reports are consistent with copies retained at the District level.

Questioned Costs

Undeterminable

District's Response

The District believes that the inclusion of graduates who remain and take additional transfer level courses is an allowable activity under the Federal regulation and grant agreement. The District will review the eligibility determinations and improve its reporting reviewing process.

Finding 04-16 Period of Availability – Expenditures Incurred and Charged After the End of the Performance Period

Programs affected: TRIO Cluster – U.S. Department of Education (DOE) and Upward Bound (CFDA #84.066)

Condition

For 4 of our sample of 25 expenditures sampled for period of availability procedures for programs whose 5-year performance period ended in 2003-2004, we noted expenses that were incurred subsequent to the end of the performance period charged to the grant. Per review of the program requirements, the grant allows for a 90-day reconciliation period to compile final expenditure reports, but per discussions with District accounting personnel, they have been treating the 90-day period as a spend-out period instead of a reconciliation period.

We also noted that the District did not expend the full program award amount and could have claimed eligible expenses that were incurred during the performance period.

Criteria

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency (A-102 Common Rule, Section .23). Additionally, non-Federal agencies are to liquidate all obligations incurred during the award period within 90 days after the ending of the funding period.

Effect

It appears that the District does not have adequate controls over the allocation of expenditures between grant performance periods, which could result in unallowable costs.

Recommendation

We recommend that the District revise its current claiming policy regarding the allocation of expenditures between two program performance periods to ensure expenditures are claimed in the proper performance period.

Questioned Costs

$1,922

District's Response

The District concurs with the finding. The District will revise its procedures to ensure the expenditures charged to the program are incurred during the performance period.

Finding 04-17 Eligibility – Controls over Eligibility Determination for Upward Bound Programs

Programs affected: TRIO Cluster – U.S. Department of Education (DOE) – Upward Bound (CFDA #84.066)

Condition

During our review of eligibility determinations for the TRIO Cluster programs, we noted the following for the two campuses reviewed for eligibility control procedures:

- The eligibility determination process for Upward Bound students at Southwest College does not require employees to review and sign-off the approval of the participant contracts in the program.
- The eligibility determination process for Upward Bound programs at Los Angeles City College and Southwest College does not require employees to review income documentation in determining low-income of the individual.
- The Upward Bound program at Southwest College does not require applicants to provide documentation to support their low-income status.

Criteria

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Effect

By not developing a sound control environment, the District risks providing services to ineligible participants benefits, which could cause the cost of those services provided to ineligible participants to be disallowed.

Recommendation

We recommend that the District review its current procedures for documenting eligibility in the Upward Bound program to ensure that it has adequate controls in place to help ensure compliance with the program.

Questioned Costs

None

District's Response

The District concurs with the findings. The colleges require all applicants parents/guardians to sign an income verification form. Included in all applicants are these materials. Attached to the income form are the federal TRIO program annual low-income levels. Per federal regulations, the colleges have signatures from the parents/guardians. The program does not require that the District collect income tax returns. The District will strengthen the current procedure to improve the review process.

Finding 04-18 Preparation of the Schedule of Expenditure of Federal Awards

Programs affected: U.S. Department of Education (DOE) – TRIO Cluster – Student Support Services (CFDA #84.044), Talent Search (CFDA #84.047), Upward Bound (CFDA #84.066), Educational Opportunity Centers (CFDA-#84.066), Vocational Education Act Title I-C (CFDA 84.048), and Vocational Education Title II (CFDA #84.243)

U.S. Department of Health and Human Services – Child Development Block Grant (CFDA 93.596), Temporary Assistance for Needy Families (CFDA #93.558)

U.S. Department of Labor – Workforce Investment Act Cluster – WIA Youth (CFDA #17.258), WIA Adult (CFDA #17.259) and WIA Dislocated Worker (CFDA #17.260)

(Continued)

U.S. Department of Agriculture – Child Care Food Programs (CFDA #10.558)

U.S. Federal Emergency Management Administration – Hazard Mitigation Grants (CFDA #97.039)

Condition

During our review of the District's Schedule of Federal Awards, we noted that there were programs that were reported with an incorrect CFDA number, programs reported with incorrect annual expenditures, individual federal programs grouped together and not separately identified, and funds received as a sub-recipient missing identification number assigned by pass-through entity.

Criteria

Circular A-133 requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs.
- Include, for federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Provide the total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.

Effect

As the determination of the District's major federal programs are based on the amounts expended and the CFDA numbers reported on the Schedule of Federal Awards, incorrect reporting will lead to the incorrect determination of the District's major federal programs for the purposes of the Single Audit.

Recommendation

We recommend that the District's accounting department improve controls in gathering the information to compile the Schedule of Federal Awards. We would suggest that each respective department or campus be required to attach the following to their expenditure report to the accounting department: (1) A copy of the page(s) from the Grant Agreement/Award Letter/Fiscal Letter that indicates the CFDA, program name, award number, and the award amount; and (2) a reconciliation of expenditures from the amount provided to the accounting office, to the general ledger, and to the total of any expenditure reports for the fiscal year. This will encourage the respective departments or campuses to research and reconcile their own programs prior to submitting the final information to the accounting department.

Questioned Costs

None

District's Response

The District concurs with the finding. The District will strengthen its process in preparing the Schedule of Federal Awards to ensure the report is accurately completed.

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SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2004

State findings and recommendations	Finding numbers	Not implemented	Fully implemented
Current year comment:			
1. Residency Determination for Credit Courses – Incorrect Residency Code	S-04-01		
2. Residency Determination for Credit Courses – Missing Student Residency Documentation	S-04-02		
3. Concurrent Enrollment – Inaccurately Classified Students	S-04-03		X
4. Enrollment Fee – Summer School Fees	S-04-04		
5. Enrollment Fee – Fees Earned in Prior Year Recorded as Current Revenue	S-04-05		
6. Salaries of Classroom Instructors (50% Rule) – Equipment Not Recorded in Current Expense of Education	S-04-06		
7. Matriculation – College Matriculation Plans	S-04-07		
8. Open Enrollment – No Evidence Publicly Advertised Course	S-04-08		
9. Salaries of Classroom Instructors (50% Law) – Budgeted Time Charged for Employees with Multiple Assignment Codes	S-04-9		
10. Apportionment for Instructional Service Contracts/Agreements – No Formal Tracking Mechanism	S-04-10		
11. EOPS Administrator/Director Requirements – District’s Contribution of Part–Time Director’s Benefits	S-04-11		
12. EOPS Administrator/Director Requirements – Adequate Documentation of Actual Time Spent by EOPS Staff	S-04-12		
13. EOPS Allocation of Costs – Variances Between Approved Plan and District Budget	S-04-13		
14. EOPS Administrator/Director Requirements – Plan Approval by State Chancellor’s Office	S-04-14		
15. EOPS Administrator/Director Requirements – Matching Separate from Categorical Programs	S-04-15		
Prior year comments:			
1. Enrollment fees	S-03-01	X	
2. Matriculation – college matriculation plans	S-03-02	X	
3. Students actively enrolled	S-03-03		X

Current Year State Findings and Recommendations

Finding S-04-01 Residency Determination for Credit Courses – Incorrect Residency Code

Identified Condition

We noted that in our sample of 25 students for residency determination, one student was classified as a code 600 nonresident student, but their California nonresident tuition exemption request indicates the student was a California resident that cannot provide legal proof of residency, but has attended three years of high school in California (AB 540 law) and should have been classified as a code 298 student.

Recommendation

We recommend the District strengthen its internal control process over input and review of student application information entered into the District's student data system to ensure that student's residency information is captured and reported accurately to the State Chancellors Office.

District's Response

The District has developed a decision-making matrix for residency to more accurately and uniformly identify and correctly code nonresident students. Staff training was provided as part of the implementation plan. As a result of this training, the student application and supplemental residency questionnaire are being updated.

Finding S-04-02 Residency Determination for Credit Courses – Missing Student Residency Documentation

Identified Condition

We noted that in our sample of 25 students for residency determination, one College was unable to provide proof of residency for one of the students within the sample.

Recommendation

We recommend that the District either instruct the Colleges to maintain the required residency documentation or to forward the District the information for retention to meet the document *Retention Period for Records Basic to an Audit*, as prescribed by the California Community Colleges Chancellor's Office Student Attendance Accounting Manual for Class 3 – disposable records, which states "records shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code, Section 84040 requirement for annual audit or of any other legally required audit, or after the ending date of any retention period required by any agency other than the state of California, whichever is later."

District's Response

The District concurs with the finding. This finding will be consulted with the District's Admissions and Records group. Colleges may be asked to share best practices and suggest improvements.

Finding S-04-03 Concurrent Enrollment – Inaccurately Classified Students

Identified Condition

In our sample of 25 students that were classified as concurrently enrolled, KPMG noted six of those students sampled were actually regular students, but had previously been concurrently enrolled students. Upon further inquiry, it was determined that once students are initially classified as concurrently enrolled students in the District's student data system, their classification status is not updated to reflect their completion or separation from High School. This misclassification of students not only led to incorrect reporting data but also resulted in reduced apportionment claimed due to the limitations on special part-time students in physical education courses.

Recommendation

We recommend that the District review its current policies concerning coding and data collection of their concurrent enrolled students to ensure that they are properly reclassified as regular students upon their completion or separation from High School.

District's Response

The District concurs with this finding. This situation was identified in spring 2004, and Information Technology corrected the coding program. Concurrent student status should be reset each term. Information Technology will be asked to test and confirm that this is now the case.

Finding S-04-04 Enrollment Fee – Summer School Fees

Identified Condition

Consistent with prior years, the District does not report part of the fees collected for the summer term as revenues in the following fiscal year. The District reports fees collected for the summer terms as current revenue. It was noted that approximately $1 million of summer fees collected and recorded as current revenue should have been deferred. An adjustment was recorded to properly reflect this amount on the District's basic financial statements.

Recommendation

We recommend that the District establish policies to record as current revenue only those fees collected for the summer term that falls within the fiscal year. The remaining portion of the fees collected should be deferred and reported as revenues in the subsequent fiscal year.

District's Response

The District concurred with the finding as to the state requirements for deferring all summer enrollment fees in the following years. However, the District disagreed with the state compliance requirement to defer all summer fees collected in the fiscal year following the summer term. The District will implement policies to defer a portion of the summer term fees collected before June 30, where the services are provided on or after July 1.

Finding S-04-05 Enrollment Fee – Fees Earned in Prior Year Recorded as Current Revenue

Identified Condition

In our sample of 25 students tested for recording enrollment fees in the proper period, we noted one student whose enrollment fee was recorded as revenue in the current year, but was earned for the fiscal year 02-03 winter session. The District's policy is the collect the enrollment fees from the student at the time of enrollment, but there are some students who enroll and attend classes without payment of their enrollment fees. The District does not drop the student's enrollment for the semester, but instead holds the students records until they pay any amounts owed. These enrollment fees are not recorded in the semester that they attended the classes, since they were not collected, but are reported as revenue in the semester collected.

Recommendation

We recommend that the District establish policies to ensure that enrollment fees are properly recorded for the period in which those fees are earned.

District's Response

The District concurs with the finding. Since fees are due and payable when the student registers, the District is reviewing the registration procedure and process to prevent the student from completing registration without paying fees. This will eliminate enrollment fees being paid in a subsequent year.

Finding S-04-06 Salaries of Classroom Instructors (50% Rule) – Equipment Not Recorded in Current Expense of Education

Identified Condition

During our review of the supporting documentation for the 311 Report for Equipment Replacement, we noted that there was $4,136 reported in Replacement Equipment that should have been recorded in the Current Expense of Education. This reporting error did not affect the District's overall compliance with the 50% rule.

Recommendation

We recommend that the District strengthen its internal control procedures over its State Compliance reporting to ensure that all reports are completed accurately.

District's Response

The District concurs with the finding and will conduct additional review by management to ensure accurate CCFS 311 reporting.

Finding S-04-07 Matriculation – College Matriculation Plans

Identified Condition

Consistent with the prior year, the District is required to expend matriculation funds in accordance and consistent with the District's state approved matriculation plans. These plans contain an outline of the activities that are being performed to carry out the matriculation program at the Colleges. These activities should be consistent with approved activities listed under *California Code of Regulations (CCR), Title 5, Chapter 6, Article 3,* *Matriculation Services, Section 55520, Required Services.* Reportable instances occur if claimed activities are not consistent with allowable activities. Based upon our review of the College's plans, it was noted that not all activities are consistent with "activities claimable against state matriculation funds.

Recommendation

We recommend that the District continue to review their Credit and Non-Credit Matriculation plans against the current plan guidance and submit updates to the State Chancellor's Office accordingly to ensure compliance with state approved activities.

District Response

Through communication from the State Chancellor's Office, the District was assured that no update of the Matriculation plans was required.

Finding S-04-08 Open Enrollment – No Evidence Publicly Advertised Course

Identified Condition

In our sample of 25 class sections reviewed for open enrollment requirements, we noted one section that was not included in the original schedule of classes, the updated schedule of classes, nor could the College produce proof of it being publicized. As noted in *CCR, Title 5, Sections 58102, 58104 and 58106*, "a description of each course must be published in the official catalog and schedule of classes and that for courses that the district establishes or conducts after publication of the general catalog or regular schedule of classes, those classes must also be reasonably well publicized. Furthermore, course announcements shall not be limited to any specialized clientele, nor shall any group or individual receive notice before the general public for purposes of preferential enrollment."

Recommendation

We recommend that the District strengthen its monitoring efforts over its Colleges to require them to maintain documentation to support evidence course advertisements, to help ensure compliance with the regulations.

District's Response

The District concurs with this finding. College Instructional Officers will be advised the need to strengthen documentation practices on this issue.

Finding S-04-9 Salaries of Classroom Instructors (50% Law) – Budgeted Time Charged for Employees with Multiple-Assignment Codes

Identified Condition

In our sample of 25 employees whose time is allocated between instructional and noninstructional, we noted that 100% of those employees were being charged for their budgeted time allocated to their various positions, and do not complete actual timesheets to capture and report the actual time spent on the multiple assignments.

Recommendation

We recommend that the District require employees that work on multiple projects to complete and submit timecards for the true hours worked on each program assignment to more accurately allocate time to the District's various programs.

District's Response

The District agrees that employees who have both instructional and noninstructional assignments should report the time they actually spend on those assignments more accurately, but believes requiring them to submit weekly or monthly schedules reflecting the allocation of time spent on each assignment is the most appropriate way of achieving that end. For that reason, the district will begin to require employees who perform both instructional and noninstructional work to submit weekly or monthly schedules and will allocate the salaries paid them to them on that basis.

Finding S-04-10 Apportionment for Instructional Service Contracts/Agreements – No Formal Tracking Mechanism

Identified Condition

The District does not have a formal process in place to identify, track, and report courses that are taught instructional service contracts/agreements or off campus. Each College is allowed to develop their own coding, whereas the District is unable to easily identify these types of courses and must rely upon the College's manual identification and reporting of these types of courses to the District.

Recommendation

We recommend that the District develop a more formally structured coding system for the Colleges so that the District can more easily and accurately track and report courses taught under instructional service contracts/ agreements or on an off campus facility, which would include classes taught on high school campuses.

District's Response

The District concurs with this finding, Academic Affairs and Information Technology will explore possibilities on the appropriate method to be used for this purpose.

Finding S-04-11 EOPS Administrator/Director Requirements – District's Contribution of Part-Time Director's Benefits

Identified Condition

In reviewing the allocation of salaries of the EOPS Directors, we noted one part-time director who dedicates 50% of his time to the EOPS program, but 100% of his benefits are being allocated to the EOPS program. The state guidelines state, for part-time directors, the District's contribution for the director's salary and benefits must equal or exceed the proportion of total hours provided to EOPS by the director. It appears that the District is not contributing at least 50% of this employee's benefits.

Recommendation

We recommend that the District review its benefit allocation process to ensure that it is consistent with the actual time dedication to various programs for multi-funded positions. This will help ensure that the proper proportion of benefits be allocated in accordance with the salaries of the employees that are working on multiple programs.

District's Response

The District concurs with this finding. The District will improve internal control and the review process to properly allocate benefits to programs.

Finding S-04-12 EOPS Administrator/Director Requirements – Adequate Documentation of Actual Time Spent by EOPS Staff

Identified Condition

In our sample of employees whose time is charged to EOPS, we noted that 100% of those employees were being charged for their budgeted time to the program and do not complete actual timesheets to capture and report the actual time spent on the program. Therefore we are unable to verify if the employee's budgeted time commitments do not exceed the actual EOPS support provided by these employees.

Recommendation

We recommend that the District require employees that work on multiple projects, which include EOPS, to complete and submit timecards for the true hours worked on each program to more accurately allocate time to the District's various programs.

District's Response

The District concurs with this finding and will ensure that employees will indicate the allocated time on their timesheets to specific programs.

Finding S-04-13 EOPS Allocation of Costs – Variances Between Approved Plan and District Budget

Identified Condition

In our sample of 12 employees whose time is allocated between EOPS and another categorical program, we noted that 3 of those employees had 75% of their time budgeted to the program by the District but only 50% was indicated on the plan; 4 employees had 25% budgeted to the program by the District but 100% was indicated on the plan; 2 employees were budgeted 100% by the District but 0% was indicated on the plan.

It was also noted that the employees do not complete actual timesheets to capture and report the actual time spent on the program, and this budgeted time was the amount charged to the EOPS program. Therefore we are unable to verify whether costs allocated to EOPS for services provided by district staff who have other program responsibilities are adequately documented to identify items and amounts being prorated, basis of and justification for the allocation, and amounts charged to each program.

(Continued)

Recommendation

We recommend that any differences between the time assigned to the program and the funding sources be clearly identified on the submitted plan. We also recommend the campuses monitor any budgetary changes from the original plan submission to ensure that the plans accurately reflect the budgeted assignments submitted to the State and if any changes occur throughout the year that the plans are properly revised and resubmitted, as applicable to maintain compliance.

We recommend that the District confer with the State regarding various approved time allocation methodologies, so as to implement some sort of process to more accurately allocate salaries of multi-funded employees based upon actual time spent on the multiple programs instead of allocations based on budgeted assignments, for employees that work on multiple programs, which include EOPS.

District's Response

The District concurs with this finding. The District will ensure that employees indicate the allocated time to specific programs on their timesheets.

Finding S-04-14 EOPS Administrator/Director Requirements – Plan Approval by State Chancellors Office

Identified Condition

During our review of the College's plans within the District, we noted that one College had not yet received approval from the State Chancellor's office for its 2003-04 plan.

Recommendation

We recommend that the District monitor each College to ensure that they are submitting plans and receiving required approvals from the State Chancellors Office, to ensure that they are in compliance with State guidelines.

District's Response

The District concurs with the finding. Due to changes in the plan, the college is resubmitting the 2003-04 plan for approval by the State Chancellor's office.

Finding S-04-15 EOPS Administrator/Director Requirements – Matching Separate from Categorical Programs

Identified Condition

We were unable to verify that that dollar level of EOPS services reported to the state as expended with non-EOPS dollars was actually expended on EOPS services, as per the state compliance requirement. The campuses identify programs within the general fund that they believe would qualify as EOPS services, but did not maintain the specific detail so that we could pull a sample of the expenditures to verify that the funds were actually expended for EOPS services.

Recommendation

Although it appears that the District meets the matching requirement due to the level of expenditures in the General Fund, we recommend that the District develop a system to record expenses spent specifically for the EOPS by General Funds to support the District's claims for meeting matching fund requirements for the EOPS program.

District's Response

The District concurs with this finding. The District will require colleges to identify and provide supporting audit trails for matching expenses.

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SCHEDULE OF PRIOR YEAR
FEDERAL AND STATE FINDINGS

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PRIOR YEAR FEDERAL FINDINGS AND RECOMMENDATIONS

Finding F-03-01 – Financial Aid Review – Partially implemented (see current year findings F-04-01, F-04-05, and F-04-08)

Programs affected:

- CFDA #84.048 Federal Perkins Loan
- CFDA #84.007 FSEOG
- CFDA #84.268 Federal Direct Loan
- CFDA #84.063 Federal Pell Grant
- CFDA #84.033 Federal Work-Study Program.

Condition

We noted that a staff member is to review all student financial aid files to ensure the completeness of basic financial aid information, such as the FAFSA, Social Security number, and the like. The staff member is to sign off on the cover of each Financial Aid Packet to indicate his/her review. However, during our internal control test work at one of the colleges, we noted that 4 files out of 60 selections were not signed off by the staff member during the first review. The entire Financial Aid Packet goes through a secondary review by a Financial Aid Technician who verifies the accuracy and completeness of the documents and then signs off on the packet. We noted that a Financial Aid Technician is to review all student financial aid files to ensure the completeness of financial aid information, such as the ISIR, SAP Progress, and the like. The Financial Aid Technician is supposed to sign off on the cover of each Financial Aid Packet to indicate his/her review. However, we noted that 28 files out of 60 selections were not signed off by the Financial Aid Technician during the second review.

Recommendation

All student financial aid files should be reviewed by a staff member to ensure that all the required information is included in each file. The staff member should also sign off on each packet cover so that if any concerns arise with the reviewed file, the Financial Aid Manager will know who performed the review.

The financial aid office cannot be assured that all files are being properly reviewed if the Financial Aid Technician is not properly signing off on each student financial aid packet cover. Also, if any concerns arise with any of the reviewed files, the Financial Aid Manager will know who performed the review by looking at the Financial Aid Technician’s initials.

We recommend that every student financial aid file is properly reviewed and signed off by the financial aid staff members. This review is important as it is better to resolve these obvious inaccuracies in the beginning phases of the financial aid process and it is also important to sign off on each packet so that the Financial Aid Manager can be assured that all files are properly reviewed.

We recommend that every student financial aid file be properly signed off by the Financial Aid Technician.

(Continued)

Questioned Costs

None.

District's Response – Current Status of Prior Year Federal Compliance Finding

The District has procedures to ensure that the designated reviewer at the college is signing student financial aid packages.

Finding F-03-02 – Federal Work-Study Contracts – Fully implemented

Program affected: Federal Work-Study Program (CFDA #84.033)

Condition

The District's colleges recontract with each outside organization every year for the Federal Work-Study (FWS) Program. The colleges initiate the contract request with the District office contracts department, who draws up the formal agreement and gets the required signatures. The original signed contracts are maintained at the District office, with copies at the campus level. At one of the colleges tested, we noted that the contracts between the District and the Benjamin Franklin Branch of the Los Angeles Public Library and the LA County Probation Department were only signed by the outside organizations and not by the District. We also noted that the college did not obtain a contract request form for two outside organizations, Benjamin Franklin Branch of the Los Angeles Public Library and the LA County Probation Department.

Criteria

Federal Work-Study students may be employed by the institution, a federal, state or local agency a private not-for-profit organization or a private for-profit organization. The employment must not, (1) impair existing service contracts, (2) displace employees, (3) fill jobs that are vacant because the employer's regular employees are on strike, or (4) involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. The institution must enter into a written agreement with any agency or organization providing employment under the Federal Work Study (FWS) program (34 CFR Sections 675.20 and 675.23).

Recommendation

The college should complete the contract request form for each outside employer so that the college ensures that a contract is requested for off-campus employers. Additionally, the college should ensure that all contracts with outside employers have been fully executed and signed before students are allowed to work at these organizations. Failure to obtain a signature from the District on contracts that the college is involved with could indicate that the District has not reviewed or accepted such contract. It is important to have the District review and accept all contracts the college is involved with in case future problems arise.

Questioned Costs

None.

(Continued)

District's Response – Current Status of Prior Year Federal Compliance Finding

The District has procedures to ensure that all contracts are reviewed and signed off by the contracts department at the District.

Finding F-03-03 – Return of Title IV Funds for Student Financial Aid – Partially Implemented (see current year findings F-04-08 and F-04-09)

Programs affected:

- CFDA #84.048 Federal Perkins Loan
- CFDA #84.007 FSEOG
- CFDA #84.268 Federal Direct Loan
- CFDA #84.063 Federal Pell Grant
- CFDA #84.033 Federal Work-Study Program.

Condition

At one of the colleges tested, we noted that the college's calculation of the return of Title IV funds for certain students was calculated incorrectly. As the District has made the assertion that it is an institution that is "not required to take attendance," the midpoint of the semester (i.e., 50% completion point) is only to be used when the student is dropped from his/her classes without notification. However, we noted that these calculations should not have been based on the 50% completion as the students either dropped courses in person or by telephone (as evidenced by the S004 printout).

Criteria

As noted in 34 CFR Part 668.22, if a recipient of Student Financial Aid (SFA) grant or loan funds withdraws from a school after beginning attendance, the amount of SFA grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. If the amount disbursed to the student is less than the amount the student earned, the student is eligible to receive a postwithdrawal disbursement of the earned aid that was not paid.

As noted above, the District has made the assertion that it is an institution that is "not required to take attendance." For institutions that are not required to take attendance, a student's withdrawal date is one of the following:

- The date the student began the withdrawal process prescribed by the institution.
- The date the student otherwise gave (in writing or orally) official notification of the institution of his or her intent to withdraw.
- If the student never began the withdrawal process or otherwise gave notice of intent to withdraw, the midpoint of the payment period or period of enrollment.

- If the student did not begin the withdrawal process or otherwise given notification (including notice from someone acting on the student's behalf) to the institution of the intent to withdraw because of circumstances beyond the student's control (e.g., illness, accident, grievous personal loss, and the like), the date based on the circumstances related to the withdrawal.
- If a student who was granted an approved leave of absence fails to return from the leave of absence, the date the institution determines the approved leave of absence began.
- If a student takes an unapproved leave of absence, the date the student began the unapproved leave of absence.

Finally, an institution has the option of using as the withdrawal date a date that can be documented based on the student's attendance at an academically related activity. If an institution chooses to use attendance at an academically related activity as the student's date of withdrawal, the institution must document both that the activity is academically related and that the student attended the activity.

Effect

By not consistently and accurately applying the Department of Education guidelines and criteria, the amount of Student Financial Aid that is owed back by the student and institution may be inaccurate. The amount of Title IV funds required to be returned by 7 of the 100 students tested would have changed by $6,447 if the aforementioned college had followed the guidelines for institutions not required to take attendance and used the actual withdrawal dates communicated by the students.

Recommendation

It is recommended that the District ensure its current guidelines on the calculation for the Title IV funds to be returned are followed by the colleges within the District.

Questioned Costs

$2,314

District's Response – Current Status of Prior Year Federal Compliance Finding

The staff has been trained to ensure that the college applies the current guidelines on the calculation for the return of Title IV funds.

PRIOR YEAR STATE FINDINGS AND RECOMMENDATIONS

Finding S-03-01 – Enrollment Fees

Observation

Consistent with prior years, the District does not report part of fees collected for the summer term as revenues in the following fiscal year. The District reports fees collected for the summer terms as current revenue. It was noted that approximately $1 million of summer fees collected and recorded as current revenue should have been deferred. An adjustment was recorded to properly reflect this amount on the District's basic financial statements.

(Continued)

Recommendation

It is recommended that the District record as current revenue only those fees collected for the summer term that falls within the fiscal year. The remaining portion of the fees collected should be deferred and reported as revenues in the subsequent fiscal year.

District's Response – Current Status of Prior Year State Compliance Finding

The District concurred with the finding as to the state requirements for deferring all summer enrollment fees in the following years. However, the District disagreed with the state compliance requirement to defer all summer fees collected in the fiscal year following the summer term. The District will implement policies to defer a portion of the summer term fees collected before June 30, where the services are provided on or after July 1.

Finding S-03-02 – Matriculation – College Matriculation Plans

Observation

The District is required to expend matriculation funds in accordance and consistent with the District's campus state approved matriculation plans. The plans contain an outline of the activities that are being performed to carryout the matriculation program. These activities should be consistent with approved activities listed under *California Code of Regulation (CCR), Title 5, Chapter 6, Article 3 Matriculation Services, Section 55520, Required Services.* Reportable instances occur if claimed activities are not consistent with allowable activities. Per review of the District's Colleges' plans, it was noted that all activities are not consistent with "activities claimable against state matriculation funds." It was also noted that the State Chancellor's office made updates in activities claimable in 2003, which the District did not incorporate into their colleges plans. One college plan was last updated in 1990 and three others were last updated in 1994.

Effect

The District's colleges may be performing activities under their Matriculation Programs that are no longer allowable, thus may not be claimable against the state matriculation funds.

Recommendation

We recommend that the District review their current Credit and Non-Credit Matriculation Plans against the current plan guidance and submit updates to the State Chancellor's Office accordingly to ensure compliance with State approved activities.

District's Response – Current Status of Prior Year State Compliance Finding

Through communication from the State Chancellor's Office, the District was assured that no update of the Matriculation plans was required.

Finding S-03-03 – Students Actively Enrolled

Observation

The total number of students counted for census purposes in the 72 course sections tested was 2,511. This number included 26 students who should have been excluded as they were not actively enrolled. There were also two exclusion rosters which could not be located that represented 18 and 22 students, respectively.

Effect

As the Los Angeles Community College District (District) receives apportionment based on the number of FTES reported to the state, over reporting the number of FTES to the state can lead to the incorrect apportionment being made to the District.

Recommendation

To avoid noncompliance with the Students Actively Enrolled requirement, KPMG recommends that measures be taken by the District to ensure that exclusion rosters are properly collected and recorded. Specific instructions should be given to instructors regarding importance of accurate completion and timely submission of the rosters and instruction to those charged with entry of the information regarding effective dates to be used to ensure proper exclusion. Consideration should also be given to maintaining records of exceptions encountered when exclusion rosters are entered automatically through the scanning and batch entry process performed by the District's DEC system.

District's Response – Current Status of Prior Year State Compliance Finding

The district concurs with the finding. Prior to running final Weekly Student Contact Hours and census FTE's reports for Fall and Spring terms, the Attendance Accounting Office provides each college with regular lists of sections/instructors with exclusion rosters still outstanding. These lists are sent to both Admissions and Records staff and Academic Administration who contact the individual instructors. Colleges now understand the importance of these rosters and there has been a noticeable increase in college efforts in this area. As a result, Fall 2004 exclusion rosters were returned earlier and in greater numbers than in the past.

REPORT TO MANAGEMENT

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KPMG LLP
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November 12, 2004

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California

Members of the Board:

We have audited the basic financial statements of Los Angeles Community College District (the District) for the year ended June 30, 2004 and have issued our report thereon, dated November 12, 2004. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

A material weakness is a condition in which the design or operation of specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

During the completion of our procedures, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the following report to management on pages 103 to 116.

* * * * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the board of trustees, District, management, and others within the organization.

Very truly yours,

KPMG LLP

	Not yet implemented	Partially implemented	Fully implemented
Current year comments:			
Bank reconciliation			
Warrant registers			
Payroll exception reports			
Inappropriate VMS system access			
Inappropriate SAP system access			
Change management			
Internal audit			
Prior year comments carried forward to the current year:			
Financial reporting			X
New accounting pronouncement – GASB No. 39			X
Lack of formal IT strategic plan	X		
SAP application security			X
SAP password controls			X
Current status of other prior year comments:			
Capital assets – building improvements			X
Recording of capital leases		X	
Accurately record lease information in logbook			X
Payroll procedures manual		X	
Terminated user listing			X
Set file_access and file_access: failure audit qualifiers on the VMS system	X		
Set the captive flag for the VMS backup id	X		
Backup should be monitored more closely			X

(Continued)

CURRENT YEAR COMMENTS

(1) Bank Reconciliation

Observation

During control test work performed on the Revenue Generation and Collection Process, we noted that bank reconciliations performed by one of the District's accountants on Miscellaneous Credit Card Collections accounts were not reviewed and approved (i.e., no signature or initial indicating approval). Improper preparation of bank reconciliations could lead to misstatement of cash accounts.

Recommendation

We recommend that the District assign a Senior or Supervising Accountant to review and approve bank reconciliations performed by one of the District's accountants, and to show evidence of review and approval by either a signature or initial.

District Response

The District concurs with this comment. All bank reconciliations are reviewed/signed-off monthly by the Supervising Accountant and/or Accounting Manager.

(2) Warrant Registers

Observation

Personnel at a College are able to remove blocks from warrant registers that have been selected for pre-audit (whether they are randomly picked or a variance has occurred) before they have actually been audited. Therefore, warrant registers have the capacity to be improperly released for wrong monetary amounts, delivery dates, or quantities due to the approval and audit process not being complete. Purchase Orders that have variances in them could be released for payment causing a misstatement in expenses and thus effecting net income.

Recommendation

We recommend the District put in place adequate segregation of duties to insure that no fraudulent activity can occur and to help mitigate user error by having checks and balances.

District Response

The District concurs with this comment. Access in SAP will need to be restricted to prevent unauthorized individuals from removing blocks.

(3) Payroll Exception Reports

Observation

We obtained the exception report for the payroll period 1204/2904 (April 18, 2004 through May 15, 2004), noting that the exceptions were signed by the technicians as resolved. The Payroll Technician Supervisor did not sign the individual report as reviewed. There is no hard evidence indicating that the work done on the exception reports is reviewed by a supervisor.

(Continued)

Recommendation

We recommend that the District require the Payroll Technician Supervisor sign off on the exception report once reviewed.

District's Response

The District concurs with this comment. The payroll supervisor reviews the exception reports after the payroll technician completes their review/correction of the errors. The supervisor signs off on a payroll exception ticket confirming that work done on the exception report is adequately reviewed/signed-off. In the future, the payroll supervisor will sign off on the exception report.

(4) Inappropriate VMS System Access

Observation

During our high-level review of Student Information System (SIS) access controls, KPMG noted the following inappropriate system access:

- User ID "USAHAP$" on the VMS system had inappropriate access to the ACMSDEBUG rights identifier with full access to all VMS applications, although this account was never logged into the system.
- User ID "SIUHK$" on the VMS system had inappropriate access to the SIS_DEBUG rights identifier with full access to all transactions in the Student Information System. Per inquiry of Guy Beaudoin, Software Systems Engineer, audit logs are only kept for about 20 days, thus, they were not available for us to review to determine whether any unauthorized transactions were performed. However, there is a reconciliation process in place to identify any unauthorized transactions. For instance, if student tuition and fee schedules were inappropriately modified, students and LACCD staff would immediately note the difference between published rates and those in the SIS application.

Furthermore, subsequent to our review, the inappropriate access was removed from the system.

Programmers and other inappropriate users with access to the system administrator responsibility have more access than is necessary to fulfill their job responsibilities and they may inadvertently or purposely cause harm or negatively affect the integrity of the data of the production system. This excessive access also causes a segregation of duties issue where a programmer has access to make unauthorized transactions in sensitive application areas.

Recommendation

We recommend that management institute a procedure to periodically review users with access to powerful administrative functions within all sensitive applications. Any inappropriate access would be detected from this review and need to be removed immediately.

District Response

The District concurs with this comment. The District took immediate action while the auditors were still on-site to correct the problems noted. The District will generate a periodic authorization report to identify potential security conflicts.

(Continued)

(5) Inappropriate SAP System Access

Observation

During our high-level system access review, KPMG noted the following security weaknesses in SAP:

- 27 of 129 users with inappropriate access to post journal entries using transaction FB50. With the assistance of the Software Systems Engineer, we performed a system query within SAP to validate the last date of use for all unauthorized user accounts. We noted that 10 of the 27 inappropriate users either have not logged into SAP during the period under audit or had only accessed the system while they were still authorized. We were unable to determine if any of the other 17 inappropriate users actually posted journal entries during the period under review because LACCD does not have transaction logging turned on to allow us to validate.
- 11 of 41 users with inappropriate access to post journal entries using transaction F-02. With the assistance of the Software Systems Engineer, we performed a system query within SAP to validate the last date of use for all unauthorized user accounts. We noted that all 11 unauthorized users had either not logged into SAP during the audit period or had only accessed the system while they were still authorized to have access.
- 1 of 9 users with inappropriate access to create a vendor using transaction FK-01. With the assistance of the Software Systems Engineer, we performed a system query within SAP to validate the last date of use for the unauthorized user account. We noted that the unauthorized user had only accessed the system while they were still authorized to have access.
- 7 of 10 users with inappropriate access to initiate payment runs using transaction F-110. With the assistance of the Software Systems Engineer, we performed a system query within SAP to validate the last date of use for all unauthorized user accounts. We noted that two of the inappropriate users only accessed the system while they were still authorized to have access. LACCD does not have transaction logging turned on to validate the other five inappropriate users; therefore, we were unable to determine if any of the other five users actually initiated payments during the period under review.

Thus, we attempted to obtain additional audit evidence in the form of system audit logs from SAP to determine whether the inappropriate access noted above was used during the period under audit. Unfortunately, we were unable to obtain all audit evidence to substantiate the operating effectiveness of the controls. We noted that system audit logs of sensitive transactions within SAP have not been enabled to provide evidence whether inappropriate users have performed unauthorized transactions.

Lack of proper security can potentially expose the District to an increased risk of unauthorized access to transactions and data in SAP in the absence of effective controls over assigning access to users.

Recommendation

We recommend that management create a role-based access matrix for SAP, which should list, at a minimum, the transactions that should not be grouped together and profiles that should not be assigned together that would result in a segregation of duties conflict. This matrix should be reviewed during the maintenance/creation of profiles and during the assignment of user access.

A detailed review should be performed over the validity of all users and their access to SAP. This review should be conducted to verify that only appropriate users have access to SAP and their access is in line with their job responsibilities. In addition, users' access should be reviewed against the access matrix to help ensure that user access is in compliance with the District's segregation of duty polices. Compensating controls will be required in situations where users may have segregation of duty conflicts, but are required to have the access to perform their jobs. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to SAP.

Additionally, the District should consider enabling system audit logging for sensitive transactions to provide evidence whether inappropriate users have executed unauthorized transactions.

District Response

The District concurs with this comment. As part of the SAP HR implementation, we have conducted a comprehensive review of SAP access and user authorizations and developed an authorization strategy. During the SAP HR implementation, we will institute the auditor's recommendation along with those from the user authorization strategy.

(6) Change Management

Observation

During our review, KPMG noted the following change control weaknesses:

- 5 of 30 SAP change requests did not include properly documented approval or testing.
- 7 of 15 VMS change requests did not include properly documented approval or testing. Most of these were made by e-mail instead of formal change request forms.
- On the VMS system, two programmers in the SIS_PROD_WRITE rights identifier had inappropriate access to move source code, although not compiled executable programs, into the production system.

Controls over the introduction of changes into the production environment help ensure that production systems are not negatively impacted by unauthorized or inadequately tested changes. Without comprehensive procedures to control change management, the risk of system interruptions or errors due to untested or unauthorized changes increases.

If programmers have inappropriate access to move a source code into production, there is a risk that they may make authorized changes to the source code and place it into the production environment. If these changes go unnoticed, there is a risk that an emergency modification may be made to the production source code, the modified code may then be compiled and the modified executable could be moved into production. If the production source code does not match the production executable programs, there may also be lost time trying to track down logic errors in the wrong source code version.

Recommendation

We recommend that management implement standard change management policies and procedures to be applied over all financially significant information systems. The standard electronic change requests should ensure proper testing and authorization for all system changes. Access for the programmers in the SIS_PROD_WRITE rights identifier to move a source code into production should also be removed.

District Response

The District concurs with this comment. Subsequent to KPMG's IT audit, new transport change request procedures for SAP were written and implemented. In addition, an improved change request transport log is now being utilized which provides for more detailed information on change requests and in some cases, dual approval authority to ensure changes are made appropriate in the system. Moreover, the current business process mandates that no change shall be made to the system unless it is requested, approved, and confirmed as complete in the transport log. Systems and Programming area will work with Software Engineering to solidify Change Management procedures for the VMS environment and require the use of appropriate forms and approvals. Systems and Programming will also work with the Software Engineering to identify the two programmers and remove their Ids from the SIS PROD WRITE rights identifier.

(7) Internal Audit

Observation

Given the findings noted in the current year audit and the continued decentralization of various accounting and administrative functions to the colleges within the District, there is an increased risk that controls may not be consistently adopted and followed. This increases the risk that the quality of the accounting information may suffer and inefficiencies may continue to occur.

Recommendation

To mitigate these risks and to help address the control findings noted during the current year audit, we encourage the District to strengthen and expand its Internal Audit department. This would allow the District's Internal Audit group to better address the following:

- The accuracy of each of the colleges financial information
- Adherence to established internal controls and procedures
- Conformance with the District policies and procedures
- Opportunities for operational improvement and efficiencies.

Regular internal audits of the District and the colleges will enable timely detection of accounting problems and instances of noncompliance with District policies and procedures. The strengthening of the District's internal audit function will also reinforce the importance of the District's policies and will deter employees from noncompliance with prescribed controls.

District Response

The District concurs with this comment and will work to strengthen and potentially expand the District's Internal Audit group.

PRIOR YEAR COMMENTS

(1) Financial Reporting – Fully Implemented

Observation

Effective July 1, 2001, the District implemented new financial reporting changes established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* The District currently maintains its internal financial reporting on the modified-accrual basis of accounting and converts these records to the accrual basis of accounting in accordance with the provisions of GASB Statement Nos. 34 and 35 for year-end external reporting purposes. The District's SAP financial system is not currently configured to automatically convert the District's records from the modified basis of accounting to the accrual basis of accounting. As such, the year-end conversion of the District's accounting records to comply with the provisions of GASB Statement Nos. 34 and 35 requires a very labor intensive effort to manually perform this conversion process. Due to limited resources at the District's disposal, an extended period of time is required to complete the aforementioned conversion process.

Recommendation

We recommended that the District examine its current GAAP conversion process and the adequacy of accounting resources for preparing GAAP financial statements to ensure the necessary steps are taken to enable the District to timely produce financial records in accordance with the provisions of GASB Statement Nos. 34 and 35. In addition, we recommended the District continue to analyze their current systems capabilities to automate the year-end GAAP conversion process. Improvement of the District's financial reporting processes, resources, and capabilities will help to ensure both accurate and timely reporting.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with this finding. There was a greater emphasis on automating a significant portion of the GAP conversion process that allowed improving the financial reporting process and ultimately led to both accurate and timely reporting.

(2) New Accounting Pronouncement – GASB Statement No. 39 – Fully Implemented

Observation

Determining Whether Certain Organizations Are Component Units an Amendment of GASB Statement No. 14. As noted in GASB Statement No. 39, an objective of Statement No. 14, *The Financial Reporting Entity*, is that all entities associated with a primary government (i.e., the District) are potential component units and should be evaluated for inclusion in the financial reporting entity. GASB Statement No. 39 amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as the District's component units. These criteria are:

(1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.

(2) The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

(3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

This statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement No. 14. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003.

Recommendation

We recommended that the District analyze each legally separate tax-exempt entity it is affiliated with to determine if any of the entities meet all of the criteria noted above. This analysis was to include the Foundations at each campus. For those entities meeting all of the criteria noted above and in GASB Statement No. 39, each organization would need to be audited and presented as a discretely presented component unit in the District's June 30, 2004 audited financial statements.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the finding. It was determined that no foundation has assets, liabilities, revenues, or expenses that are greater than 1% of the corresponding District-wide total assets, liabilities, revenues, or expenses. Since this does not satisfy criteria 3 (from above), the district is not required to present the foundations as component units and thus not be included in the financial reporting entity (district).

(3) Lack of Formal IT Strategic Plan – Not Yet Implemented

Observation

During our review, we noted that the District has not developed a formal IT strategic plan to support the District's overall business strategy.

Without a formal IT strategic plan that supports the District's future business strategy, the District faces the risk of poor IT project planning, unplanned resource shortages, and a misalignment between IT and business operations.

Recommendation

As noted in the prior year report, we recommend that management develop a short- and long-term IT strategic plan that is aligned with the District's overall business strategy. The IT strategic plan should address business systems that will be needed in the future to assist the District in meeting its overall business goals. Specifically, an IT strategic plan should consider, at a minimum, the following topics:

- Technological Infrastructure Planning – The IT strategic plan should encompass aspects such as systems architecture, technological direction, and migration strategies.
- Future Trends and Regulations – The IT strategic plan should consider future trends and regulatory conditions that may effect an organization's operations.
- Technological Infrastructure Contingency – The IT strategic plan should consider aspects of business contingency (i.e., redundancy, resilience, adequacy, and evolutionary capability of the infrastructure).
- Hardware and Software Acquisition Plans – The IT strategic plan should consider hardware and software acquisition plans that reflect the organization's business needs.
- Technology Standards – The IT strategic plan should define technology norms in order to foster standardization.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the finding. The strategic planning process was postponed due to the extended illness of the CIO and additional staffing requirements for the SAP HR implementation. The CIO has identified and retained a qualified consultant and will initiate the IT strategic plan in January 2005 with a targeted completion date of April 2005.

(4) SAP Application Security – Fully Implemented

Observation

During our high-level review of SAP security, we noted the following weaknesses within the District's application security control environment:

- 14 users were inappropriately granted access to SAP's 'SAP_ALL' profile (e.g., Consultants, SAP User Support). We noted that users assigned to the 'SAP_ALL' profile could execute all SAP transactions, including Basis (security) transactions, within the SAP system.
- 6 users were inappropriately granted access to enter a single journal entry (F-02) within the SAP system (e.g., Consultants, District Office – Vice President).
- 9 users were inappropriately granted access to enter a multiple journal entries (FB50) within the SAP system (e.g., Consultants, Mission – Academic Affairs).

Lack of proper security can potentially expose the District to an increased risk of unauthorized access to transactions and data in SAP in the absence of effective controls over assigning access to users.

Recommendation

We recommend that management create a role-based SAP access matrix, which should list, at a minimum, the transactions that should not be grouped together and profiles that should not be assigned together that would result in a segregation of duties conflict. This matrix should be reviewed during the maintenance/creation of profiles and during the assignment of user access.

A detailed review should be performed over the validity of all users and their access to SAP. This review should be conducted to help ensure that only appropriate users have access to SAP and their access is in line with their job responsibilities. In addition, users' access should be reviewed against the SAP access matrix to help ensure that user access is in compliance with the District's segregation of duty polices. Compensating controls will be required in situations where users may have segregation of duty conflicts, but are required to have the access to perform their jobs. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to SAP.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the finding. InfoTech moved immediately to correct the weaknesses upon verbal report from the auditors. The SAP_ALL profile access was removed from all inappropriate users. In addition, a role-based SAP access matrix was created to ensure that appropriate users have access to SAP and to comply with the District's segregation of duty policies.

(5) SAP Password Controls – Fully Implemented

Observation

We noted in the prior year that SAP password configurations did not provide strong authentication control. Passwords were set to require a minimum length of 3 characters and user accounts are set to lock after twelve (12) failed login attempts.

Without implementing strong authentication controls, the District's financial system and sensitive data could be expose to unauthorized users.

Recommendation

We recommended that management configure the SAP system to require a minimum password length of six characters. In addition, passwords should be allowed for only three login attempts. After three failed login attempts, the account should be locked until the administrator unlocks it.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the finding. Existing District authentication policy is consistent with the auditor's recommendation. SAP passwords require a minimum password length of six characters and are allowed only three login attempts. After three failed login attempts, the account is locked until the administrator unlocks it.

(Continued)

(6) Capital Assets – Building Improvements – Fully Implemented

Observation

During our review of the District's capital assets, we noted that approximately 30% ($56 million) of the total net book value of building and improvements consisted of "miscellaneous" building improvements. The District was unable to match the building improvements against a specific building. It is essential to maintain records to demonstrate accountability for capital assets acquired. The general ledger for capital assets should accurately reflect the physical assets on hand. Capital assets disposed of should be appropriately removed from the general ledger. By not matching building improvements with specific buildings, the District will be unable to remove building improvements from its books in the event that a building is disposed of or demolished.

Recommendation

We recommended that the District devise a methodology for allocating the miscellaneous building improvements toward specific buildings.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with this finding. The matching of building improvements with specific buildings was completed in FY 2003-04.

(7) Recording of Capital Leases – Partially Implemented

Observation

During our prior years test work, we noted that the District had forty (40) capital leases that had been recorded by the District as operating leases. The assets had been included in the capital asset inventory but the related obligations had been excluded from the financial statements. An adjustment was recorded to properly state the capital lease obligations on the District's financial statements.

Recommendation

We recommended that the District develop a method to properly identify and record capital leases. The District should also establish an asset category as "assets held under capital leases" to properly track and report assets held under capital leases obligations.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with this finding and implemented this recommendation. The District's Contracts section follows Financial Accounting Standards Board (FASB) Statement No. 13 in classifying leases as capital or operating and gives this information to the Controller's Office for financial reporting purposes.

As for creating an asset category for "assets held under capital leases," the District has been working with SAP and Contracts to use the function in SAP for identifying such assets.

(8) Accurately Record Lease Information in Logbook – Fully Implemented

Observation

During our prior year test work of lease classification, within the procurement key process section, we noted that property leases were not included in the lease logbook. As the lease logbook is the District's primary source for information on lease liability, misstatements in the logbook can result in the understatement of lease-related liability. Lack of monitoring leases could lead to inadequate disclosure and financial statement misstatement. In addition, lack of monitoring leases entered into increases the risk that records will be lost and lease payments could be incorrectly made after the lease term.

Recommendation

We recommended that the District enhance procedures to ensure that leases are accurately recorded in the lease logbook. The lease logbook should be reviewed by a supervisor and reconciled to the lease agreements on a regular basis.

District Response – Current Status of Prior Year Management Letter Comment

With the implementation of the SAP Financial system the District no longer maintains a manual logbook for leases. Leases, for property and equipment, operating, and capital, are entered in the SAP system along with other procurement transactions.

(9) Payroll Procedures Manual – Partially Implemented

Observation

In the prior year, we noted that the District had not updated the District and campus Payroll Procedures Manual since 1979.

The Payroll Procedures Manual contains general information related to payroll issues and regulations (i.e., vacation policy, leave of absence, time reporting, etc.), which are used as a point of reference for District and campus payroll employees. Much of the information in the existing manual has been superseded due to changes in laws, regulations, and bargaining agreements. When the payroll procedures manual is out-of-date, there is a risk for noncompliance with changing laws and regulations.

Recommendation

We recommended that the District update the Payroll Procedures Manual and continue to update the manual on an ongoing basis. This would allow District Employees to rely on the manual as a relevant reference material and prevent noncompliance with changing laws and regulations.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with this finding. As part of the 2005 implementation of the new SAP software for HR and Payroll, the District's personnel and payroll procedures are being documented according to new operating policies and this will form the basis for a new Payroll Procedures Manual.

(Continued)

(10) Terminated User Listing – Fully Implemented

Observation

We noted during our prior year review that there is not a formal process in place whereby security administrators are notified of terminated or transferred employees. The security administrator has created a program, which compares an active employee file from HR with the access control lists for the DEC and LAN. However, there is not total cooperation among the LAN administrators (Pierce, Mission, and Valley) in establishing standard user IDs that will allow the program to run successfully.

Risk

Terminated users with access to accounts may have the ability to access unauthorized files and menus and eventually create a significant void in data integrity and security.

Recommendation

We recommended that a formal termination policy be implemented so human resources will contact the DEC and LAN administrators prior to or as an employee is terminated. However, until a policy can be formally implemented, we also recommend that the LAN administrators where campuses are not standard in the usage of IDs become compliant as soon as possible. This will protect the integrity of the computer data.

District Response – Current Status of Prior Year Management Letter Comment

A formal termination policy has been implemented in which human resources contacts the DEC and LAN administrators prior to or as an employee is terminated.

(11) Set FILE ACCESS and FILE, ACCESS: FAILURE Audit Qualifiers On the VMS System – Not Yet Implemented

Observation

It was noted that the District currently has not set the FILE _ACCESS and FILE_ACCESS: FAILURE audit qualifiers on the VMS system. The District has, however, enabled FILE_ACCESS and FILE_ACCESS: FAILURE security alarms on three of their VMS nodes.

Risk

If the FILE_ACCESS and FILE_ACCESS:FAILURES audit qualifiers are not set on the VMS system, management will not be able to monitor any possible unauthorized users attempting to gain access to privileged files. If such activity is not monitored on a regular basis, unauthorized users may repeatedly attempt to gain access thereby increasing the risk that they will ultimately gain access.

Recommendation

We recommended that the District set the following audit qualifiers to the settings specified below:

FILE_ACCESS = BYPASS, READALL, SETPRV, SYSPRV - in order to log privileges used for file access. FILE_ACCESS:FAILURE = READ, WRITE, EXECUTE, DELETE, CONTROL- in order to log failed attempts for failed read, write, execute, delete, and control file access.

District Response – Current Status of Prior Year Management Letter Comment

Implementing the auditor's recommendation would result in a significant degradation of system performance resulting from millions of entries in the log per day. The major reduction in the system performance is not justified by the infinitesimal gain in security. We do not intend to implement this recommendation.

(12) Set the CAPTIVE Flag for VMS BACKUP ID – Not Yet Implemented

Observation

It was noted that the District currently does not have the CAPTIVE flag set on VMS BACKUPID.

Risk

If the CAPTIVE flag is not set-on the VMS BACKUP ID, an unauthorized user that is attempting to gain access to the system may attempt to "Control Y" or exit out while commands are running. If the unauthorized user is successful, they may be able to gain access to the system.

Recommendation

We recommended the District develop a menu listing for the BACKUP ID so they could set the CAPTIVE flag on to prevent an unauthorized user from being able to exit out of programs and gain unauthorized access into the system.

District Response – Current Status of Prior Year Management Letter Comment

The VMS BACKUPID account is our system administrator account and has full privileges. It is intended for and is used by Data Control Operators and System Engineers to perform their daily functions. The "Control Y" command is used to stop interactive processes and gives no additional privileges. In other words, there is no possibility that unauthorized access could be gained from using this command in VMS BACKUPID, since it has full privileges already. Implementing the auditor's recommendation would unnecessarily restrict the operators' ability to perform their job functions with absolutely no gain in security. We do not intend to implement this recommendation.

(13) Backup Should Be Monitored More Closely – Fully Implemented

Observation

In the prior year, we noted that the District runs two backups every Saturday morning and the backup tapes are picked up on the following Monday by Datavault.

Risk

The above condition increases the risk of losing one week of data over the weekend. Per discussion with Lou Ramirez, we understand that systems backup problems occur once every two to three months. In the event of a disaster over the weekend, the District faces the risk of losing one week of data.

(Continued)

Recommendation

We recommended that the System Manager On Duty ensures that both backup tapes ran successfully over the weekend, or have an IT supervisor dial in every weekend to ensure that the backups have been successful. We also recommend that backup tapes be taken off-site immediately after the daily backups are made. This eliminates the risk of losing data over the weekend due to a disaster.

District Response – Current Status of Prior Year Management Letter Comment

Backups are performed daily and the backup tapes are taken off-site immediately to eliminate the risk of losing data.