KPMG

Los Angeles Community College District

Report on Audited Basic Financial Statements

June 30, 2006

LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2006

Los Angeles County, California:

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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INTRODUCTION

LOS ANGELES COMMUNITY COLLEGES

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

OFFICE OF THE CHANCELLOR
Darroch "Rocky" Young, Chancellor

March 19, 2007

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, 2006. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditors' 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 my remarks to the Annual Financial Report and a brief summary of the District's employment and enrollment. The Independent Auditors' 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. 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 opinion included in the annual report reflects our belief.

770 WILSHIRE BOULEVARD • LOS ANGELES, CALIFORNIA 90017 • (213) 891-2201 • FAX (213) 891-2304

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 one of the nation's largest community college systems – 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 Members, Board of Trustees.

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 111,700 students, employs approximately 3,731 full-time and 9,591 part-time personnel and covers a service area of more than 800 square miles.

(1) Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2006 decreased by 1.3% from the previous year. The enrollment figures (credit student headcounts) by campus for the 2005-2006 fiscal year were as follows:

	Fall	Spring
East Los Angeles College	20,813	20,017
Los Angeles City College	16,306	15,576
Los Angeles Harbor College	8,473	7,674
Los Angeles Mission College	7,525	7,200
Pierce College	17,575	17,054
Los Angeles Southwest College	5,935	5,474
Los Angeles Trade-Technical College	12,757	11,018
Los Angeles Valley College	16,111	15,924
West Los Angeles College	8,390	8,133
Instructional Television	816	562
Total Districtwide	114,701	108,632

The measure by which the State of California funds Community Colleges, FTES (full time equivalent student) decreased by 8.8% from the previous year primarily due to the reporting of an estimated 5,055 FTES from the June 1 through June 30, 2006 summer session to the 2006-07 fiscal year as allowed by Title 5. The Los Angeles Community College District's figures for the fiscal year ended June 30, 2006 are as follows:

	Credit	Non-Credit
East Los Angeles College	17,099	1,238
Los Angeles City College	12,121	1,536
Los Angeles Harbor College	6,053	133
Los Angeles Mission College	4,485	237
Pierce College	12,050	252
Los Angeles Southwest College	4,248	389
Los Angeles Trade-Technical College	9,837	821
Los Angeles Valley College	11,237	434
West Los Angeles College	5,558	325
Instructional Television	404	—
Total Districtwide	83,092	5,365

Your attention is directed to the Independent Auditors' 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,

Darroch F. Young
Chancellor

MANAGEMENT’S DISCUSSION AND ANALYSIS

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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, 2006. 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, 2006 by $364.6 million (net assets). Of this amount, $51.6 million (unrestricted net assets) may be used to meet the District's ongoing obligations and $29.2 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 $283.8 million of amounts invested in capital assets, net of related debt.
- The District's total net assets increased $44.5 million during the fiscal year ended June 30, 2006. A significant portion of the increase in the District's net assets was a result of increases in state apportionment, local property taxes, and investment income in capital provided for general obligation Bonds in the fiscal year ended June 30, 2006.
- The District's net investment in capital assets increased by $227.9 million or 31.8% during the year ended June 30, 2006. Capital construction projects related primarily to the Proposition A and AA Bonds which accounted for $153.4 million in capital expenditures at June 30, 2006. The District also acquired one property, valued at $25 million, for East Los Angeles College, one property, valued at $32.6 million for the West Los Angeles College, and one property, valued at $6.7 million for the Los Angeles Trade-Technical College.
- The District's total long-term liabilities decreased by $37.5 million or – 4.9% during the fiscal year ended June 30, 2006. The reduction is primarily due to a net $39.7 million decrease in long-term debt, $0.4 million decrease in revenue bond payable, a $0.5 million decrease in capital lease, and a $3.1 million increase in accrued vacation benefits, general liabilities, and workers' compensation.

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 entitywide 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 District's basic financial statements include four components: (1) Balance Sheet; (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 Balance Sheet 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 Balance Sheet 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 represent the revenues received, operating and

(Continued)

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.

Balance Sheet

The Balance Sheet presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Balance Sheet is a point-in-time financial statement. The purpose of the Balance Sheet is to present to the readers of the financial statements a fiscal snapshot of the Los Angeles Community College District. The Balance Sheet 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 Balance Sheet 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 Balance Sheet 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 net 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 Balance Sheet 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.

(Continued)

Financial Analysis of the District as a Whole

As of June 30, 2006, the District's net assets have increased $44.5 million or 13.9% from $320.1 million at June 30, 2005 to $364.6 million at June 30, 2006. The increase in net assets resulted from significant increases for capital assets and decreases in long-term liabilities. Current assets decreased $187.2 million, and capital assets increased $214.9 million. Current liabilities increased $20.7 million, and noncurrent liabilities decreased $37.5 million.

Summary Schedule of Net Assets

June 30, 2006 and 2005

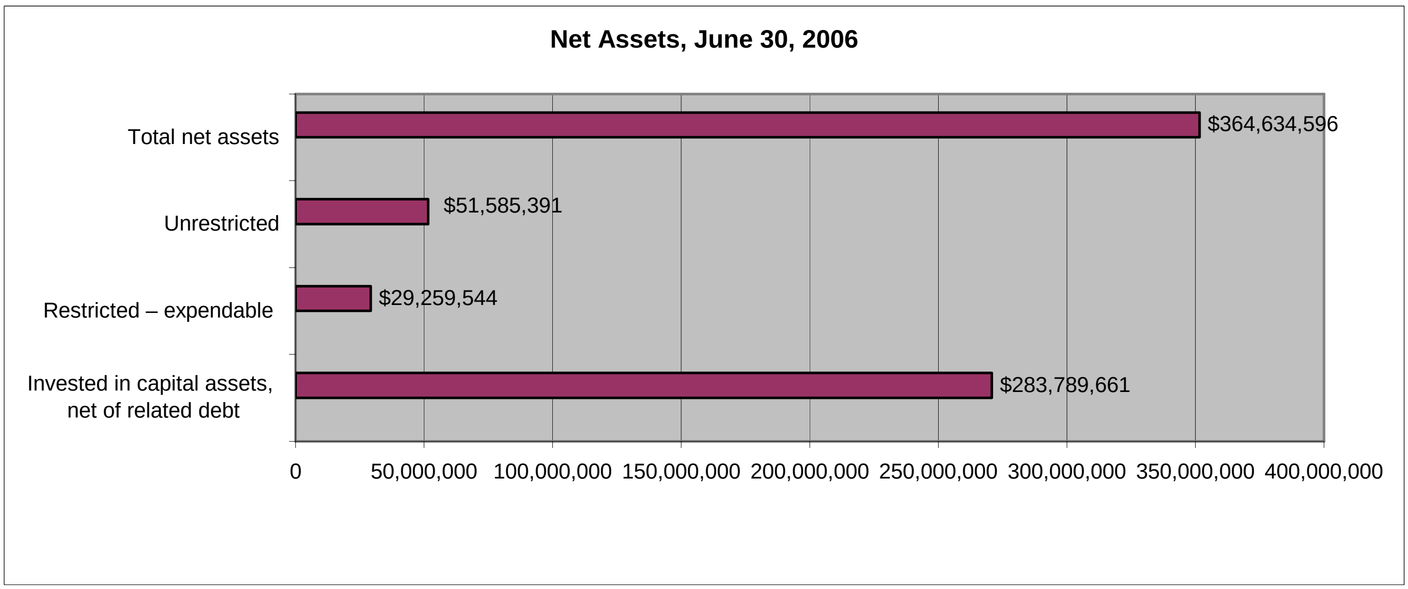
		2006	2005	Increase (decrease)
Assets:				
Current and other assets	$	477,971,968	665,163,799	(187,191,831)
Capital assets, net		738,970,514	524,104,261	214,866,253
Total assets		1,216,942,482	1,189,268,060	27,674,422
Liabilities:				
Current liabilities		135,367,466	114,685,705	20,681,761
Noncurrent liabilities		716,940,420	754,438,616	(37,498,196)
Total liabilities		852,307,886	869,124,321	(16,816,435)
Net assets:				
Invested in capital assets, net of debt		283,789,661	237,726,641	46,063,020
Restricted – expendable		29,259,544	31,313,823	(2,054,279)
Unrestricted		51,585,391	51,103,275	482,116
Total net assets	$	364,634,596	320,143,739	44,490,857

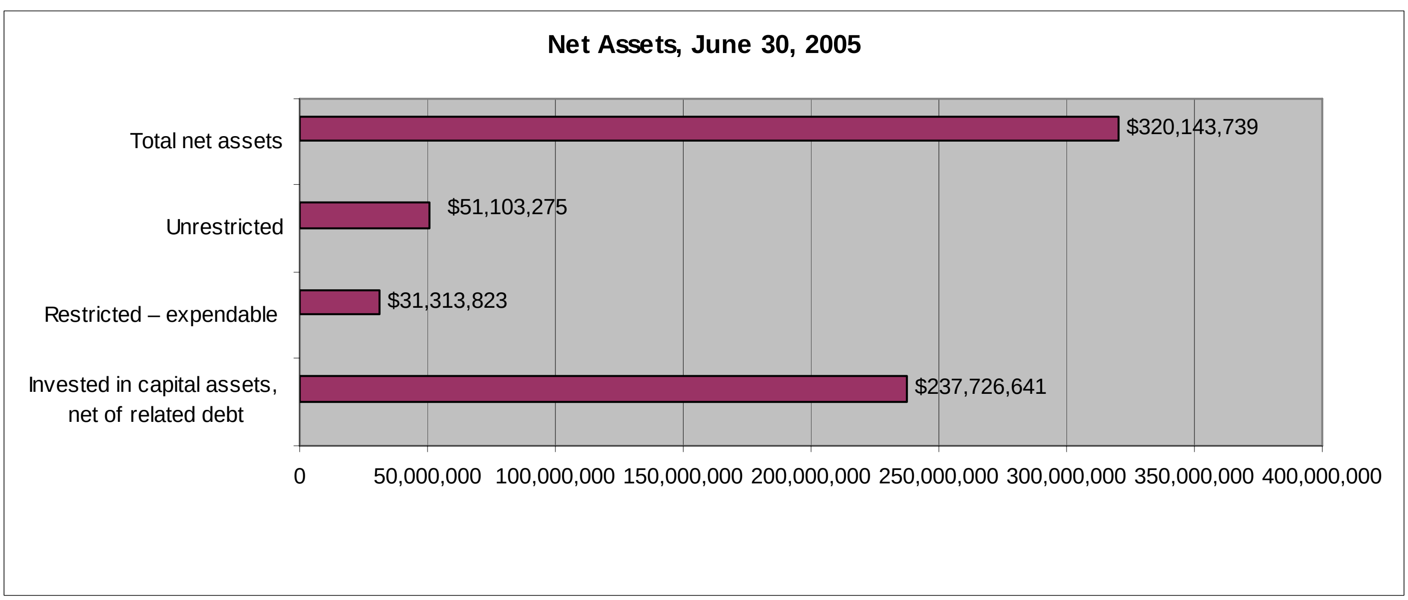
In 2006, the District spent $215.0 million on capital assets, capitalized interest of $13 million, and depreciated $13.2 million of capital assets. The District deposited the bond proceeds from Propositions A and AA in the County Treasury cash and investment pool. Restricted investments decreased $47.5 million, and restricted cash and cash equivalents decreased $137.0 million during fiscal 2006. The $187.2 million decrease in current and other assets is due in part to the $151 million decrease in cash and cash equivalents from increased capital spending for capital assets (projects), the $9.3 million increase in accounts receivable and notes receivable.

The $20.7 million increase in current liabilities is due to a $22.4 million increase in accounts payable as a result of increase project managing (DMJM) cost, a $0.4 million increase in deferred revenue, and a $2.1 million decrease in accrued and current portion of long-term debt.

(Continued)

The $37.5 million net decrease in long-term liabilities is primarily due to a net $39.7 million decrease in long-term debt, a $0.4 million decrease in revenue bond payable, a $0.5 million decrease in capital lease, and a $3.1 million increase in accrued vacation benefits, general liabilities, and workers' compensation. The decrease in long-term debt liabilities is due to the absence of any bond issuances in this year and the annual debt services payments of $44.0 million for the General Obligation Bonds.





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 $364.6 million at June 30, 2006. A significant portion of the District's net assets represents $285.1 million of restricted cash, cash equivalents, and investments for capital projects, and $738.9 million of capital assets. As stated earlier, the District spent $214.9 million for additional capital assets during fiscal 2006 and $13 million in capitalized interest. These capital asset expenditures are included in the Balance Sheet. Also, the District depreciated its capital assets by approximately $13.2 million for the year ended June 30, 2006 resulting in a net increase in capital assets of $214.9 million. The District's net assets also include $701.2 million of long-term debt for revenue bonds and General Obligation Bonds (G.O. 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, 2006 and 2005

		2006	2005	Change
Revenues:				
Operating revenues:				
Net tuition and fees	$	38,188,198	37,955,195	233,003
Grants and contracts, noncapital		139,225,157	137,375,462	1,849,695
Other		31,659,271	31,931,965	(272,694)
Nonoperating revenues:				
State apportionments, noncapital		299,591,511	283,300,926	16,290,585
Property taxes		116,207,292	111,875,128	4,332,164
Investment income		22,885,520	13,856,312	9,029,208
Local tax for G.O. Bonds		75,728,898	79,409,260	(3,680,362)
Other		21,540,310	20,529,402	1,010,908
Other revenues:				
State apportionments, capital		11,744,106	11,458,690	285,416
Local property taxes and revenues, capital		2,730,063	2,482,619	247,444
Total revenues		759,500,326	730,174,959	29,325,367
Expenses:				
Operating expenses:				
Salaries		357,508,134	325,929,879	31,578,255
Employee benefits		103,531,517	97,334,775	6,196,742
Supplies, materials, and other operating expenses and services		205,737,409	193,902,991	11,834,418
Other		21,752,288	20,222,595	1,529,693
Total operating expenses		688,529,348	637,390,240	51,139,108
Nonoperating expenses:				
Interest expense		24,416,495	34,836,125	(10,419,630)
Other		2,063,626	8,158,179	(6,094,553)
Total expenses		715,009,469	680,384,544	34,624,925
Change in net assets	$	44,490,857	49,790,415	(5,299,558)

(Continued)

The summary of revenues, expenses, and changes in net assets reflects a decrease of $18.3 million in the net assets at the end of the year as explained below.

In 2006, operating revenue for tuition and fees, grants, and contracts – noncapital resulted in a net increase of $1.8 million, which includes a $233,003 increase in tuition and fees, a $593,310 increase in federal funded programs, a $1.7 million increase in state funded categorical programs, a $477,447 decrease in local revenue, and a $272,694 decrease in auxiliary enterprise sales and charges.

Nonoperating revenues increased $27.0 million. The increase is due in part to the following:

(1) $16.2 million increase in state apportionments principally due to a $16 million increase in COLA (4.23%). The District received no enrollment growth in 2005-06 fiscal year.

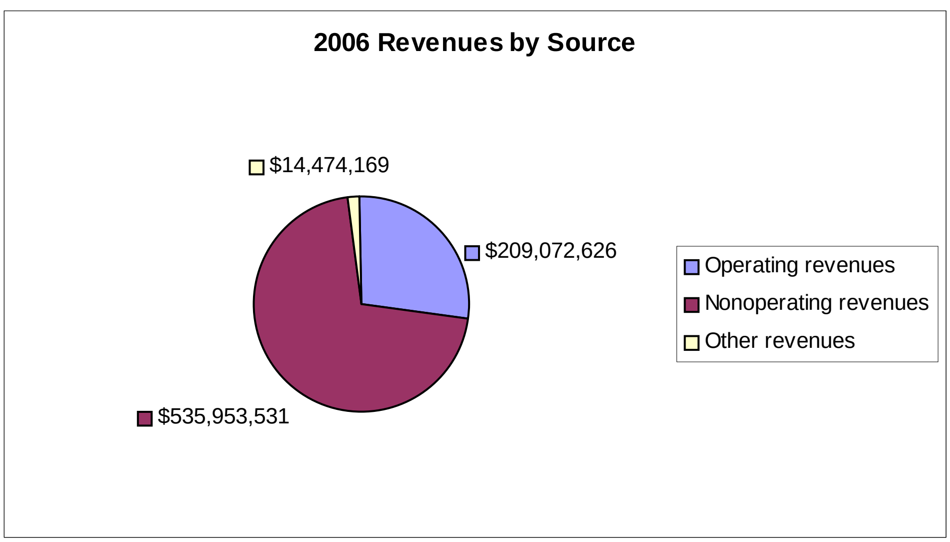
(2) $4.3 million increase in local property tax

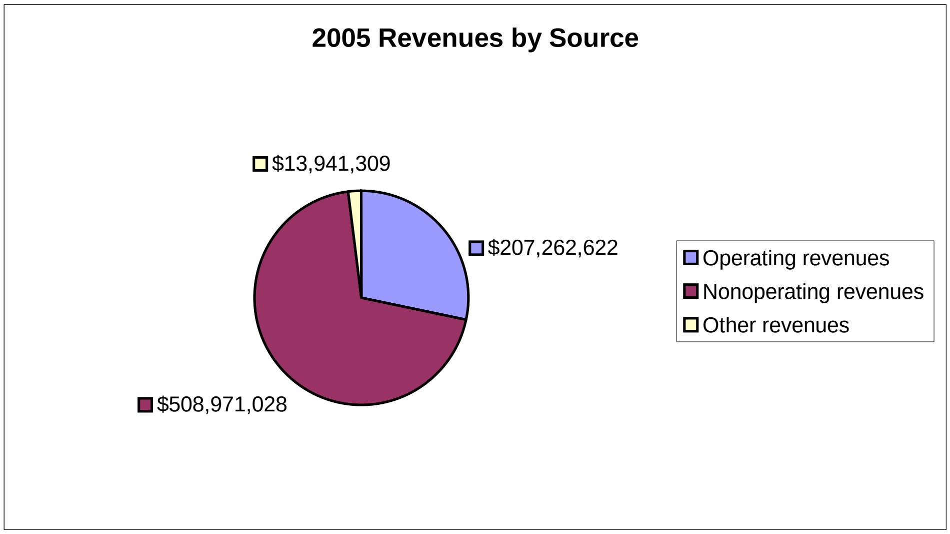
(3) $9 million decrease in investment income

(4) $1 million increase in other nonoperating revenue

(5) $3.6 million decrease in local taxes for G.O. Bonds

Operating expenses increased $51.1 million, due primarily to a $31.6 million increase in salaries resulting from the salary increases of 5.23% granted all employees and increases in class offerings, $6.2 million increase in employee benefits, and a $11.8 million increase in supplies, materials, and other operating expenses and services. The remaining increase in operating expenses is due to an increase in utility and depreciation costs.

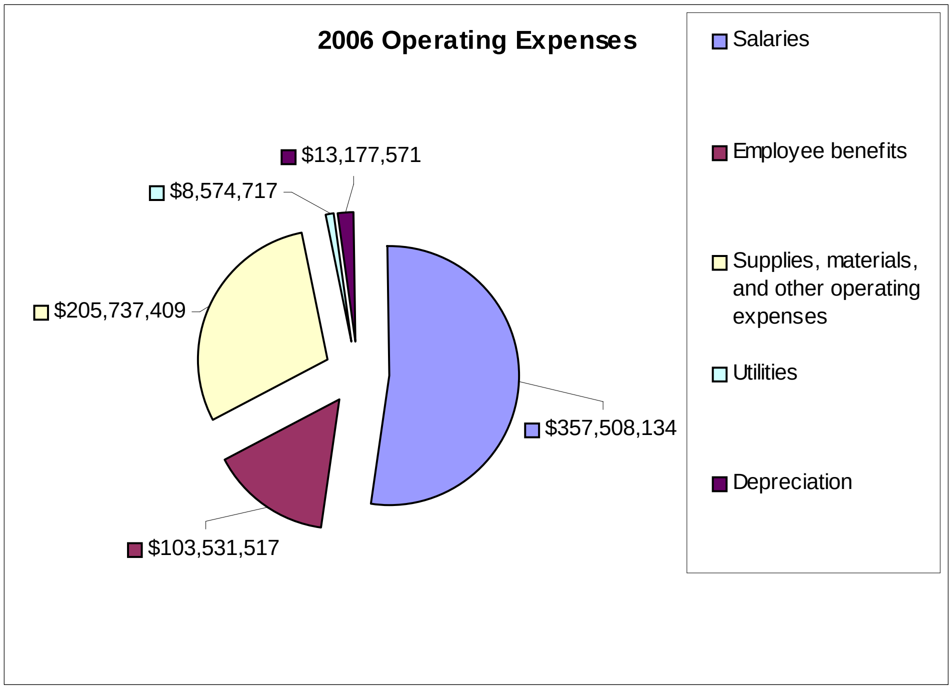


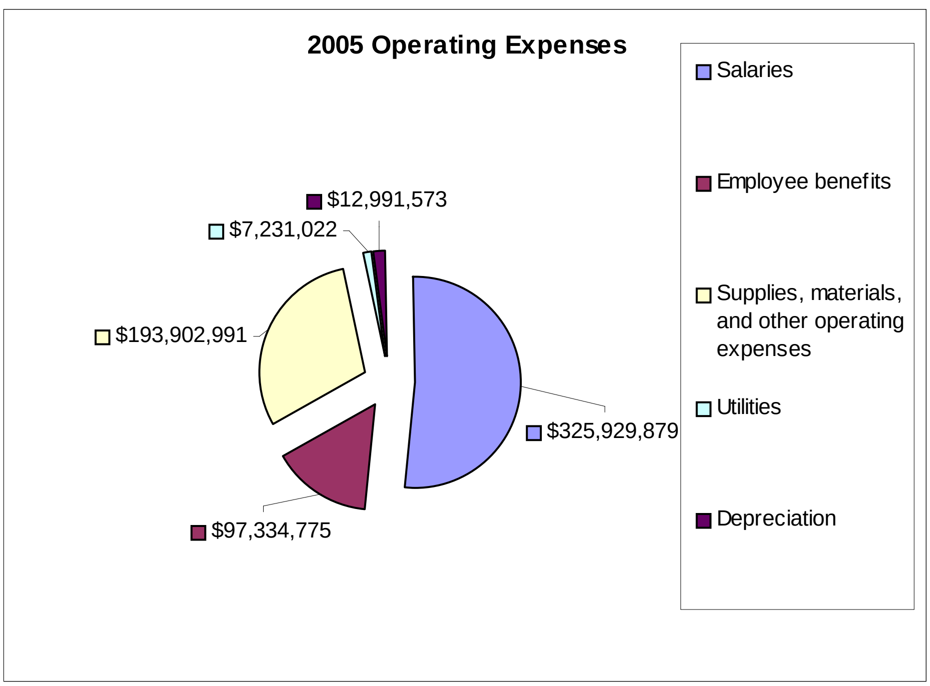

2005 Revenues by Source
$13,941,309
$207,262,622
$508,971,028
Operating revenues
Nonoperating revenues
Other revenues

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2006





Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2006 and 2005 totaled $738.8 million and $524.1 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, 2006 and 2005:

	Capital Assets, Net 2006			
	Balance at July 1, 2005	**Additions/ transfers**	**Disposals/ transfers**	**Balance at June 30, 2006**
Land	$ 45,483,706	62,345,318	—	107,829,024
Land improvements	31,286,241	—	—	31,286,241
Buildings	374,562,510	74,410,114	(143,217)	448,829,407
Construction in progress	215,290,697	194,480,978	(108,063,672)	301,708,003
Works of art	518,000	—	—	518,000
Equipment	45,492,076	4,355,439	—	49,847,515
Infrastructure	2,895,800	655,995	—	3,551,795
Total	715,529,030	336,247,844	(108,206,889)	943,569,985
Less accumulated depreciation	(191,424,769)	(13,177,571)	2,869	(204,599,471)
Net capital assets	$ 524,104,261	323,070,273	(108,204,020)	738,970,514

For the year ended June 30, 2006, the District recorded an additional $215.0 million in capital assets, $13 million in capitalized interest, and $13.2 million in depreciation. During the year ended June 30, 2006, the District's investments in facility master plans, construction, and building improvements increased due to funding from Propositions A and AA, which were 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 $194.5 million of capital outlay funds were spent for assets under construction. In addition, the District acquired one property, valued at $25 million, for East Los Angeles College, one property, valued at $32.6 million for the West Los Angeles College, and one property, valued at an additional $6.7 million for the Los Angeles Trade-Technical College.

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 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 fifth year of the Proposition A and the fourth year of Proposition AA Bond construction projects. Approximately $623.7 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. The District anticipates completion of these capital projects by the year 2012. The District has issued to date $553.5 million of Proposition A and $265 million of Proposition AA.

Long-Term Debt

At June 30, 2006 and 2005, the District had $701.2 million and $745.6 million in long-term debt, respectively. The District's long-term debt decreased during the year ended June 30, 2006 as a result of the $44.0 million debt services payments to maturity for the G.O. Bonds and $406,653 for the energy revenue bonds.

Summary of Outstanding Long-Term Debt

June 30, 2006 and 2005

		2006	2005
Revenue Bonds:			
Energy and Water Efficiency Revenue Bonds – Phase IV	$	1,425,000	1,710,000
Energy and Water Efficiency Revenue Bonds – Phase V		608,264	729,917
G.O. Bonds:			
G.O. Bonds Prop A, 2001 Series		44,890,000	48,545,000
G.O. Bonds Prop AA, 2003 Series		116,305,000	153,285,000
G.O. Bonds Prop A and AA, 2004 Series		103,900,000	103,900,000
G.O. Bonds Prop A, 2005 Series		434,110,000	437,450,000
Total long-term debt	$	701,238,264	745,619,917

The District's debt rating from Moody's is AA2 and the debt rating from Standard and Poor's 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

On June 30, 2006, the State Adopted Budget (AB1801) for fiscal year 2006-07 was signed by the Governor. California Community Colleges received $6.9 billion. The California Community College system received a 12.8% increase in funding from the prior year. The State gave California Community Colleges approximately 10.74% of Proposition 98 funds. The increases have provided a 5.92% COLA and an additional $10.4 million in enrollment growth revenue to the District. The District has also set aside its contingency reserve at $17 million or a 3.5% of its projected Unrestricted General Fund revenue for fiscal year 2006-2007 to cover unforeseen events. The District ended the year with an increase in its ending balance to over 8.6% of its annual expenditures.

Student Enrollment and State Funding

The student enrollment fee reduction from $26 per unit to $20 per unit shall be effective semesters or terms beginning after January 1, 2007. In 2006-07, the State provided 2% enrollment growth for apportionments for California Community Colleges. The District has budgeted $10.4 million in enrollment growth in enrollment revenue for a 2.44% increase in enrollment to ensure receipt of these funds and to meet at least 62% of the District's allowable funded growth rate of 3.93% from the State. To improve student access and success, the District increased marketing and student recruitment activities. 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.

Postretirement Benefits – GASB 45

The Governmental Accounting Standards Board (GASB) has recently issued its final accounting standards for retiree healthcare and other post employment benefits, GASB No. 45. Based on the actuarial study done February 2007, the best estimate of the present value liability of future benefits using a 6% discount rate is approximately $623 million at June 30, 2005. The effective date for implementing GASB No. 45 is fiscal year 2007-08.

KPMG LLP
Suite 2000
355 South Grand Avenue
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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2007 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 assessing the results of our audit.

Management's discussion and analysis on pages 1 through 11 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 2005 information that U.S. generally accepted accounting principles requires to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures to the 2006 information, 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 basic 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 41 through 52 and the schedule of expenditures of federal and state awards on pages 57 through 59 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 38 through 40 (note 13) and 55 through 56 has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

March 6, 2007

BASIC FINANCIAL STATEMENTS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2006 and 2005

Assets	**2006**	**2005**
Current assets:		
Cash and cash equivalents (note 3)	$ 84,795,445	98,958,498
Short-term investments (note 3)	47,529	48,627
Accounts receivable, net of allowance (note 4)	70,732,452	61,732,336
Student loans receivable, net – current portion (note 4)	430,883	63,300
Deposit with bond trustee	16,857,200	16,307,316
Inventory	8,674,121	8,810,781
Bond issuance costs	5,063,786	5,775,021
Prepaid expenses and other assets	5,166,348	2,251,910
Total current assets	191,767,764	193,947,789
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	138,849,377	275,863,810
Restricted investment (note 3)	146,280,032	193,775,533
Student loans receivable, net – noncurrent portion (note 4)	1,074,795	1,576,667
Capital assets (note 6):		
Land	107,829,024	45,483,706
Land improvements	31,286,241	31,286,241
Buildings	448,829,407	374,562,510
Construction in progress	301,708,003	215,290,697
Works of art	518,000	518,000
Machinery and equipment	49,847,515	45,492,076
Infrastructure	3,551,795	2,895,800
Accumulated depreciation	(204,599,471)	(191,424,769)
Capital assets, net	738,970,514	524,104,261
Total assets	$ 1,216,942,482	1,189,268,060

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2006 and 2005

Liabilities and Net Assets	**2006**	**2005**
Current liabilities:		
Accounts payable (note 5)	$ 72,348,015	49,941,752
Deferred revenue	6,390,510	5,944,156
Compensated absences payable	4,717,155	4,460,179
General liability	706,918	418,993
Workers' compensation claims payable	4,039,734	4,321,970
Other accrued liabilities	3,719,127	3,520,464
Amounts held in trust for others	494,105	488,624
Revenue bonds payable – current	406,653	406,653
Long-term debt – current	41,465,182	43,975,000
Capital leases obligations – current	1,080,067	1,207,914
Total current liabilities	135,367,466	114,685,705
Noncurrent liabilities:		
Compensated absences payable	8,225,479	7,247,498
General liability	5,546,082	2,673,007
Workers' compensation claims payable	30,436,266	31,157,030
Revenue bonds payable – noncurrent	1,626,611	2,033,264
Long-term debt – noncurrent	669,905,174	709,642,680
Capital leases obligations – noncurrent	1,200,808	1,685,137
Total noncurrent liabilities	716,940,420	754,438,616
Total liabilities	852,307,886	869,124,321
Net assets:		
Invested in capital assets, net of related debt	283,789,661	237,726,641
Restricted for:		
Expendable:		
Scholarships and loans	8,108,760	7,957,322
Other special purposes	21,150,784	23,356,501
Unrestricted	51,585,391	51,103,275
Total net assets	364,634,596	320,143,739
Total liabilities and net assets	$ 1,216,942,482	1,189,268,060

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, 2006 and 2005

	2006	2005
Operating revenues:		
Tuition and fees (gross)	$ 70,078,108	69,038,339
Less scholarship discounts and allowances	(31,889,910)	(31,083,144)
Net tuition and fees	38,188,198	37,955,195
Grants and contracts, noncapital:		
Federal	90,886,198	90,272,888
State	36,840,787	35,126,955
Local	11,498,172	11,975,619
Auxiliary enterprise sales and charges	31,659,271	31,931,965
Total operating revenues	209,072,626	207,262,622
Operating expenses:		
Salaries	357,508,134	325,929,879
Employee benefits	103,531,517	97,334,775
Supplies, materials, and other operating expenses and services	205,737,409	193,902,991
Utilities	8,574,717	7,231,022
Depreciation	13,177,571	12,991,573
Total operating expenses	688,529,348	637,390,240
Operating loss	(479,456,722)	(430,127,618)
Nonoperating revenues (expenses):		
State apportionments, noncapital	299,591,511	283,300,926
Local property taxes	116,207,292	111,875,128
State taxes and other revenue	1,416,659	1,385,456
Local tax for G.O. Bonds	75,728,898	79,409,260
Investment income – noncapital	2,283,298	1,610,710
Investment income – capital	20,602,222	12,245,602
Interest expense	(24,416,495)	(34,836,125)
Other nonoperating revenues	20,123,651	19,143,946
Other nonoperating expense	(2,063,626)	(8,158,179)
Total nonoperating revenues	509,473,410	465,976,724
Income before other revenues, expenses, gains, or losses	30,016,688	35,849,106
State apportionments, capital	11,744,106	11,458,690
Gifts and grants, capital	2,324,130	2,036,106
Local property taxes and revenues, capital	405,933	446,513
Increase in net assets	44,490,857	49,790,415
Net assets:		
Beginning of year	320,143,739	270,353,324
End of year	$ 364,634,596	320,143,739

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Tuition and fees	$ 38,272,786	38,028,354
Grants and contracts	133,499,370	132,922,221
Payments to suppliers	(193,780,923)	(206,904,143)
Payments for utilities	(8,574,717)	(7,231,022)
Payments to employees	(357,508,134)	(325,929,879)
Payments for benefits	(105,328,915)	(97,442,266)
Bookstore and cafeteria sales	31,639,793	31,370,070
Other payments	(2,579,090)	(572,317)
Net cash used in operating activities	(464,359,830)	(435,758,982)
Cash flows from noncapital financing activities:		
State appropriations	295,163,546	285,086,007
Property taxes	116,207,292	111,875,128
State taxes and other revenues	1,416,659	1,385,456
Local tax for G.O. Bonds	75,728,898	79,409,260
Other receipts	17,963,724	10,964,708
Net cash provided by noncapital financing activities	506,480,119	488,720,559
Cash flows from capital financing activities:		
Proceeds from capital debt	—	581,908,463
Capital appropriations, local property tax, grant and gift, capital	14,474,169	13,941,309
Purchases of capital assets	(195,823,334)	(112,081,881)
Principal paid on capital debt and leases	(45,759,495)	(509,112,337)
Interest paid on capital debt and leases	(31,753,898)	(34,836,125)
Deposit with trustee	(549,884)	(12,465,837)
Deposit with superior court	—	17,500,000
Net cash used in capital financing activities	(259,412,442)	(55,146,408)
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	496,604,070	359,615,504
Purchase of investments	(449,107,471)	(237,173,447)
Interest on investments	18,618,068	11,716,609
Net cash provided by investing activities	66,114,667	134,158,666
Net increase (decrease) in cash and cash equivalents	(151,177,486)	131,973,835
Cash and cash equivalents – beginning of the year	374,822,308	242,848,473
Cash and cash equivalents – end of year	$ 223,644,822	374,822,308
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (479,456,722)	(430,127,618)
Appraisal adjustments, net		
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	13,177,571	12,991,573
Changes in assets and liabilities:		
Receivables, net	(7,854,137)	(4,779,685)
Inventories	136,660	(421,253)
Other assets	(2,914,438)	(1,799,983)
Accounts payable	8,507,781	(7,013,351)
Deferred revenue	446,354	(3,277,503)
Deposits held for others	5,481	(1,360,504)
General liability	3,161,000	987,000
Workers’ compensation	(1,003,000)	(1,108,000)
Compensated absences	1,234,957	56,163
Other liabilities	198,663	94,179
Net cash used in operating activities	$ (464,359,830)	(435,758,982)
Noncash capital financing activity:		
Equipment acquired through new capital lease obligations	$ 765,666	1,172,050

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 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 Statement Nos. 34 and 35 include a balance sheet, 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.

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(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, buildings, 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 balance sheets. 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.

(h) 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.

(i) Reclassifications

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

(j) New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 42

For the fiscal year ended June 30, 2006, the District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The adoption of GASB No. 42 did not have a material affect on the District's financial statements.

(3) Cash and Investments

Cash and investments at June 30, 2006 and 2005 consist of the following:

		2006	2005
Cash in County Treasury	$	206,506,810	345,597,827
Cash in banks		17,138,012	29,224,481
Total cash and cash equivalents		223,644,822	374,822,308
Investments:			
Investments in the County Treasury		140,827,066	189,091,955
Other		5,500,495	4,732,205
Total investments		146,327,561	193,824,160
Total cash and investments	$	369,972,383	568,646,468

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 balance sheets 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, 2006, the District had cash in banks with a carrying value and bank balance of $17,138,012 and $24,898,648 respectively. Of the bank balance, $324,491 was covered by federal depository insurance, of which $24,574,157 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. At June 30, 2005, the District had cash in banks with a carrying value and bank balance of $29,224,481 and $33,814,486, respectively. Of the bank balance, $336,216 was covered by federal depository insurance, of which $33,478,270 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, 2006 and 2005, 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.

Investments in the County's cash and investment pool are stated at fair value. Statutes authorize the County to invest pooled investments in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

The investments are managed by the County Treasurer who reports on a monthly basis to the Board of Supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

Investments held by the County Treasurer are stated at fair value, except for certain nonnegotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of each participant's position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals.

A summary of investments held by the Treasurer's Pool as of June 30, 2006 and 2005 is as follows (in thousands):

	June 30, 2006 (In 000's)					
		Fair value	Principal	Interest rate percentage range	Maturity range	Weighted average maturity (years)
U.S. government securities	$	8,098,530	8,136,810	1.875% – 9.25%	07/07/06 – 06/26/11	1.33
Negotiable certificates of deposit		2,883,326	2,885,689	4.25% – 5.455%	07/05/06 – 08/06/07	0.17
Commercial paper		4,253,206	4,248,934	4.89% – 5.33%	07/03/06 – 09/07/06	0.05
Corporate and deposit notes		795,637	796,503	3.50% – 5.499%	07/06/06 – 04/20/09	0.52
Los Angeles County securities		10,000	10,000	5.658%	06/30/08	2.00
Other		5,101	5,153			0.50
Deposits		75,178	75,178			
	$	16,120,978	16,158,267			

	June 30, 2005 (In 000's)					
		Fair value	Principal	Interest rate percentage range	Maturity range	Weighted average maturity (years)
U.S. government securities	$	5,549,155	5,584,733	1.45% – 9.25%	07/07/05 – 12/01/08	0.79
Negotiable certificates of deposit		3,504,314	3,504,685	3.01% – 3.44%	07/01/05 – 02/14/06	0.08
Commercial paper		5,219,636	5,219,028	2.98% – 3.38%	07/01/05 – 08/17/05	0.05
Corporate and deposit notes		1,006,173	1,007,474	1.75% – 3.65%	07/18/05 – 08/06/07	0.59
Los Angeles County securities		36,922	36,922	3.08% – 4.98%	06/30/06 – 08/01/07	1.89
Deposits		65,306	65,306			
	$	15,381,506	15,418,148			

As of June 30, 2006 and 2005, the District had $347,333,876 and $534,689,782 invested in the County Treasurer's Pool which represents approximately 2.1% and 3.5% of the County's pooled cash and investments, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County Treasurer manages equity and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of six months or less and by holding investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. Of the Pooled Cash and Investments at June 30, 2006, over 55% have a maturity of six months or less. Of the remainder, less than 18% have a maturity of more than one year.

As of June 30, 2006, variable-rate notes comprised 3.92% of the Treasury Pool. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the County are deposited in trust for safekeeping with a custodial bank different from the County's primary bank, except for Bond Anticipation Notes, certain certificates for participation issued by Los Angeles County entities, investment in the State's Local Area Investment Fund, and mortgage trust deeds which are held in the County Treasurer's vault. Securities are not held in broker accounts. At June 30, 2006, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk and Concentration of Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County Treasurer mitigates these risks by holding a diversified portfolio of high-quality investments.

The County's investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's) while an issuer of long-term debt shall be rated no less than an "A". At June 30, 2006, the County was invested in guaranteed investment contracts and the Local Agency Investment Fund, which are unrated as to credit quality.

At June 30, 3006, the County did not exceed the County investment policy limitations that state that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies, or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

A summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2006 and 2005 is as follows:

2006	**S&P**	**Moody's**	**Percentage of portfolio**
Pooled cash and investments:			
Commercial paper	A-1	P-1	26.53%
Corporate and deposit notes	A-1	P-1	4.96
Los Angeles County securities	AAA	Aaa	0.06
Negotiable certificates of deposit	A-1	P-1	17.98
U.S. agency securities	AAA	Aaa	39.76
U.S. Treasury securities	AAA	Aaa	10.68
Other (Cal Trust medium-term account)	AAA	P-1	0.03
			100.00%

2005	**S&P**	**Moody's**	**Percentage of portfolio**
Pooled cash and investments:			
Commercial paper	A-1	P-1	34.08%
Corporate and deposit notes	A-1	P-1	7.68
Municipal bonds	AAA	Aaa	0.24
Negotiable certificates of deposit	A-1	P-1	21.77
U.S. agency securities	AAA	Aaa	32.25
U.S. Treasury securities	AAA	Aaa	3.98
			100.00%

The earned yield, which includes net gains on investments sold, on all investments held by the Treasurer's Pool for the fiscal years ended June 30, 2006 and 2005 was 3.95% and 2.16%, respectively.

(4) Accounts, Notes, and Other Receivables

Accounts, notes, and other receivable at June 30, 2006 and 2005 are summarized as follows:

		2006	2005
Tax delinquencies	$	21,399,836	15,572,087
Federal and state programs		15,929,041	14,400,495
State lottery		3,081,711	6,734,504
Interest receivable		2,787,654	1,743,888
Accounts receivable – principal apportionment		37,664,205	25,697,827
Accounts receivable – campus students		2,167,081	1,880,286
Notes receivable – NDSL/Perkins		3,970,881	4,151,506
Other		8,603,400	11,275,336
Less allowance for doubtful accounts		(23,365,679)	(18,083,626)
Total accounts, notes, and other receivables, net	$	72,238,130	63,372,303

The allowance for doubtful accounts is maintained at an amount sufficient to reserve 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 2005/2006 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts that 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 that levies and collects tax revenues.

(5) Accounts Payable

Accounts payable at June 30, 2006 and 2005 are summarized as follows:

		2006	2005
Vendors payable	$	24,829,671	16,314,738
Capital Outlay & Program Management – DMJM		30,468,030	16,148,353
Payroll accrual		4,412,979	3,279,172
Grants		7,278,080	7,261,121
Principal apportionment		4,556,342	3,885,991
L.A. Sheriff's Department		715,000	917,998
Financial aid payable		87,913	518,266
Election expense payable		—	1,616,113
Total	$	72,348,015	49,941,752

(6) Capital Assets

A summary of changes in capital assets follows:

		Balance at July 1, 2005	Additions	Disposal	Transfers	Balance at June 30, 2006
Capital assets not being depreciated:						
Land	$	45,483,706	32,345,318	—	30,000,000	107,829,024
Construction in process		215,290,697	194,480,978	(3,066,354)	(104,997,318)	301,708,003
Works of art		518,000	—	—	—	518,000
Total capital assets not being depreciated		261,292,403	226,826,296	(3,066,354)	(74,997,318)	410,055,027
Capital assets being depreciated:						
Land improvements		31,286,241	—	—	—	31,286,241
Buildings		374,562,510	44,700	(143,217)	74,365,414	448,829,407
Equipment		45,492,076	3,723,535	—	631,904	49,847,515
Infrastructure		2,895,800	655,995	—	—	3,551,795
Total capital assets being depreciated		454,236,627	4,424,230	(143,217)	74,997,318	533,514,958
Total costs		715,529,030	231,250,526	(3,209,571)	—	943,569,985
Less accumulated depreciation		(191,424,769)	(13,177,571)	2,869	—	(204,599,471)
Total	$	524,104,261	218,072,955	(3,206,702)	—	738,970,514

Included in construction in process is approximately $13 million of capitalized interest as of June 30, 2006.

		Balance at July 1, 2004	Additions	Disposal	Transfers	Balance at June 30, 2005
Capital assets not being depreciated:						
Land	$	39,993,706	5,490,000	—	—	45,483,706
Construction in process		161,724,856	92,640,168	—	(39,074,327)	215,290,697
Works of art		518,000	—	—	—	518,000
Total capital assets not being depreciated		202,236,562	98,130,168	—	(39,074,327)	261,292,403
Capital assets being depreciated:						
Land improvements		31,278,667	7,574	—	—	31,286,241
Buildings		324,237,771	11,435,539	—	38,889,200	374,562,510
Equipment		41,630,589	3,676,360	—	185,127	45,492,076
Infrastructure		2,895,800	—	—	—	2,895,800
Total capital assets being depreciated		400,042,827	15,119,473	—	39,074,327	454,236,627
Total costs		602,279,389	113,249,641	—	—	715,529,030
Less accumulated depreciation		(178,433,196)	(12,991,573)	—	—	(191,424,769)
Total	$	423,846,193	100,258,068	—	—	524,104,261

(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 $3,749,950 have been charged as expenses in the accompanying statement of revenues, expenditures, and changes in net assets.

At June 30, 2006, minimum lease commitments under long-term lease contracts, including the District's central office lease, were as follows:

Year ending June 30:		
2007	$	2,206,696
2008		1,717,288
2009		1,089,732
2010		117,347
2011		20,184
Total	$	5,151,247

(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.

(Continued)

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 – Alternate Retirement System (PARS – ARS)

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 2005-2006, the District is required by statute to contribute 8.25%, 9.116%, 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, 2006, 2005, and 2004 are as follows:

		Contributions	Percent of required contributions
STRS:			
2006	$	14,989,011	100%
2005		14,144,048	100
2004		13,819,205	100
PERS:			
2006	$	9,536,500	100%
2005		10,167,471	100
2004		9,784,984	100
Cash balance STRS:			
2006	$	1,188,665	100%
2005		829,302	100%
2004		620,415	100
PARS:			
2006	$	419,032	100%
2005		683,899	100
2004		630,306	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, 2006 and 2005, expenditures of $23,558,876 and $22,584,634, respectively, were recognized for postretirement health benefits.

(d) Postretirement Benefits – GASB 45 (Unaudited)

The Governmental Accounting Standards Board (GASB) has recently issued its final accounting standards for retiree healthcare and other postemployment benefits, GASB No. 45. Based on the actuarial study done February 2007, the best estimate of the present value liability of future benefits using a 6% discount rate is approximately $623 million at June 30, 2005. The effective date for implementing GASB No. 45 is fiscal year 2007-08.

(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.

The District is a defendant in various lawsuits at June 30, 2006. 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, 2006 and 2005, the total value of these contracts to be paid over the course of two years approximated $847,974,475 and $417,336,361, 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, 2006 and 2005:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006	Due within one year
General Obligation Bonds, 2001 Series A	$ 48,545,000	—	(3,655,000)	44,890,000	4,630,000
General Obligation Bonds, 2003 Series A, B, and C	153,285,000	—	(36,980,000)	116,305,000	34,305,000
General Obligation Bonds, 2004 Series A and B	103,900,000	—	—	103,900,000	—
General Obligation Bonds, 2005 Series A	437,450,000	—	(3,340,000)	434,110,000	570,000
Unamortized premiums bond	40,558,463	—	(3,223,686)	37,334,777	1,960,182
Deferred amount on refunding	(30,120,783)	—	4,951,362	(25,169,421)	—
Revenue bonds	2,439,917	—	(406,653)	2,033,264	406,653
Workers' compensation claims payable	35,479,000	3,036,734	(4,039,734)	34,476,000	4,039,734
General liability	3,092,000	3,867,918	(706,918)	6,253,000	706,918
Compensated absences payable	11,707,677	5,952,112	(4,717,155)	12,942,634	4,717,155
Capital lease obligations	2,893,051	765,666	(1,377,842)	2,280,875	1,080,067
Total	$ 809,229,325	13,622,430	(53,495,626)	769,356,129	52,415,709

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005	Due within one year
General Obligation Bonds, 2001 Series A	$ 483,930,000	—	(435,385,000)	48,545,000	3,655,000
General Obligation Bonds, 2003 Series A, B, and C	189,685,000	—	(36,400,000)	153,285,000	36,980,000
General Obligation Bonds, 2004 Series A and B	—	103,900,000	—	103,900,000	—
General Obligation Bonds, 2005 Series A	—	437,450,000	—	437,450,000	3,340,000
Unamortized premiums bond	—	40,558,463	—	40,558,463	—
Deferred amount on refunding	—	(30,120,783)	—	(30,120,783)	—
Revenue bonds	2,846,570	—	(406,653)	2,439,917	406,653
Workers' compensation claims payable	36,587,000	3,213,970	(4,321,970)	35,479,000	4,321,970
General liability	2,105,000	1,405,993	(418,993)	3,092,000	418,993
Compensated absences payable	11,651,514	4,516,342	(4,460,179)	11,707,677	4,460,179
Capital lease obligations	2,745,881	1,172,050	(1,024,880)	2,893,051	1,207,914
Total	$ 729,550,965	562,096,035	(482,417,675)	809,229,325	54,790,709

(a.1) 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 (Prop A) in the amount of $525,000,000 with an average interest rate of 4.63% maturing in 2012. 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, 2006 are as follows:

	2001 Series A		
	Principal	Interest	Total
Year ending June 30:			
2007	$ 4,630,000	1,715,931	6,345,931
2008	5,670,000	1,522,806	7,192,806
2009	6,775,000	1,271,165	8,046,165
2010	7,980,000	966,237	8,946,237
2011	9,245,000	621,737	9,866,737
2012	10,590,000	218,419	10,808,419
Total	$ 44,890,000	6,316,295	51,206,295

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 (Prop AA) in the amount of $189,685,000, with various interest rates ranging from 2% to 5% maturing in 2028. 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, 2006 are as follows:

	2003 Series A, B, and C		
	Principal	**Interest**	**Total**
Year ending June 30:			
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	2,605,000	3,709,469	6,314,469
2011	2,675,000	3,606,775	6,281,775
2012 – 2016	15,440,000	15,945,063	31,385,063
2017 – 2021	19,560,000	11,703,375	31,263,375
2022 – 2026	24,950,000	6,178,562	31,128,562
2027 – 2028	11,810,000	597,750	12,407,750
Total	$ 116,305,000	54,041,264	170,346,264

On October 12, 2004, the District issued the 2004 Series A and B General Obligation Bonds (Prop A & AA) in the amount of $103,900,000 with various interest rates ranging from 3.17% to 6.44% maturing in 2028. 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, 2006 are as follows:

		2004 Series A and B	
	Principal	**Interest**	**Total**
Year ending June 30:			
2007	$ —	5,245,802	5,245,802
2008	2,665,000	5,203,562	7,868,562
2009	2,745,000	5,112,873	7,857,873
2010	2,845,000	5,010,369	7,855,369
2011	2,950,000	4,897,462	7,847,462
2012 – 2016	16,750,000	22,424,339	39,174,339
2017 – 2021	21,080,000	17,922,643	39,002,643
2022 – 2026	27,225,000	11,578,304	38,803,304
2027 – 2028	27,640,000	3,221,679	30,861,679
Total	$ 103,900,000	80,617,033	184,517,033

On March 22, 2005, the District issued the 2005 Series A General Obligation Refunding Bonds (Prop A) in the amount of $437,450,000 with various interest rates ranging from 3% to 5% maturing in 2026. 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 net proceeds from the sale of the 2005 Series A General Obligation Refunding Bonds in the amount of $437,450,000 plus the original issue premium of $34,870,964 will be applied to advance refunding of the refunded bonds of $456,743,623, to make a deposit into the District’s Building Fund of $12,330,000, to make a deposit into the District’s Debt Service Fund of $220,000, and to pay the cost of issuance for these bonds in the amount of $3,027,341.

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2006 are as follows:

		2005 Series A		
		Principal	**Interest**	**Total**
Year ending June 30:				
2007	$	570,000	21,740,488	22,310,488
2008		590,000	21,723,088	22,313,088
2009		605,000	21,705,162	22,310,162
2010		625,000	21,686,713	22,311,713
2011		645,000	21,666,857	22,311,857
2012 – 2016		62,085,000	102,349,548	164,434,548
2017 – 2021		124,310,000	77,907,250	202,217,250
2022 – 2026		244,680,000	39,293,250	283,973,250
Total	$	434,110,000	328,072,356	762,182,356

(a.2) Advance Refunding Bonds

The District issued $437,450,000 of 2005 Series A, aggregate principal amount of its General Obligation Refunding Bonds, 2001 Election to advance refunding of the District's General Obligation Bonds, 2001 Election, Series A (Refunded Bonds). The Refunded Bonds were issued June 20, 2001, pursuant to an authorization approved by more than 55% of the voters voting at an election held within the District on April 10, 2001.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of $30,120,783. This difference, reported in the accompanying basic financial statements as a deferred amount on refunding, is being charged to interest expense through June 1, 2026, the final maturity dates of the G.O. Bonds, 2001 Election, Series A (Refunded Bonds), using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 21 years by $13,711,449 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,871,827.

(b) 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, 2006 and 2005, $1,425,000 and $1,710,000 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, 2006 and 2005, the outstanding balance was $608,264 and $729,917 respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2006 are as follows:

	Revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2007	$ 406,653	—	406,653
2008	406,653	—	406,653
2009	406,653	—	406,653
2010	406,653	—	406,653
2011	406,653	—	406,653
Total	$ 2,033,265	—	2,033,265

(c) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2006 are as follows:

	Lease purchase financing		
	Principal	Interest	Total
Year ending June 30:			
2007	$ 1,080,067	134,597	1,214,664
2008	794,837	57,155	851,992
2009	274,651	22,049	296,700
2010	111,705	5,642	117,347
2011	19,615	570	20,185
Total	$ 2,280,875	220,013	2,500,888

(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 $750,000 for each workers' compensation claim, $1,000,000 per employment practices claims, and $500,000 for each general liability claim.

The District currently reports all of its risk management activities in the balance sheets. 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 2006. The amount of the outstanding liability at June 30, 2006 and 2005 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, 2006 and 2005 were as follows:

		Balance at July 1, 2005	Current year claims and changes in estimates	Claim payments	Balance at June 30, 2006
Workers' compensation	$	35,479,000	3,036,734	(4,039,734)	34,476,000
General liability		3,092,000	3,867,918	(706,918)	6,253,000

		Balance at July 1, 2004	Current year claims and changes in estimates	Claim payments	Balance at June 30, 2005
Workers' compensation	$	36,587,000	3,213,970	(4,321,970)	35,479,000
General liability		2,105,000	1,405,993	(418,993)	3,092,000

During the years ended June 30, 2006 and 2005, the District made total premium payments of approximately $1,365,827 and $1,334,409, respectively, for general liability and property claims.

(12) Subsequent Events

On August 23, 2006, the Board of Trustees authorized a sale of the Los Angeles Community College District surplus real property (approximately 28 acres) located at 4635 Firestone Boulevard for $30,000,000 to the City of Southgate. Escrow closed October 31, 2006 with the proceeds from the sale deposited in the South Gate Center Proposition AA account.

On October 11, 2006, the District issued $350,000,000 aggregate principal amount of its 2003 Election General Obligation Bonds (Prop AA), 2006 Series E with various interest rates ranging from 3.4% to 5.0% maturing in 2031. The proceeds of this fifth series of General Obligation Bonds are to be used to finance the construction, equipping, and improving of college and support facilities at nine colleges.

On October 18, 2006, the Board of Trustees authorized a purchase of a property located at 2214 – 2222 South Grand Avenue for $1,995,000 as part of the acquisition of the 30 year expansion for Trade Tech. College Funding is from Prop A/AA Bond proceeds.

On October 18, 2006, the Board of Trustees authorized a purchase of a property located at 234 West 22nd Street for $1,100,000 as part of the acquisition of the 30 year expansion area for Trade Tech College. Funding is from Prop A/AA Bond proceeds.

On December 13, 2006, the Board of Trustees authorized a purchase of a property located at 12890 W. Harding Street for $3,400,000 as part of the acquisition of the expansion property for Mission College. Funding is from Prop A/AA Bond proceeds.

(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 2000-01 through 2005-06

Fiscal year	Local secured	Utilities	Unsecured	Total before redevelopment	Total after redevelopment
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
2004-05	386,483,327,672	481,361,281	24,891,908,667	411,856,597,620	383,631,546,830
2005-06	424,936,577,595	438,294,291	25,212,393,251	450,587,265,137	413,667,345,171

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
2003-04	99,367,349	2,180,522	2.19

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

Major Taxpayers and Concentration

The following chart lists the 20 largest property taxpayers located within the boundaries of the District, which together hold property valued at less than 3% of the assessed valuation for the District as a whole.

LOS ANGELES COMMUNITY COLLEGE DISTRICT
2005-06 Largest Local Secured Taxpayers

	Property owner	Primary land use	2005-06 Assessed valuation	% of total (1)
1.	Douglas Emmett Realty Funds	Office Building	$ 1,965,325,818	0.46%
2.	Universal Studios Inc.	Motion Picture Studio	1,220,328,767	0.29
3.	Arden Realty LP	Office Building	925,145,236	0.22
4.	Anheuser Busch Inc.	Industrial	784,954,028	0.18
5.	Warner Bros. Entertainment Inc.	Motion Picture Studio	552,579,413	0.13
6.	Maguire Partners, 355 S. Grand LLC	Office Building	534,068,305	0.13
7.	One Hundred Towers LLC	Office Building	532,784,110	0.13
8.	Trizec 333 LA LLC	Office Building	413,989,000	0.10
9.	Duesenberg Investment Company	Office Building	384,179,582	0.09
10.	Casden Park La Brea LLC	Apartments	374,257,405	0.09
11.	Paramount Pictures Corp.	Motion Picture Studio	361,558,317	0.09
12.	Walt Disney Productions Inc.	Motion Picture Studio	345,723,379	0.08
13.	Warner Center Condominiums LLC	Apartments/Condominiums	325,330,400	0.08
14.	1999 Stars LLC	Office Building	321,981,403	0.08
15.	Century City Mall LLC	Shopping Center Mall	314,937,378	0.07
16.	AP Properties Ltd.	Commercial	298,549,863	0.07
17.	Twentieth Century Fox Film Corp.	Motion Picture Studio	292,444,755	0.07
18.	Library Square Associates LLC	Office Building	283,970,560	0.07
19.	515 555 Flower Associates LLC	Office Building	281,361,717	0.07
20.	2121 Avenue of the Stars LLC	Office Building	276,500,000	0.07
			$ 10,789,969,436	2.57%
				???

Source: California Municipal Statistics, Inc.
(1) 2005-06 Local Secured Assessed Valuation was $424,936,577,595

Tax Rates

The following table sets forth typical tax rates for property within the District for fiscal years 2001-02 through 2005-06:

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

	2001-02	2002-03	2003-04	2004-05	2005-06
Countywide 1%	1.000000	1.000000	1.000000	1.000000	1.000000
City of Los Angeles	0.040051	0.042312	0.050574	0.055733	0.051289
Los Angeles Unified School District	0.048129	0.036973	0.077145	0.088839	0.084346
Los Angeles Community College District	—	0.014598	0.019857	0.018098	0.014288
County of Los Angeles	0.001128	0.001033	0.000992	0.000923	0.000795
Los Angeles County Floor Control District	0.001073	0.000881	0.000462	0.000245	0.000049
Metropolitan Water District	0.007700	0.006700	0.006100	0.005800	0.005200
Total	1.098081	1.102497	1.155130	1.169638	1.155967

Source: California Municipal Statistics, Inc.

SUPPLEMENTAL FINANCIAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Schedule of Balance Sheet Accounts

June 30, 2006

Assets		
Cash in County treasury	$	7,486,843
Cash in banks		6,369,556
Cash in revolving fund		162,691
Investments		47,529
Accounts, notes, interest, and loans receivable, net		57,918,941
Due from other funds		16,470,280
Prepaid expenses and other assets		5,165,848
Total assets	$	93,621,688
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	$	33,298,016
Due to other funds		614,348
Deferred revenue		6,878,244
General liability claims payable		1,689,524
Workers' compensation claims payable		1,900,000
Other liabilities		2,441,220
Total liabilities		46,821,352
Fund equity:		
Restricted		11,779,301
Unrestricted		35,021,035
Total fund equity		46,800,336
Total liabilities and fund equity	$	93,621,688

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

Revenues:		
Federal revenues:		
Higher Education Acts	$	8,049,886
Job Training Partnership Act		903,134
Temporary Assistance for Needy Families (TANF)		1,068,329
Vocational Education Act		5,462,968
Veterans education		8,721
College work study		1,937,118
Seog		94,300
Pell (Beog)		319,615
Other		1,197,320
Total federal revenues		19,041,391
State revenues:		
State apportionments		284,705,070
Tax relief subvention		1,416,659
State lottery		15,144,066
CA Works opportunity and responsibility to kids		5,759,241
Extended opportunity program		6,656,072
Matriculation program		4,964,112
Instructional equipment/modern technology		2,324,130
Disabled Students Programs and Services		5,236,500
Telecommunication and technology		486,623
Other		14,035,263
Total state revenues		340,727,736
Local revenues:		
Local property taxes		116,207,292
Enrollment fees		20,312,482
Tuition and fees, net of scholarship discounts and allowance		7,194,205
Community service fees		6,142,670
Parking fees		2,107,395
Health service fees		1,136,357
Student fees and charges		1,387,228
Interest		2,078,612
Other		9,470,745
Total local revenues		166,036,986
Total revenues		525,806,113
Expenditures:		
Current:		
Academic salaries		221,428,970
Classified salaries		122,709,670
Employee benefits		100,170,528
Books and supplies		11,607,315
Contract services, student grants, and other operating expenditures		54,179,220
Capital outlay and equipment replacement		10,380,779
Other		811,007
Total expenditures		521,287,489
Excess of revenues over expenditures		4,518,624
Other financing uses:		
Transfers out		(10,593,305)
Net decrease in fund balance		(6,074,681)
Beginning of year		52,875,017
End of year	$	46,800,336

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Schedule of Balance Sheet Accounts

June 30, 2006

Assets		**Special Reserve Fund**	**Child Development Fund**	**Bookstore Fund**	**Cafeteria Fund**	**Total**
Cash in County Treasury	$	73,956,259	3,587,505	—	—	77,543,764
Cash in banks		8,741	69,570	4,777,663	551,600	5,407,574
Cash in Revolving Fund		—	—	195,958	8,189	204,147
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		1,478,778	2,798,511	1,771,195	297,786	6,346,270
Due from other funds		134,460	111,154	309,367	217,198	772,179
Prepaid expenses		500	—	—	—	500
Inventory		—	—	8,595,330	78,791	8,674,121
Total assets	$	75,578,738	6,566,740	15,649,513	1,153,564	98,948,555
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	$	1,559,020	217,831	206,536	9,764	1,993,151
Due to other funds		11,615,748	6,247,154	6,186,298	1,127,130	25,176,330
Deferred revenue		—	—	3,621	—	3,621
Total liabilities		13,174,768	6,464,985	6,396,455	1,136,894	27,173,102
Fund equity:						
Capital projects		62,403,970	—	—	—	62,403,970
Unrestricted		—	101,755	2,780,933	16,670	2,899,358
Reserve for facility improvements and inventory		—	—	6,472,125	—	6,472,125
Total fund equity		62,403,970	101,755	9,253,058	16,670	71,775,453
Total liabilities and fund equity	$	75,578,738	6,566,740	15,649,513	1,153,564	98,948,555

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

		Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Revenues:						
Federal revenues:						
Tuition and fees	$	—	200,071	—	—	200,071
Other		899,875	323,652	—	108,293	1,331,820
Total federal revenues		899,875	523,723	—	108,293	1,531,891
State revenues:						
State apportionment		11,744,106	—	—	—	11,744,106
Other		—	5,713,856	—	—	5,713,856
Total state revenues		11,744,106	5,713,856	—	—	17,457,962
Local revenues:						
Food service sales		—	—	—	2,374,768	2,374,768
Bookstore sales		—	—	29,189,805	—	29,189,805
Interest		1,698,571	62,295	4,002	—	1,764,868
Other		1,656,451	91,120	5,211	343,832	2,096,614
Total local revenues		3,355,022	153,415	29,199,018	2,718,600	35,426,055
Total revenues		15,999,003	6,390,994	29,199,018	2,826,893	54,415,908
Expenditures:						
Current:						
Academic salaries		42,542	3,618,818	—	—	3,661,360
Classified salaries		2,500,478	1,564,279	4,778,884	864,493	9,708,134
Employee benefits		665,622	1,032,666	1,250,340	180,404	3,129,032
Books and supplies		25,437	239,116	22,913,355	1,910,442	25,088,350
Contract services, student grant, and other operating expenditures		6,618,560	833,885	382,747	68,091	7,903,283
Utilities		—	—	290,944	—	290,944
Capital outlay and equipment replacement:						
Land		655,995	—	—	—	655,995
Building		9,558,253	—	58,736	—	9,616,989
Equipment		586,243	29,276	218,442	13,013	846,974
Total expenditures		20,653,130	7,318,040	29,893,448	3,036,443	60,901,061
Deficit of revenues over expenditures		(4,654,127)	(927,046)	(694,430)	(209,550)	(6,485,153)
Other financing sources – transfers in		9,564,329	854,920	(46,474)	220,530	10,593,305
Net increase (decrease) in fund balances		4,910,202	(72,126)	(740,904)	10,980	4,108,152
Beginning of year		57,493,768	173,881	9,993,962	5,690	67,667,301
End of year	$	62,403,970	101,755	9,253,058	16,670	71,775,453

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Schedule of Balance Sheet Accounts

June 30, 2006

Assets

Cash held with trustee	$	2,484,406
Due from other funds		—
Total assets	$	2,484,406

Liabilities and Fund Equity

Liabilities:		
Other liabilities	$	2,033,265
Total liabilities		2,033,265
Fund equity:		
Capital projects		451,141
Total fund equity		451,141
Total liabilities and fund equity	$	2,484,406

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

Revenue:	
Interest	$ 15,014
Total revenue	15,014
Expenditures:	
Current:	
Contract services, student grant, and other operating expenditures	480,618
Debt service:	
Principal	43,975,000
Interest	31,753,898
Other	407,212
Total expenditures	76,616,728
Deficit of revenue over expenditures	(76,601,714)
Other financing sources:	
Local tax for G.O. Bonds	75,728,898
Total other financing sources	75,728,898
Decrease in fund balance	(872,816)
Beginning of year	1,323,957
End of year	$ 451,141

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Schedule of Balance Sheet Accounts

June 30, 2006

Assets

Cash in County Treasury	$	192,657,447
Cash in banks		2,998,347
Investment		69,541,521
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		2,611,437
Due from other funds		8,693,134
Deposit with trustee		14,372,794
Total assets	$	290,874,680

Liabilities and Fund Equity

Liabilities:		
Accounts payable	$	35,885,965
Total liabilities		35,885,965
Fund equity:		
Reserved for capital expenditures		254,988,715
Total fund equity		254,988,715
Total liabilities and fund equity	$	290,874,680

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

Local revenues:		
Interest	$	15,647,775
Other		108,523
Total revenue		15,756,298
Expenditures:		
Other operating expenses and services		23,117,438
Capital outlay and equipment replacement:		
Land		57,864,066
Buildings		141,333,830
Equipment		1,180,418
Total capital outlay		200,378,314
Total expenditures		223,495,752
Decrease in fund balance		(207,739,454)
Beginning of year		462,728,169
End of year	$	254,988,715

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Schedule of Balance Sheet Accounts

June 30, 2006

Assets		
Cash in County Treasury	$	104,301
Cash in banks		638,565
Accounts, notes, interest, and loans receivable, net		5,309,205
Due from other funds		78,290
Total assets	$	6,130,361
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	$	1,072,525
Due to other funds		223,206
Total liabilities		1,295,731
Fund equity:		
Reserved		4,834,630
Total fund equity		4,834,630
Total liabilities and fund equity	$	6,130,361

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

Revenues:	
Federal revenues:	
Seog	$ 2,235,137
Pell (Beog)	62,347,649
Direct loan	5,930,201
Total federal revenues	70,512,987
State revenues:	
Extended opportunity program	5,421,471
Cal grant	7,811,356
Total state revenues	13,232,827
Local revenues:	
Interest	155,565
Other	139,234
Total local revenues	294,799
Total revenues	84,040,613
Expenditures:	
Other operating expenses and services	83,744,247
Total expenditures	83,744,247
Increase in fund balance	296,366
Beginning of year	4,538,264
End of year	$ 4,834,630

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Schedule of Balance Sheet Accounts

June 30, 2006

Assets		**East Los Angeles College**	**Los Angeles City College**	**Los Angeles Harbor College**	**Los Angeles Mission College**	**Pierce College**	**Los Angeles Southwest College**	**Los Angeles Trade-Technical College**	**Los Angeles Valley College**	**West Los Angeles College**	**Total**
Cash in banks	$	147,618	310,256	112,339	55,851	83,759	47,101	116,725	251,648	231,835	1,357,132
Investments		1,404,868	—	275,962	128,291	914,527	61,331	1,569,862	918,956	179,169	5,452,966
Accounts, notes, interest, and receivable, net of allowance for doubtful accounts		1,860	14,032	58	838	1,779	10,422	19,268	—	4,020	52,277
Capital assets		15,860	12,193	—	—	191,375	9,711	110,792	242,377	41,747	624,055
Total assets	$	1,570,206	336,481	388,359	184,980	1,191,440	128,565	1,816,647	1,412,981	456,771	7,486,430
Liabilities and Fund Equity											
Liabilities:											
Accounts payable	$	7,608	30,487	250	—	5,752	22,506	21,449	—	10,305	98,357
Deferred revenue		2,631	—	—	—	—	—	—	—	119	2,750
Long-term liabilities (note 2)		—	—	10,679	—	—	21,955	290,861	—	—	323,495
Scholarship and trust		1,316,681	681	—	88,045	575,101	23,709	505,454	131,110	227,773	2,868,554
Other liabilities		—	—	—	—	34,375	—	—	260,714	—	295,089
Total liabilities		1,326,920	31,168	10,929	88,045	615,228	68,170	817,764	391,824	238,197	3,588,245
Fund equity:											
Investment in fixed assets		15,860	12,193	—	—	191,375	9,711	110,792	242,377	41,747	624,055
Fund balances – designated for future expenditures		227,426	293,120	377,430	96,935	384,837	50,684	888,091	778,780	176,827	3,274,130
Total fund equity		243,286	305,313	377,430	96,935	576,212	60,395	998,883	1,021,157	218,574	3,898,185
Total liabilities and fund equity	$	1,570,206	336,481	388,359	184,980	1,191,440	128,565	1,816,647	1,412,981	456,771	7,486,430

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds
Combined Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2006

		East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Pierce College	Los Angeles Southwest College	Los Angeles Trade-Technical College	Los Angeles Valley College	West Los Angeles College	Total
Revenues:											
Interest	$	5,061	1,056	8,817	3,654	18,131	559	40,121	29,054	6,551	113,004
Other		69,434	122,812	80,067	20,486	133,494	34,272	38,379	39,585	74,437	612,966
Total revenues		74,495	123,868	88,884	24,140	151,625	34,831	78,500	68,639	80,988	725,970
Expenditures:											
Contract services and other operating expenditures		69,700	252,043	113,972	12,573	168,174	33,521	65,104	50,842	79,478	845,407
Total expenditures		69,700	252,043	113,972	12,573	168,174	33,521	65,104	50,842	79,478	845,407
Net increase (decrease) in fund balance		4,795	(128,175)	(25,088)	11,567	(16,549)	1,310	13,396	17,797	1,510	(119,437)
Beginning of year		238,491	433,488	402,518	85,368	592,761	59,085	985,487	1,003,360	217,064	4,017,622
End of year	$	243,286	305,313	377,430	96,935	576,212	60,395	998,883	1,021,157	218,574	3,898,185

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2006

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
- 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, 2006 was comprised of the following members:

Board of Trustees

Name	Office	Term expires
Sylvia Scott-Hayes	President	06/30/07
Michael D. Waxman	Vice President	06/30/09
Kelly G. Candaele	Member	06/30/09
Mona Field	Member	06/30/07
Warren T. Furutani	Member	06/30/07
Georgia L. Mercer	Member	06/30/07
Nancy Pearlman	Member	06/30/09
Luis Gomez	Student Trustee	05/31/07

Administration

Mr. Darroch F. Young, Chancellor
Dr. Adriana Barrera, Senior Vice Chancellor
Mr. Larry H. Eisenberg, Executive Director, Facilities Planning and Development
Ms. Camille A. Goulet, General Counsel
Ms. Jeanette L. Gordon, Chief Financial Officer/Treasurer

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2006

College Presidents	
Mr. Ernest H. Moreno	East Los Angeles College
Dr. Steve Maradian	Los Angeles City College
Dr. Linda M. Spink	Los Angeles Harbor College
Dr. Jose Leyba*	Los Angeles Mission College
Mr. Robert Garber	Pierce College
Dr. Audre Levy	Los Angeles Southwest College
Dr. Tom K. Harris*	Los Angeles Trade-Technical College
Dr. Tyree Wieder	Los Angeles Valley College
Dr. Doris Givens*	West Los Angeles College

* Interim

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Full-Time Equivalent Students and Apprenticeship Clock Hours

Year ended June 30, 2006

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	64,855	2,136
Daily census	8,307	239
Actual hours of attendance	4,436	102
Independent study/work experience	1,040	12
Summer intercession	4,454	115
Total	83,092	2,604
Noncredit FTES:		
Actual hours of attendance	4,155	
Summer intercession	1,210	
Total	5,365	
Fall census credit student headcount	114,701	
Gross square footage – existing facilities	5,279,780	
FTES in leased (or rented) space of less than 100%	1,284	

Apprenticeship clock hours Reporting periods	**Total hours annual report**
July 1, 2005 – December 31, 2005	17,777
January 1, 2006 – April 15, 2006	13,785
April 16, 2006 – June 30, 2006	—
	31,562

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311)

Year ended June 30, 2006

		Balance
June 30, 2006 total fund balances per annual financial budget report		$ 385,794,107
Adjustments and reclass		(3,045,647)
June 30, 2006 unaudited ending fund balance		382,748,460
Reserve accounts are used by management to charge the cost and set up payable for specific uses. These are reported as payables in government funds.		7,832,020
Capital assets are not financial resources and therefore are not reported as assets in government funds.		738,346,459
Other assets are not financial resources and therefore not reported as assets in government funds.		5,063,786
Long-term liabilities are not booked as part of fund balances:		
G.O. Bonds	$ (699,205,000)	
Unamortized premiums bond, net	(12,165,356)	
Revenue bond	(2,033,264)	
Workers' compensation claims payable	(34,476,000)	
General liability	(6,253,000)	
Vacation benefits payable	(12,942,634)	
Capital lease payable	(2,280,875)	(769,356,129)
June 30, 2006 audited net assets		$ 364,634,596

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

June 30, 2006

	Federal CFDA or project number	Pass-through identification number	Revenues Federal	Revenues State	Revenues Total	Total expenditures
General Fund						
U.S. Department of Education:						
Direct programs:						
Higher Education Act :						
Strengthening Institutions	84.031		$ 3,514,275	—	3,514,275	3,682,071
Student Support Services	84.042		1,465,520	—	1,465,520	1,497,656
Talent Search	84.044		732,043	—	732,043	737,346
Upward Bound	84.047		1,211,855	—	1,211,855	1,211,855
Educational Opportunity Centers	84.066		218,066	—	218,066	218,066
Comprehensive Program	84.116		141,329	—	141,329	152,888
Fast Track Nursing Career	84.116		89,683	—	89,683	89,683
Minority Science & Engineering Improvemen	84.120		160,285	—	160,285	163,724
Business and International Educatior	84.153		11,369	—	11,369	11,369
No Child Left Behind Act:						
Improvement of Education	84.215		52,514	—	52,514	52,565
Child Care Access Means Parents in School						
Child Care Access Means	84.335		41,816	—	41,816	41,880
Student financial assistance						
Pell Grant	84.063		319,615	—	319,615	116,001
FSEOG	84.007		94,300	—	94,300	109,601
Federal work-study	84.033		2,102,134	—	2,102,134	2,089,831
Pass-through California Community College Chancellor Office						
Vocational and Applied Technology Education Act						
Title IC	84.048	04-C01-027	—	—	—	202,064
Title IC	84.048	05-C01-027	4,333,876	—	4,333,876	4,383,696
Subtotal			4,333,876	—	4,333,876	4,585,760
Tech Prep – East	84.243	04-139-032	—	—	—	3,149
Tech Prep – Harbor	84.243	04-139-034	—	—	—	76
Tech Prep – Southwest	84.243	04-139-039	—	—	—	641
Tech Prep – Industry Sector	84.243	3296	26,420	—	26,420	30,807
Tech Prep – Industry Sector	84.243	4188	45,153	—	45,153	45,153
Tech Prep – Fashion	84.243	4286	36,765	—	36,765	41,493
Tech Prep – Local Network	84.243	4386	159,499	—	159,499	150,377
Tech Prep – Local Network	84.243	3269	182,347	—	182,347	182,347
Tech Prep – Distributions Points	84.243	4392	63,983	—	63,983	63,983
Tech Prep – East	84.243	05-139-032	63,135	—	63,135	63,135
Tech Prep – District	84.243	05-139-033	124,428	—	124,428	124,428
Tech Prep – Harbor	84.243	05-139-034	77,333	—	77,333	77,333
Tech Prep – Mission	84.243	05-139-035	69,123	—	69,123	72,641
Tech Prep – Pierce	84.243	05-139-036	68,500	—	68,500	68,500
Tech Prep – West	84.243	05-139-037	75,250	—	75,250	75,250
Tech Prep – Valley	84.243	05-139-038	61,907	—	61,907	73,532
Tech Prep – Southwest	84.243	05-139-039	75,249	—	75,249	75,249
Subtotal			1,129,092	—	1,129,092	1,148,094
Adult Education and Family Literacy & English Literacy	84.002	19-64741	810,904	—	810,904	812,557
Subtotal U.S. Department of Education			16,428,676	—	16,428,676	16,720,947
U.S. Department of Energy:						
Direct programs:						
Developing the Foundations for a SMART Technology Training	81.049		26,096	—	26,096	26,096
Subtotal U.S. Department of Energy			26,096	—	26,096	26,096
U.S. Department of Labor :						
Pass-through City :						
Regional Collaborative for Economic and Workforce	17.258	C108102	—	—	—	29,970
Regional Collaborative for Economic and Workforce	17.258	C109274	241,901	—	241,901	241,901
WIA-Youth Opportunity	17.259	C107114	11,210	—	11,210	11,210
Subtotal pass-through City			253,111	—	253,111	283,081
Pass-through County :						
WIA Com Career Title I – Adult	17.258	20011	114,679	—	114,679	114,679
WIA Com Career Title I – Dislocated	17.260	CK22407	—	—	—	2,682
WIA Com Career Title I – Dislocated	17.260	20052	299,546	—	299,546	299,545
Subtotal pass-through County			414,225	—	414,225	416,906
Pass-through EDD:						
WIA-Nursing Education and Training 15%	17.258	R592677	171,487	—	171,487	171,487
Subtotal U.S. Department of Labor			838,823	—	838,823	871,474
U.S. Department of Health and Human Services:						
Direct programs:						
Other Health Professions	93.888	1D1DHP05554-01-00	151,645	—	151,645	151,645
Other Health Professions	93.888	1D1DHP06404-01-00	62,724	—	62,724	62,724
Subtotal direct program			214,369	—	214,369	214,369
Pass-through State:						
Temporary Assistance for Needy Families	93.558		1,068,329	—	1,068,329	1,064,349
Pass-through National College Associations						
National Youth Sports	93.570	05:1068	72,454	—	72,454	72,454
Subtotal U.S. Department of Health and Human Services			1,355,152	—	1,355,152	1,351,172

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

June 30, 2006

	Federal CFDA or project number	Pass-through identification number	Revenues Federal	Revenues State	Revenues Total	Total expenditures
National Science Foundation:						
Direct programs:						
Chemical Technology	47.076		26,876	—	26,876	30,956
Subtotal National Science Foundation			26,876	—	26,876	30,956
U.S. Department of Housing and Urban Development:						
Direct programs:						
Hispanic Serving Institution	14.514		$ 196,763	—	196,763	206,269
COPC New Directions Grant	14.511	COPC-CA-04-703	37,982	—	37,982	37,982
Pass-through City :						
Family Development Network	14.218	108278	739,546	—	739,546	862,980
Subtotal U.S. Department of Housing and Urban Development			974,291	—	974,291	1,107,231
National Aeronautics and Space Administration:						
Direct programs:						
NASA-An Innovative Partnership			71,869	—	71,869	71,869
Pass-through United Negro College Foundation						
Curriculum Improvement Partnership Award Program	1260.15C4		226,522	—	226,522	226,522
Subtotal National Aeronautics and Space Administration			298,391	—	298,391	298,391
Total federal			19,948,305	—	19,948,305	20,406,267
State assistance programs:						
Disabled Students Program and Services			—	6,327,884	6,327,884	6,341,017
State Matriculation			—	4,964,112	4,964,112	4,962,265
Instructional Equipment/Modern Technology :						
One-Time Block Grant			—	—	—	961,254
Instructional Equipment/Deferred Maintenance			—	2,324,130	2,324,130	1,604,729
Extended Opportunity Program and Services			—	6,656,072	6,656,072	6,540,173
CalWORKS Program			—	4,584,781	4,584,781	4,498,573
Telecommunication & Technologies			—	486,623	486,623	674,451
Economic Development			—	2,517,589	2,517,589	2,638,310
FSS – Fund for Student Success			—	180,099	180,099	178,423
Transfer & Articulation Program			—	—	—	4,565
Other state assistance programs			—	9,499,034	9,499,034	10,004,700
Total state assistance programs			—	37,540,324	37,540,324	38,408,460
Total General Fund			19,948,305	37,540,324	57,488,629	58,814,727
Special Revenue Fund						
U.S. Department of Agriculture :						
Direct programs – nonmajor programs:						
Summer Food Service	10.559	19-6474-22V	108,293	—	108,293	108,293
WINGS-Water Inprov by the Next Generation	10.223	2005-38422-15933	60,286	—	60,286	60,286
Pass-through California Department of Education:						
Child Care Food Programs	10.558	19-2432-2A	166,376	—	166,376	231,755
Subtotal U.S. Department of Agriculture			334,955	—	334,955	400,334
U.S. Federal Emergency Management Administration						
Pass-through State:						
Hazard Mitigation Grants	97.039	FEMA-DR-1008-1016-CA	254,030	—	254,030	832,351
Subtotal U.S. Federal Emergency Management Administration			254,030	—	254,030	832,351
U.S. Department of Health and Human Services:						
Pass-through California Department of Education:						
Child Development Block Grant	93.575	CCTR-5161	155,021		155,021	157,959
CCDF School Age Resource	93.575	FSCC-3078	—		—	2,798
CCDF School Age Resource	93.575	CSCC-4087	2,255		2,255	2,255
Subtotal U.S. Department of Health and Human Services			157,276	—	157,276	163,012
Total federal			746,261	—	746,261	1,395,697
State assistance programs :						
Child Development Pre-School Care				2,249,414	2,249,414	2,461,032
Child Development Services				201,920	201,920	216,764
Family Child Care Homes Network				1,361,420	1,361,420	1,288,379
Total state assistance programs			—	3,812,754	3,812,754	3,966,175
Total Special Revenue Fund			746,261	3,812,754	4,559,015	5,361,872
Student Financial Aid Fund						
U.S. Department of Education :						
Pell Grant	84.063		62,367,124		62,367,124	61,865,005
Direct Loan	84.268		5,930,201		5,930,201	5,930,200
Federal Perkins Loan Program	84.038		—		—	3,812,751
FSEOG	84.007		2,230,717		2,230,717	2,222,284
Subtotal U.S. Department of Education			70,528,042	—	70,528,042	73,830,240
U.S. Department of Health and Human Services:						
Direct program:						
Nursing Student Loans	93.364		—		—	158,770
Subtotal U.S. Department of Health and Human Services			—	—	—	158,770
Total federal			70,528,042	—	70,528,042	73,989,010

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

June 30, 2006

	Federal CFDA or project number	Pass-through identification number	Revenues Federal	State	Total	Total expenditures
State assistance programs :						
CAL Grants			$	7,812,907	7,812,907	7,844,397
Extended Opportunity and Services				5,421,471	5,421,471	5,703,182
Total state assistance programs			—	13,234,378	13,234,378	13,547,579
Total Student Financial Aid Fund			70,528,042	13,234,378	83,762,420	87,536,589
Grand total federal			$ 91,222,608	—	91,222,608	95,790,974
Grand total state assistance programs			$ —	54,587,456	54,587,456	55,922,214
Grand total all funds (General, Special Revenue, Financial Aid)			$ 91,222,608	54,587,456	145,810,064	151,713,188

See accompanying notes to schedule of expenditures of federal and state awards and independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2006

(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 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, in all material respects.

Total state revenues in accompanying schedule	$	54,587,456
Add:		
General Fund:		
Basic and equalization aid		284,705,070
State lottery		15,144,066
Tax relief subvention		1,416,659
Other state funds		1,921,617
Total other General Fund revenues		303,187,412
Special Revenue Fund:		
Community College Construction Act		9,581,916
Scheduled Maintenance Program		2,162,190
Other state funds		1,899,551
Total other Special Revenue Fund revenues		13,643,657
Total state revenues in fund financial statements	$	371,418,525

(4) Federal Perkins Loans

For the year ended June 30, 2006, the District advanced loans totaling $301,675 for the Federal Perkins Loans Program (CFDA # 84.038). As of June 30, 2006, the District had an outstanding loan balance of Federal Perkins Loans in the amount of $3,812,751. These loan balances outstanding are included in the Schedule of Federal Expenditures of Federal and State Awards.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2006

(5) Nursing Student Loans

During the year ended June 30, 2006, the District processed approximately $0 of new loans under the Student Nursing Program (CFDA # 93.364). As of June 30, 2006, the District had an outstanding loan balance of Nursing Student Loans in the amount of $158,770. 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, 2006.

(7) Federal Clusters of Programs

The following summarizes the expenditures of federal program clusters by Catalog of Federal Domestic Assistance Number:

Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	$	558,037
WIA Youth Activities	17.259		11,210
WIA Dislocated Workers	17.260		302,227
		$	871,474
TRIO Cluster:			
Student Support Services	84.042	$	1,497,656
Talent Search	84.044		737,346
Upward Bound	84.047		1,211,855
Educational Opportunity Centers	84.066		218,066
		$	3,664,923
Student Financial Assistance Cluster:			
Federal Supplementary Educational Opportunity Grants (FSEOG)	84.007	$	2,222,284
Federal Work Study (FWS)	84.033		2,089,831
Federal Perkins Loan (FPL)	84.038		3,812,751
Federal Pell Grant Program (PELL)	84.063		61,865,005
Federal Direct Student Loans (Direct Loan)	84.268		5,930,200
Nursing Student Loans	93.364		158,770
		$	76,078,841

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE REQUIREMENTS

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

Independent Accountants' Report on State Compliance Requirements

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

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2006, and have issued our report thereon, dated March 6, 2007.

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 tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination 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):

- Salaries of Classroom Instructors: 50 Percent Law (421)
- Apportionment for Instructional Service Agreements/Contracts (423)
- Required Data Elements (424)
- Residency Determination for Credit Courses (425)
- Students Actively Enrolled (426)
- Concurrent Enrollment of K-12 Students in Community College Credit Courses (427)
- Uses of Matriculation Funds (428)
- Allocation of Costs (DSPS and EOPS) (429)
- Enrollment Fee (432)
- CalWORKS – Use of State and Federal TANF Funding
- Open Enrollment (435)
- Minimum Conditions – "Standards of Scholarship" (436)
- Student Fee – Instructional Materials and Health Fees (437).
- Noncredit Courses (438)

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-06-01 through S-06-12 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, 2006.

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

March 6, 2007

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS

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, 2006 and have issued our report thereon, dated March 6, 2007. 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. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item FS-06-01.

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 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. Our consideration of the internal control over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated March 6, 2007.

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

March 6, 2007

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, 2006. 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 considered 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, 2006. However, the results of our auditing procedures disclosed 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-06-01 through F-06-05, F-06-07 through F-06-09, F-06-11, F-06-13, F-06-14, F-06-16, and F-06-18.

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-06-01, F-06-02, F-06-05 through F-06-10, and F-06-12 through F-06-18.

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

March 6, 2007

(1) Summary of Auditors' Results

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

(b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **Yes**

Material weaknesses: **None noted**

(c) Noncompliance which is material to the basic financial statements: **None noted**

(d) Reportable conditions in internal control over major programs: **Yes**

Material weaknesses: **None noted**

(e) The type of report issued on compliance for major programs:

Student Financial Aid Cluster – **Unqualified**

TRIO Cluster – **Unqualified**

Vocational and Technical Education Act – **Unqualified**

Strengthening Institutions – **Unqualified**

(f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**

(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

- Vocational and Technical Education Act – CFDA 84.048
- Strengthening Institutions – CFDA 84.031

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$2,873,729**

(i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No**.

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

FS-06-01

Observation

Effective July 1, 2005, the District implemented the SAP-HR module and we noted numerous exceptions in our control and audit testing over payroll expenditures. During our review of the controls implemented by the District during the implementation of the SAP-HR module, we noted that the District did not perform any parallel testing between new SAP-HR module and the legacy system used prior. The District's current control procedures appear to be more detective controls versus preventative controls. We noted both system errors as well as human errors which is not detected and corrected in a timely manner. The following is a summary of the types of exceptions noted during our control and substantive payroll testwork:

- Wrong rates were used in the calculations of salaries
- The responsibility pays were not entered appropriately
- Individuals with responsibility as chairs did not get paid the proper amounts
- The individuals who were faculty full timers and taught adjunct classes got paid the same rate as part time faculty member or vice versa
- The number of hours reported in SAP did not agree with the hours reported on time sheets
- We were not able to tie certain assignments to the District's protocol system which tracks the each individual's assignment. Some assignments were missing from protocol or the protocol was not updated in a timely manner.
- We noted that terminated employees were not input into the system in the timely manner. Some terminated employees continued to get paid for well over a year after their termination
- Employees were not consistently added into the system in a timely manner which resulted in delays on the processing of certain individuals pay

The District's SAP-HR module does not have uniform procedures in place for the processing of the hiring, terminating, or changes in employment status. There were also no uniform procedures in place to process payrolls. Additionally, there do not appear to be effective controls in place to ensure the integrity of the information entered into the system.

The issues noted above resulted in payroll errors and delays in the process of payroll transactions. Additionally, a lack of formal systems development or acquisition policies and procedures compromises system integrity. The potential for greater, more costly changes to be made to a system once operational is high. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes to the newly implemented system are made. Additionally, a lack of parallel (conversion) testing compromises the validity and accuracy of data transported from previously used systems.

Recommendation

We recommend that management perform internally or hire a qualified specialist to perform a detailed postimplementation review of the SAP-HR implementation to address business/system controls, SAP-HR security, and SAP-HR segregation of duties. The postimplementation review should take into account the following factors:

- Business/System Controls
  - Data Integrity: interfaces, conversions, testing, reporting
  - Business process controls
  - IT Operations, including basis administration
- SAP-HR security
  - Assess security design against "best practices"
  - Perform an analysis of security exposures
  - Determine root cause of any security issues identified
- SAP-HR segregation of duties
  - Identify and assess segregation of duties exposures
  - Determine root cause of segregation issues identified
  - Target appropriate compensating controls to mitigate risks

District's Response

District management concurs with the audit findings that the lack of parallel payrolls, new business processes, and controls during the implementation of the SAP-HR module are the principal contributing factors resulting in both the large number of system errors as well as human errors detailed in the report.

To address these critical concerns new Payroll and HR reports have been developed that assist the staff and management in reconciling payments, determining employees on unpaid leave, and reviewing the payroll edits for potential incorrect pays. The development of these reports is an ongoing process. Mini-Project teams have been formed to address specific systems errors that cause error-pay. Specifically the collection and remittance of both union dues and retirement deductions will be automated and standardized to capture the required deductions timely and correctly. The District has recently hired a new training coordinator to develop and conduct training modules in HR and Payroll for the campus and district staff.

(Continued)

The District will further devote resources to developing, documenting, and implementing new business processes and internal controls to ensure the integrity of data entered into the SAP system either directly or through the PCR and Protocol systems. The recently hired Director of Internal Audit will play a major role in identifying the areas of the weakest controls and assist the HR and Payroll departments in this effort.

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

Summary of Federal Findings	Finding numbers
Student Financial Aid Programs:	
Special tests and provisions (disbursements to or on behalf of students) – disbursements not made within required time frames	F-06-01
Reporting – lack of control and reporting errors over FISAP reporting	F-06-02
Special tests and provisions (student status changes) – late reporting of student status changes to FFEL or direct loan borrowers to NSLDS	F-06-03
Vocational and Technical Education Act Program:	
Equipment management	F-06-04
Equipment records	F-06-05
Exception to the period of availability	F-06-06
Absence of control for procurement	F-06-07
Noncompliance with procurement requirements	F-06-08
Time and effort reporting	F-06-09
TRIO Cluster Programs:	
Controls over eligibility determination	F-06-10
Eligibility exceptions	F-06-11
Lack of payroll controls	F-06-12
Allowable costs (payroll compliance exceptions)	F-06-13
Noncompliance with procurement requirements	F-06-14
Strengthening Institutions Program:	
Controls over equipment management	F-06-15
Equipment management and records	F-06-16
Supplement not supplant	F-06-17
Noncompliance with procurement requirements	F-06-18

Finding F-06-01 Special Tests and Provisions (Disbursements To or on Behalf of Students) – Disbursements Not Made Within Required Time Frames

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Family Education Loans (CFDA #84.032)

Award Year: 2005-2006

Award Number: 01255000-12550, 01255000-G12550, and 01255000-000452

Condition

In our sample of Federal Family Education Loans (FFEL) program disbursements, we noted that 8 of the 13 disbursements were not made to the students within three business days after the funds were advanced to the District. The 8 late disbursements from East Los Angeles and Pierce Colleges were paid after four to five business days. We also noted in our sample of 18 FFEL loans for students where the funds were advanced to the District but not disbursed to the student, 4 of the 18 were not returned back to the lender within the required 10-day period. The two late returns from Pierce College were returned after 12 and 20 business days and the two late returns from East Los Angeles College were returned after 39 to 68 business days.

Criteria

Code of Federal Regulations, Title 34, Sec. 668.162 – Requesting funds.

(a) Advance payment method. Under the advance payment method:

- (1) An institution submits a request for funds to the Secretary. The institution's request for funds may not exceed the amount of funds the institution needs immediately for disbursements the institution has made or will make to eligible students and parents.
- (2) If the Secretary accepts that request, the Secretary initiates an electronic funds transfer (EFT) of that amount to a bank account designated by the institution.
- (3) The institution must disburse the funds requested as soon as administratively feasible but no later than three business days following the date the institution received those funds.

Code of Federal Regulations, Title 34, Sec. 668.167 FFEL Program funds – Cash Management.

(b) Returning funds to a lender:

- (1) Except as provided in paragraph (c) of this section, an institution must return FFEL Program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within –
  - (ii) Three business days following the date the institution receives the funds if the lender provides those funds to the institution by EFT and master check
- (2) If the institution does not disburse the loan funds as specified in paragraph (b)(1), the institution must return those funds to the lender promptly but no later than 10 business days after the date the institution is required to disburse the funds.

Effect

The District is out of compliance for federal student assistance disbursement provisions.

Recommendation

We recommend that the District develop control policies and procedures to ensure that disbursements are made timely and returned timely, as appropriate, in accordance with federal student assistance guidelines.

Questioned Costs

None.

District's Response

The District concurs with this finding. The District has revised its procedures to ensure that disbursements are made timely and returned timely as per Federal Student Assistance guidelines.

Finding F-06-02 Reporting – Lack of Controls and Reporting Errors over FISAP Reporting

Program affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Perkins Loans (CFDA #84.038), 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)

Award Year: 2005-2006

Award Number: 01255000-12550, 01255000-G12550, and 01255000-000452

Condition

During our procedures performed over FISAP reporting, we noted that the reports are compiled in conjunction with the individual campuses and district office but there in no formal review and tie-out of the entire report with the supporting documentation to ensure that the report is completed accurately. In all of the nine campuses FISAP reports, we noted the various errors and omissions on the FISAPs originally submitted by the colleges which included such items as:

- In the Fiscal Operations Report, Part III Federal Perkins Loan Program for Award Year July 1, 2005 through June 30, 2006, Section A Fiscal Report (Cumulative) as of June 30, 2006 did not agree to ACS report as funds advanced to students were overreported by some colleges and underreported by other colleges, loan principal collected was overreported by some colleges and underreported by other colleges, loan principal assigned to and accepted by the United States was overreported by some colleges and underreported by other colleges, and interest income on loans was overreported by some colleges and underreported by other colleges.
- In the Fiscal Operations Report, Part III Federal Perkins Loan Program for Award Year July 1, 2005 through June 30, 2006, Section B Fund Activity (Annual) During the 2005-2006 award year (July 1, 2005 through June 30, 2006) as of June 30, 2006 did not agree to the ACS report as loans advanced to students from the Fund during the 2005-2006 award year (minus 2005-2006 award year refunds) was overreported by a college.
- In the Fiscal Operations Report, Part III Federal Perkins Loan Program for Award Year July 1, 2005 through June 30, 2006, Section C Cumulative Repayment Information as of June 30, 2006 did not

agree to ACS report as amounts related to borrowers whose loans were assigned to and officially accepted by the U.S. Department of Education as of June 30, 2006 were overreported by some colleges and underreported by other colleges, assignments due to total and permanent disability discharge were overreported by some colleges and underreported by other colleges, assignments due to default or liquidation for a college were overreported, amounts for borrowers on schedule in repayment status were overreported by some colleges and underreported by other colleges and total borrowers not in repayment status was overreported by some colleges and underreported by other colleges.

- In the Fiscal Operations Report, Part VI Program Summary for Award Year July 1, 2005 through June 30, 2006, Section A Distribution of Program Recipients and Expenditures by Type of Student did not agree to FAM report (D8080-001) as the amount of recipients was underreported for a college and the FWS Funds (f) was overreported by a college and underreported by another college.

Criteria

ED Form 646-1, Fiscal Operations Report and Application to Participate (FISAP) (OMB No. 1845-0030) – this electronic report is submitted annually to receive funds for the campus based programs. The school uses the Fiscal Operations Report portion to report its expenditures in the previous award year and the Application to Participate portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 1999, the institution should submit its FISAP that includes the Fiscal Operations Report for the award year ended June 30, 1999, and the Application to Participate for the 2000-2001 award year (FPL, FWS, FSEOG 34 CFR section 673.3; Instruction Booklet for Fiscal Operations Report and Application to Participate).

The FISAP should include all activity of the reporting period, and should be supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

OMB Circular A-133, Subpart 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 having a formal process for tracking and compiling the data used to report various required federal reporting requirements, errors, and omission in the FISAP reporting were noted.

Recommendation

We recommend that a designated District employee collect and compile all supporting documentation for each FISAP report in an organized and referenced manner into one file and retained for audit purposes in accordance with federal record retention requirements. A separate District employee should perform a detailed review and trace the supporting documentation in the file to the numbers reported on the FISAP. This detailed review should be evidenced by a sign-off of the reviewer before it is approved for online submission.

Questioned Costs

None

District's Response

The District has revised the FISAP Report for fiscal year 2005-06 and resubmitted the report prior to the December 15, 2006 deadline. The procedures for preparing FISAP reports and monthly reconciliations will be more closely monitored to ensure the accuracy and timeliness of the reporting process.

Finding F-06-03 Special Tests and Provisions (Student Status Changes) – Late Reporting of Student Status Changes of FFEL or Direct Loan Borrowers to NSLDS

Programs affected: Student Financial Aid Cluster – U.S. Department of Education (DOE), Federal Family Education Loans (CFDA #84.032)

Award Year: 2005-2006

Award Number: 01255000-12550, 01255000-G12550, and 01255000-000452

Condition

In our sample of 30 FFEL/direct loan recipients who graduated, withdrew, or dropped out during the audit period, we noted one student from Los Angeles City College (City College) whose status changed but was not reported to the NSLDS within 30 days or included in a roster file within 60 days. The student withdrew on October 31, 2005, but was ultimately reported to the NSLDS as withdrawn January 13, 2006.

Criteria

Code of Federal Regulations, Title 34, Sec. 682.610 Administrative and fiscal requirements for participating schools.

(c) Student status confirmation reports. A school shall:

(1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and

(2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days:

a. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis

b. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended

c. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis

d. If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Effect

The District was late on its reporting the status change of a student.

Recommendation

We recommend that the District monitor its student status 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 this finding. The District has revised its reporting schedule to the Clearinghouse to transmit enrollment data on a monthly basis.

Finding F-06-04 –Equipment Management

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA).

Award Year: 2005-2006

Award Number: 05-C01-027

Condition

During our procedures performed over equipment management, we reviewed the District's policies and procedures over equipment disposals and noted that the District did not include specific provisions for equipment purchased with federal funds. The sampled authorization forms for disposals of equipment from Trade-Tech and West Los Angeles Colleges did not include funding source, the original acquisition value and current market value of the asset, proceeds from any cash received or trade-in value, the documentation of authorization from the funding or state agency, and the specific proposed transferred use/disposition for the equipment (i.e., new federal program number, and the like), as applicable.

Criteria

OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Sub-Part C, *Post Award Requirements, Property Standards*, Section 0.34 *Equipment* – (g) When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards:

- For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original Federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment.
- If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal awarding agency shall determine whether the equipment can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the equipment shall be reported to the General Services Administration by the federal awarding agency to determine whether a requirement for the equipment exists in other federal agencies. The federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request.

Chancellor's Office, California Community Colleges – *Grant Agreement*, Article II *Standard Legal Terms and Conditions*, No. 19 *Real Property and Equipment* – Upon completion or termination of the grant, or when real property or equipment is no longer useful or necessary for purposes of the grant, it may be disposed of as follows:

1. Equipment with an initial purchase price less than $5,000 may be disposed of as the Grantee deems appropriate.
2. If the Grant-funded project involves system-wide or regional coordination or technical assistance activities, the disposition of real property or equipment with an initial purchase price in excess of $5,000 shall be subject to the approval of the Chancellor's Office.
3. In all other cases, real property or equipment with an initial purchase price in excess of $5,000 may be sold or used in another program funded by the Chancellor's Office. If the real property or equipment is sold, the proceeds of the sale shall be returned to the program funded by this Grant or, if that program has been discontinued, to another program funded by the program has been discontinued, to another program funded by the Chancellor's Office; provided however, that the Grantee may retain $100 or 10% of the sale price (whichever is greater) to cover the costs of sale.
4. Equipment purchased with federal funds shall also comply with any additional or more stringent equipment management requirements applicable to the particular federal funding source.

Effect

Without adequate policies and procedures in place to properly identify equipment disposals acquired with federal funding, the District may be noncompliant with federal and state equipment requirements.

(Continued)

Questioned Costs

None

Recommendation

We recommend that the District enhance its current policies and procedures over the disposals of equipment to include some additional procedures/documentation for equipment acquired with federal funds. They should either enhance the current general equipment disposal forms or create an additional disposal form for federally funded equipment to include information regarding the market value of the equipment disposed or transferred to another program, cash proceeds, and approval from the awarding federal/state agency (as applicable).

District Response

The District concurs with this finding. The District will ensure that a policy is in place for proper identification and disposal of equipment purchased with VTEA 1C funds.

Finding F-06-05 – Equipment Records

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Award Year: 2005-2006

Award Number: 05-C01-027

Condition

While performing our testwork procedures over the equipment requirements we noted the following exceptions:

1. Of the 50 samples of equipment tested, seven samples from Trade-Tech College and two samples from West Los Angeles College did not have and tag numbers to enable us to physically inspect them and determine whether they were properly safeguarded and maintained.

2. We were not provided adequate documentation to enable us to trace selected equipment to property records for the six equipment samples at Mission College.

3. The equipment lists generated by the four colleges selected for testwork included the acquisition dates. However, because of missing tag numbers on the assets and the lists, we were not able to trace the acquisition information for following equipment samples to the equipment listing: two samples at West Los Angeles College, and one sample at Trade-Tech College.

Criteria

The A-102 Common Rule and OMB Circular A-110 states that the auditee must verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds the title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

Effect

Without adequate policies and procedures in place to properly identify equipment acquired with federal funding, the District is not in compliance with federal equipment tracking requirements.

Questioned Costs

$21,054 (represents the costs of the equipment exception noted in the condition section of the finding)

Recommendation

The colleges should establish and place an adequate system to ensure compliance with the equipment requirements. East, Trade-Tech, and West Colleges should tag the equipment purchased with the program fund with the name of the program, Trade-Tech and West should tag the program equipment with the property ID numbers, Mission College should maintain the inventory records, and Mission, Trade-Tech, and West College should include the acquisition date of the program equipment in the properly records.

District Response

The District concurs with this finding. The District has now implemented a procedure to properly tag any equipment purchased with VTEA 1C funds and to comply with federal regulations.

Finding F-06-06 – Exception to the Period of Availability

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor’s Office as Vocational and Technical Education Act (VTEA)

Award Year: 2005-2006

Award Number: 05-C01-027

Condition

Out of our sample of 50 purchase orders, we noted that one check for $616.98 was issued on May 8, 2006 and retained at Mission College waiting to be picked up, but the check had not been picked up as of the fieldwork in November 2006. As the check was not properly sent to the payee, this payment was not properly liquidated by the end of the liquidation period, which was September 30, 2006.

Criteria

Nonfederal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award and not later than 90 days after the end of the funding period.

Effect

By not liquidating the obligation within 90 days after the end of the funding period, the District was not in compliance with federal guidelines which.

(Continued)

Questioned Costs

$616.98 (total of the check noted above)

Recommendation

We recommend that the campus mail the disbursement checks to the payees instead of retaining at the college waiting to be picked up to ensure the liquidation within 90 days after the end of the funding period.

District Response

The District concurs with this finding. The District will have the campus mail the disbursement checks to the payees instead of retaining at the college waiting to be picked up to ensure the liquidation within 90 days after the end of the funding period.

Finding F-06-07 – Absence of Control for Procurement

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA) and Strengthening Institutions (CFDA #84.031)

Award Year: 2005-2006

Award Number: 05-C01-027 (VTEA) and P031S000018, P031A010051, P031S000080, P031S040010, P0315040034 (Strengthening Institutions)

Condition

During the inquiry and the testwork of procurement, we noted that the program purchases are approved at the college level, and the purchasing associates at the college level do not look up the Excluded Parties Listing System, or obtain the Certificate of Suspension and Debarment, to ensure the status of the vendor when a purchase order for the amount over $25,000 is placed. Based on discussions with the Contracts and Purchasing Manager, we noted the Purchase Orders (PO) are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the district office cannot distinguish the federally-funded program purchases that require additional procedures, from other purchases. Additionally, the current District policy is to look up the Excluded Parties Listing System for the purchases over $50,000.

Criteria

The OMB Circular A-133 states that the auditee is responsible for maintaining internal control over federal programs that provide 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.

Effect

By not looking up vendors on the Excluded Parties Listing System, or obtaining the Certificate of Suspension and Debarment, to ensure the status of the vendor when a purchase order is over $25,000, the District risks noncompliance with federal guidelines, which could impact future federal funding.

(Continued)

Questioned Costs

None

Recommendation

We recommend that the program director or staff indicate on the purchase orders on the SAP system that they are the federally funded program purchases, which need the vendor's status verification if the purchase is over $25,000. Furthermore, we recommend that the purchase department staff at the college level perform the verification of the vendor status on the Excluded Parties Listing System of all program purchases, and note the date of the procedure performed and the result of the verification on the Purchase Order (PO) on the SAP system.

District Response

The District concurs with this finding. The District will ensure that procurement regulations for federally funded programs are followed for procurement by VTEA 1C and Strengthening Institution funds. Vendor status will be verified as required for purchases of $25,000 or more.

Finding F-06-08 – Noncompliance with Procurement Requirements

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Award Year: 2005-2006

Award Number: 05-C01-027

Condition

We obtained and reviewed the 50 program-related procurement packages, and noted that there were no vendor contracts retained at the campus or the District office for one procurement package from West Los Angeles College, which totaled $31,812.51. We also noted that the price analysis, such as obtaining quotes to compare prices, were not performed for four procurements from Mission College, which totaled $7,768.39, one procurement from East Los Angeles College, which totaled $11,292.48, five procurements from Trade-Tech College, which totaled $34,547.77, and six procurements from West Los Angeles College, which totaled $16,986.25.

Criteria

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Post-Award Requirements, Procurement Standards, Section 0.24, Cost and Price Analysis. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

 (Continued)

Effect

By not maintaining supporting documents for purchases, as well as support for price analysis that is done by the District, the District was not in compliance with the federal procurement guidelines.

Questioned Costs

$102,407.40 (total of procurement exceptions noted above)

Recommendation

Per discussion with the District's Contracts and Purchasing manager, the purchase orders are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the district office cannot distinguish the federally-funded program purchases that require price analysis, from other purchases. We recommend that the program director or staff indicate on the purchase orders on the SAP system that they are the federally funded program purchases, which need the price analysis if under $5,000, three quotes if over $5,000 and under $65,100, and formal bids and Board approval if over $65,100. In addition, we recommend that the college procurement office or the District office retain the appropriate vendor contract on file for future reference.

District Response

The District concurs with this finding. The District has a procurement procedure for all purchases that require a price analysis. The District will provide additional training to ensure compliance with the federal procurement guidelines.

Finding F-06-09 – Time and Effort Reporting

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Award Year: 2005-2006

Award Number: 05-C01-027

Condition

Based on our review of the payroll expenses charged to VTEA program during various pay periods during the year, as well as our review of supporting documents, we noted that out of our 50 samples, the time and effort certification, or timesheet did not distinguish employees' direct activities from indirect activities during the respective pay period selected for testwork for the seven City College employees who were paid $4,114.50, one Mission College employee who was paid $897.81, two Southwest College employees who were paid $940.41, and two West Los Angeles College employees who were paid $864.06. In addition, we noted that the salaries for two Southwest College employees, who were paid a total of $4,397.90, were not supported with semiannual time and effort certification or log of activities.

Criteria

Section J of Circular A-21, *Cost Principles for Educational Institutions*, requires the following for expending for employee salaries:

- Compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits (see subsection (f)). These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs are determined and supported as provided below. Charges to sponsored agreements may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences. Incidental work (that is in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems described below, provided such work and compensation are separately identified and documented in the financial management system of the institution.

- Payroll distribution – the payroll distribution system will: (i) be incorporated into the official records of the institution; (ii) reasonably reflect the activity for which the employee is compensated by the institution; and (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection (a) need not be included.)

- Examples of Acceptable Methods for Payroll Distribution:

  – Plan Confirmation: Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

    (a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

    (b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection (a) need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (See Section H for treatment of F&A costs under the simplified method for small institutions.)

    (c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable.

The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection (b).

(d) The system will provide for modification of an individual's salary or salary distribution, commensurate with a significant change in the employee's work activity. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity that is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) At least annually, a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost, or other categories, are reasonable in relation to work performed.

(f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.

– After the fact Activity Records: Under this system, the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below.

(a) Activity reports will reflect the distribution of activity expended by employees covered by the system (compensation for incidental work as described in subsection (a) need not be included).

(b) These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(c) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection (b).

(e) For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

(f) Where the institution uses time cards or other forms of after the fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose, provided that they meet the requirements in subsections (a) through (e).

Effect

By not maintaining adequate supporting documentation for payroll expenses charged to VTEA program, the District was not in compliance with federal guidelines.

Questioned Costs

$11,215 (represents amounts paid to employees, with exception noted in the condition section above)

Recommendation

We recommend that the full-time employees sign on appropriate semiannual activity certification showing the percentages charged to the programs, and the supervisors of part-time employees appropriately review and approve their time sheets as required by the District policy. Also, the certification or time sheet should distinguish the employee's direct activities from indirect activities, which is not directly allocable to the program.

District Response

The District concurs with this finding. The District will provide additional training to ensure proper supporting documentation are maintained for payroll expenses charged to the VTEA program.

Finding F-06-10 – Eligibility – Controls over Eligibility Determination

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.042 and #84.044), Talent Search (CFDA #84.047), Upward Bound (CFDA #84.066), Educational Opportunity Centers (CFDA #84.066)

Award Year: 2003-2004 and 2004-2005

Award Number: P047A031089, P047A031090, and P047A040728

Condition

While performing our testwork procedures over the eligibility requirements, we noted the following: that two out of three colleges visited were unable to provide us with proper documentation evidencing that control was performed to ensure compliance with eligibility requirements: LA City College and Southwest College. Additionally, City College did not have proper segregation of duties between eligibility determination and review.

Criteria

OMB Circular A-133, Subpart 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 affected 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 to ensure that it has adequate controls in place to help ensure compliance with the program.

Questioned Costs

None

District Response

The District concurs with this finding. The colleges are implementing changes to ensure the determination of eligibility requirements are in compliance with the program.

Finding F-06-11 – Eligibility Exceptions

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Upward Bound (CFDA #84.047)

Award Year: 2003-2004 and 2004-2005

Award Number: P047A031089, P047A031090, and P047A040728

Condition

While performing our testwork procedures over the eligibility requirements, we noted the following exceptions from our 50 items sampled:

City College (Upward Bound Program)

1) One (1) participant did not meet the "low-income individual" criteria and was not a first generation college student.

2) One (1) participant's file did not include documentation to determine the participant's grade level.

3) Two (2) participants were missing documentation to determine their low-income status.

4) One (1) participant was missing assessment documentation to determine whether participant is in need of academic support.

Southwest College (Upward Bound Program)

One participant was missing documentation to determine the participant's grade level and whether the need for academic support existed.

Criteria

The Title IV – Higher Education Act of 1965 authorizes Institutions of Higher Education to assist specific students achieve success at the postsecondary level by facilitating high school completion and entry, retention, and completion of the postsecondary education. To be eligible for the TRIO programs services, students need to be first generation college and economically disadvantaged students. The term ''low-income individual'' in the regulations means an individual from a family whose taxable income for the preceding year did not exceed 150% of an amount equal to the poverty level determined by using criteria of poverty established by the Bureau of the Census. Additional criteria needed to be met to be eligible to participate in the program require that the student is one of the following: a student is at least 13 years old, but not older than 19, or, at the time of initial selection, the student has completed 8th grade, but not entered in the 12th grade.

Effect

By not obtaining and maintaining documentation to support the student's eligibility in the program, the District was not in compliance with federal guidelines.

Recommendation

We recommend each college strengthen its controls over the eligibility determination to ensure compliance with the eligibility requirements. This should include maintaining supporting documentation to support the eligibility assessments made by each college.

Questioned Costs

$2,791 (the amounts disbursed to participants with exceptions noted above)

District's Response

The District concurs with this finding. The colleges are implementing changes to ensure the determination of eligibility requirements are in compliance with the program.

Finding F-06-12 – Lack of Payroll Controls

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.042), Talent Search (CFDA #84.044), Upward Bound (CFDA #84.047), Educational Opportunity Centers (CFDA #84.066)

(Continued)

Award Year: 2003-2004, 2004-2005, 2005-2006

Award Number: P047A031090, P047A031089, P047A040728, and P042A05090

Condition

Per discussion with the Program Specialists in City College, it appears that there is no control over the payroll of the Upward Bound program. Also, there is no control over the payroll of the Upward Bound and SSS programs at Southwest College. No review is performed on the employees' time sheets.

Criteria

The OMB Circular A-133 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 program."

Effect

Without effective controls over the eligibility of payroll allocated to the respective federal programs, the District risks noncompliance with federal guidelines, which could impact federal funding.

Recommendation

We recommend that proper review by the supervisor or director should be performed over the timesheets of the employees whose time is charged for the Upward Bound and SSS programs in City College, and Upward Bound in Southwest College

Questioned Costs

None

District's Response

The District concurs with this finding. The District will review its timesheet procedures to ensure proper controls in payroll.

Finding F-06-13 – Allowable Costs (Payroll Compliance Exceptions)

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.042), Talent Search (CFDA #84.044), Upward Bound (CFDA #84.047), Educational Opportunity Centers (CFDA #84.066)

Award Year: 2002-2003 and 2005-2006

Award Number: P042A050900 and P044A021099

(Continued)

Condition

We obtained and reviewed the selected program-related payroll expenses at City College, West Los Angeles College, and Southwest College for 50 employees, and noted that the payroll tested was not supported with semiannual time and effort certification or log of activities at the following college:

- Four employees at Southwest College, which totaled $19,147.13 as follows:
  - One employee's pay totaled $5,500.17 (for the period February 1, 2006 through February 28, 2006)
  - One employee's pay totaled $4,922.06 (for the period February 1, 2006 through February 28, 2006 and December 1, 2005 through December 15, 2005)
  - One employee's pay totaled $1,852.01 (for the period August 15, 2005 through August 31, 2005)
  - One employee's pay totaled $6,883.89 (for the period July 1, 2005 through August 15, 2005)

Finally, the timesheets for the one employee's time sheet at Southwest College was not supported by a time sheet for the pay period July 1, 2005 through August 31, 2005 ($3,235.80 paid to employee) and another employees time sheet at the same college did not include the appropriate supervisors signature evidencing the time sheet had been reviewed and approved for the April 14, 2006 through April 30, 2006 pay period ($975.25 paid to employee).

Criteria

Section J of Circular A-21, *Cost Principles for Educational Institutions*, requires the following for expending for employee salaries:

- Compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits (see subsection (f)). These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs are determined and supported as provided below. Charges to sponsored agreements may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences. Incidental work (that is in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems described below, provided such work and compensation are separately identified and documented in the financial management system of the institution.
- Payroll Distribution: The payroll distribution system will: (i) be incorporated into the official records of the institution; (ii) reasonably reflect the activity for which the employee is compensated by the institution; and (iii) encompass both sponsored and all other activities on an integrated basis, but

may include the use of subsidiary records. (Compensation for incidental work described in subsection (a) need not be included.)

- Examples of Acceptable Methods for Payroll Distribution:

  – Plan Confirmation: Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

    (a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

    (b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection (a) need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (See Section H for treatment of F&A costs under the simplified method for small institutions.)

    (c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection (b).

    (d) The system will provide for modification of an individual's salary or salary distribution, commensurate with a significant change in the employee's work activity. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity that is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

    (e) At least annually, a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost, or other categories, are reasonable in relation to work performed.

    (f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

    (g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.

– After the fact Activity Records: Under this system the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below.

(g) Activity reports will reflect the distribution of activity expended by employees covered by the system (compensation for incidental work as described in subsection (a) need not be included).

(h) These reports will reflect an after the fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(i) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

(j) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection (b).

(k) For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

(l) Where the institution uses time cards or other forms of after the fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose, provided that they meet the requirements in subsections (a) through (e).

Effect

By not maintaining supporting documentation for salaries paid with federal funds, the District was not in compliance with the federal guidelines. Additionally, by not maintaining effective internal controls over this compliance requirement, the District risks future noncompliance with federal guidelines, which could impact federal funding.

Recommendation

We recommend that the full-time employees sign an appropriate semiannual activity certification showing the percentages charged to the programs, and the supervisors of part-time employees appropriately review and approve their time sheets as required by the District policy. Also, we recommend that the program director of each college review the expenditure reports periodically to ensure accuracy of the salary expenses charged to the program.

(Continued)

Questioned Costs

$23,358 (represents amount of payment to employees, in exception noted in the condition section of finding)

District's Response

The District concurs with this finding. The District will conduct additional training for the persons responsible for the approval of allowable costs to properly document the time spent on the program.

Finding F-06-14 – Noncompliance with Procurement Requirements

Programs affected: TRIO Cluster – U.S. Department of Education (DOE), Student Support Services (CFDA #84.042), Talent Search (CFDA #84.044), Upward Bound (CFDA #84.047), Educational Opportunity Centers (CFDA #84.066)

Award Year: 2003-2004 and 2004-2005

Award Number: P047A031090, P047A031089, P047A040728, and P044A021099

Condition

We noted that the price analysis, such as obtaining quotes to compare prices, was not performed for 27 of the 50 purchases tested (12 purchases at City College, which totaled $16,830.34 and 15 purchases at Southwest College, which totaled $23,627.43).

Criteria

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Post-Award Requirements, Procurement Standards, Section 0.24, Cost and Price Analysis. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Post-Award Requirements, Procurement Standards, Section 0.47, Contract Administration. A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow-up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions, and specifications of the contract.

Section 0.48 (a) Contracts in excess of the small purchase threshold ($25,000) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms, and provide for such remedial actions as may be appropriate.

Section 0.48 (b) All contracts in excess of the small purchase threshold shall contain suitable provisions for termination by the recipient, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default, as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.

Section 0.48 (e) All contracts, including small purchases, awarded by recipients and their contractors shall contain the procurement provisions of Appendix A to this Circular, as applicable.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Appendix A. All contracts, awarded by recipient including small purchases, shall contain the following provisions as applicable:

1. Equal Employment Opportunity
2. Copeland "Anti-Kickback" Act (18 U.S.C. 874 and 40 U.S.C. 276c) – applicable for contracts and subgrants in excess of $2,000 for construction or repair
3. Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7) – applicable for contracts and subgrants in excess of $2,000 for construction
4. Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333) – applicable for contracts and subgrants in excess of $2,000 for construction and in excess of $2,500 for other contracts that involve mechanics or laborers
5. Rights to Inventions Made under a Contract or Agreement – applicable for contracts or agreements for the performance of experimental, developmental, or research work
6. Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended – applicable for contracts and subgrants of amounts in excess of $100,000
7. Byrd Anti-Lobbying Amendment (31 U.S.C. 1352) – applicable for contractors who apply or bid for an award of $100,000 or more
8. Debarment and Suspension (E.O.s 12549 and 12689)

Effect

By not complying with the federal procurement requirements, the District risks additional future noncompliance with federal guidelines, which could result in disallowed costs and impact federal funding.

Recommendation

Based on discussions with the Contracts and Purchasing manager, the purchase orders are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the district office cannot distinguish the federally-funded program purchases that require price analysis, from other purchases. We recommend that the program director or staff indicate on the purchase orders on the SAP system that they are the federally funded program purchases, which needs the price analysis if under

$5,000, three quotes if over $5,000 and under $65,100, and formal bids and board approval if over $65,100.

Questioned Costs

$40,458 (Cost of purchase noted in the condition section of finding)

District's Response

The District concurs with this finding. The District has a procurement procedure for all purchases that require a price analysis. The District will provide additional training to ensure compliance with the federal procurement guidelines.

Finding F-06-15 – Controls over Equipment Management

Programs affected: U.S. Department of Education (DOE), Strengthening Institutions (CFDA #84.031)

Award Year: 2000-2001, 2004-2005, and 2005-2006

Award Number: P031S000018, P031S040034, P031S050038, and P031S040010

Condition

Based on our discussions with the Strengthening Institutions (SI) Program Officials at West Los Angeles College, Mission College, City College, and Harbor College, we noted that there are no controls over the equipment at either the college level, nor at the District level. The District does not have an updated inventory of equipment located at various schools and the colleges do not maintain an updated inventory list at their level either. Additionally, during our visits at different schools, the District supplied each of the colleges with a fixed assets report and school officials were required to localize the equipments and affix the appropriate tag numbers.

We reviewed the District's policies and procedures over equipment disposals and noted that the District did not include specific provisions for equipment purchased with federal funds.

Criteria

The OMB Circular A-133 states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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."

OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, *Post Award Requirements, Property Standards*, Section 0.34 *Equipment* – (g) When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards:

- For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses, provided that compensation is made to the original federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment.

- If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal awarding agency shall determine whether the equipment can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the equipment shall be reported to the General Services Administration by the federal awarding agency to determine whether a requirement for the equipment exists in other federal agencies. The federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request.

Chancellor's Office, California Community Colleges –*Grant Agreement*, Article II, *Standard Legal Terms and Conditions*, No. 19, *Real Property and Equipment* – Upon completion or termination of the Grant, or when real property or equipment is no longer useful or necessary for purposes of the Grant, it may be disposed of as follows:

1. Equipment with an initial purchase price less than $5,000 may be disposed of as the Grantee deems appropriate.

2. If the Grant-funded project involves system-wide or regional coordination or technical assistance activities, the disposition of real property or equipment with an initial purchase price in excess of $5,000 shall be subject to the approval of the Chancellor's Office.

3. In all other cases, real property or equipment with an initial purchase price in excess of $5,000 may be sold or used in another program funded by the Chancellor's Office. If the real property or equipment is sold, the proceeds of the sale shall be returned to the program funded by this Grant or, if that program has been discontinued, to another program funded by the Chancellor's Office; provided however, that the Grantee may retain $100 or 10% of the sale price (whichever is greater) to cover the costs of sale.

4. Equipment purchased with federal funds shall also comply with any additional or more stringent equipment management requirements applicable to the particular federal funding source.

Effect

Without adequate policies and procedures in place to properly identify and track equipment acquired with federal funds, the District risks additional future noncompliance with federal equipment management requirements.

Questioned Costs

None

Recommendation

We recommend that the District implement an adequate control system in place to ensure compliance with the equipments requirements. Also, we recommend that the district policy should be updated to include appropriate provision for the equipment purchased with federal funds. Without adequate policies and procedures in place to properly identify equipment disposals acquired with federal funding, the District may be noncompliant with federal and state equipment requirements

District's Response

The District concurs with this finding. The District will review the procurement policy to ensure there is compliance with equipment purchased with federal funds and equipment disposals acquired with federal funding.

Finding F-06-16 – Equipment Management and Records

Programs affected: U.S. Department of Education (DOE), Strengthening Institutions (CFDA #84.031)

Award Year: 2004-2005 and 2005-2006

Award Number: P031S040010, P031S040034, and P031S050038

Condition

During our testwork procedures over the equipment compliance requirements, we noted the following during our testwork at City College, West Los Angeles College, Harbor College, and Mission College:

1. One out of four selected colleges had equipment with missing tag numbers, as follows: West Los Angeles College: We could not verify whether two out 18 equipments selected had tag numbers, because they were still in the box.

2. One out of four selected colleges (West Los Angeles College) did not identify equipments as SI funded equipments.

3. One out of four selected colleges (Mission College) did not have an inventory list. Consequently, we were unable to perform testwork on equipments.

4. Two out four selected colleges could not locate equipments as follows:

   a. Harbor College: One out of five selected equipments could not be located; equipment was not at the location provided in the Inventory list.

   b. West Los Angeles College: One out of 18 selected equipments could not be located and no attestation was provided by the teacher who presumably possesses the equipment.

Criteria

The requirements for equipment contained in the A-102 Common Rule (§___.32), OMB Circular A-110 (§___.34), federal awarding agency program regulations, and the terms and conditions of the award, state the following:

Property records for equipments acquired under federal awards should contain the following information: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal, and sales price or method used to determine current fair market value.

Effect

Given the exceptions noted above, the District was not in compliance with the federal equipment management requirements.

Questioned Costs

$8,687 (represents amount of equipment changes related to exceptions noted above)

Recommendation

The District should establish and place an adequate system to ensure compliance with the equipment/real properties requirements

District's Response

The District concurs with this finding. The District will review the procurement policy to ensure compliance with equipment purchased with federal funding.

Finding F-06-17 – Supplement Not Supplant

Programs affected: U.S. Department of Education (DOE), Strengthening Institutions (CFDA #84.031)

Award Year: 2000-2001, 2004-2005, 2005-2006

Award Number: P031S000018, P031S040034, P031S050038, and P031S040010

Condition

KPMG obtained and reviewed the supplement not supplant analysis of West Los Angeles College, City College, Mission College, and Harbor College, and verified that the understanding of the requirement was documented, and included in the analysis was the statement that there was no supplanting. Also, the program directors documented that they review the grant expenditures to ensure that it is in line with the program objective.

However, the analysis was not originally supported by the quantitative comparison of the amounts spent from the General Fund and from the federal funding. The review of each grant expenditure itself does not ensure the compliance to the supplement not supplant requirement, as the requirement involves the source of the funding, not the purpose or allowability of the funding.

Criteria

The OMB Circular A-133 states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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."

(Continued)

An SEA and LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the federal funds, be made available from nonfederal sources for the education of participating students. In no case may an LEA use federal program funds to supplant funds from nonfederal sources (Title I, Part A, Section 1120A(b) of ESEA (20 USC 6321(b)); MEP, Section 1304(c)(2) of ESEA (20 USC 6394(c)(2)); Title III, Section 3115(g) of ESEA (20 USC 6825(g)); SDFSCA, Section 4113(a)(8) of ESEA (20 USC 7113(a)(8)); 21st CLCC, Section 4204 of ESEA (20 USC 7174(b)(2)(G)); Title V, Part A, Section 5144 of ESEA (20 USC 7217c); Ed Tech, Section 2413(b)(6) of ESEA (20 USC 6763(b)(6)); *MSP*, Section 2202(a)(4) of ESEA (20 USC 6662(a)(4)); and Title II, Part A, Sections 2113(f) and 2123(b) of ESEA (20 USC 6613(f) and 6623(b))).

In the following instances, it is presumed that supplanting has occurred:

a. The SEA or LEA used federal funds (except Bilingual) to provide services that the SEA or LEA was required to make available under other federal, state, or local laws.

b. The SEA or LEA used federal funds to provide services that the SEA or LEA provided with nonfederal funds in the prior year.

c. The SEA or LEA used Title I, Part A or MEP funds to provide services for participating children that the SEA or LEA provided with nonfederal funds for nonparticipating children.

These presumptions are rebuttable if the SEA or LEA can demonstrate that it would not have provided the services in question with nonfederal funds had the federal funds not been available.

Effect

Noncompliance with “supplement not supplant” requirements could be considered a material instance of noncompliance by the granting agency. Although the quantitative supplement not supplant was not performed prior to June 30, 2006, the District did go back and perform the necessary analysis and no compliance issues were noted.

Questioned Costs

None

Recommendation

We recommend that the colleges receiving the Strengthening Institutions funding incorporate into their internal control procedures the performance of the quantitative analysis of the funding sources of the program expenditures every year to ensure that the colleges are in compliance with the supplement not supplant requirement, and the appropriate college official should review and approve the analysis to ensure the completeness and accuracy of the analysis

District’s Response

The District will work with the colleges to ensure the quantitative analysis of the funding sources of the program expenditures every year are done so that the colleges are in compliance with the supplement not supplant requirement.

(Continued)

Finding F-06-18 – Noncompliance with Procurement Requirements

Programs affected: U.S. Department of Education (DOE), Strengthening Institutions (CFDA #84.031)

Award Year: 2000-2001, 2004-2005, and 2005-2006

Award Number: P031S000018, P031S050038, P031S040034, and P031S040010

Condition

We obtained and reviewed the selected 50 program-related procurement packages, and noted that there was no vendor contract retained at the campus or the District office for the following six procurements at Mission College, which totaled $90,637.10, and one procurement at City College, which total $4,702.38.

We also noted that the price analysis, such as obtaining quotes to compare prices, was not performed for 10 program purchases at West College, which totaled $42,809.55, four program purchases at Mission College, which totaled $12,266.34, and one program purchase at Harbor College, which totaled $5,072.80.

Criteria

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Post-Award Requirements, Procurement Standards, Section 0.24, Costs and Price Analysis. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Post-Award Requirements, Procurement Standards, Section 0.47, Contract Administration. A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions, and specifications of the contract and to ensure adequate and timely follow-up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions, and specifications of the contract.

Section 0.48 (a) Contracts in excess of the small purchase threshold ($25,000) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms, and provide for such remedial actions as may be appropriate.

Section 0.48 (b) All contracts in excess of the small purchase threshold shall contain suitable provisions for termination by the recipient, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default, as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.

Section 0.48 (e) All contracts, including small purchases, awarded by recipients and their contractors shall contain the procurement provisions of Appendix A to this Circular, as applicable.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Appendix A. All contracts, awarded by recipient including small purchases, shall contain the following provisions as applicable:

1. Equal Employment Opportunity
2. Copeland "Anti-Kickback" Act (18 U.S.C. 874 and 40 U.S.C. 276c) – applicable for contracts and subgrants in excess of $2,000 for construction or repair
3. Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7) – applicable for contracts and subgrants in excess of $2,000 for construction
4. Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333) – applicable for contracts and subgrants in excess of $2,000 for construction and in excess of $2,500 for other contracts that involve mechanics or laborers
5. Rights to Inventions Made under a Contract or Agreement – applicable for contracts or agreements for the performance of experimental, developmental, or research work
6. Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended – applicable for contracts and subgrants of amounts in excess of $100,000
7. Byrd Anti-Lobbying Amendment (31 U.S.C. 1352) – applicable for contractors who apply or bid for an award of $100,000 or more
8. Debarment and Suspension (E.O.s 12549 and 12689)

Effect

Noncompliance with federal guidelines resulted in potential disallowed costs.

Questioned Costs

$155,488 (represents amounts of procurements tied to exceptions noted in condition section of this finding)

Recommendation

Based on discussions with the District's Contracts and Purchasing manager, the purchase orders are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the District office cannot distinguish the federally-funded program purchases that require price analysis from other purchases. We recommend that the program director or staff indicate on the purchase orders on the SAP system that they are the federally funded program purchases, which need the price analysis if under $5,000, three quotes if over $5,000 and under $65,100, and formal bids and board approval if over $65,100. In addition, we recommend that the college procurement office or the District office retain the appropriate vendor contract on file for future reference.

(Continued)

The blanket contract for GST expired in May 2005, and the program purchases from GST during fiscal year ended June 30, 2006 needed the price analysis. It is possible that the program staff and director did not know about the expired contract. We recommend that the vendor information in the SAP system indicate the expiration date of the blanket contract so that the program staff and directors at the college level can look up, or otherwise communicate, the expiration date of the blanket contracts.

District's Response

The District concurs with this finding. The District has a procurement procedure for all purchases that require a price analysis. The District will provide additional training to ensure compliance with the federal procurement guidelines.

SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2006

State findings and recommendations	Finding numbers	Not implemented	Fully implemented
Current Year:			
1. Salaries of Classroom Instructors (50% Law) (Section 421) – Incorrect Computations	S-06-01	X	
2. Apportionment for Instructional Service Agreement (Section #423) – Course Listings	S-06-02	X	
3. Residency Determination for Credit Courses (Section 425) – Residency Codes	S-06-03	X	
4. Concurrent Enrollment (Section 427) – Teacher Qualifications	S-06-04	X	
5. Matriculation (Section 428) – Approval of Matriculation Plans	S-06-05	X	
6. Matriculation (Section 428) – Approval of Matriculation Plan by Chancellor's Office	S-06-06	X	
7. Improper salary classification (Section 327) – Instructional costs	S-06-07	X	
8. CalWorks (Section 433) – Variances in Salary Expenses	S-06-08	X	
9. Minimum Conditions (Section 436) – Repeated Courses	S-06-09	X	
10. Student Fees (Section 437) – Student Material Fees	S-06-10	X	
11. Student Fees (Section 437) – Support for Student Material Fees	S-06-11	X	
12. Matriculation (Section 428) – Support for Expenses	S-06-12	X	

Current Year State Findings and Recommendations

Finding S-06-01 – Salaries of Classroom Instructors (50% Law) (Section # 421)

Specific Requirement

A) Verify that the appropriate amounts/allocations of benefits have been included in "instructional salary costs."

B) Determine that the District has excluded the appropriate amounts from the 50% law calculation.

C) Test a sample of instructors that have noninstructional assignments or that are on reassigned time for administrative purposes and verify that the appropriate allocation of salaries and benefits for these individuals is excluded from "instructional salary costs."

Identified Condition

A) We verified that the appropriate amounts/allocations of benefits have been included in "instructional salary costs." Based on our testwork, we noted that the benefits included on the District's 50% analysis were computed incorrectly and inconsistently. We noted the following findings:

1) The "instructional salary costs" (column 1) benefits total of $43,794,207 did not include *all* instructional benefits. Instructional *classified* benefits of $3,867,378 were not included in the total.

2) One of the line items (GL #371000) in the computation of the instructional *certificated* benefits did not cross-foot correctly. The total for this line item was noted as $630,306, however, should have been recorded as $441,042; a difference of $189,264.

3) The "CEE" (column 2) benefits total of $89,708,583 was computed incorrectly and inconsistently with the column 1 total. The District attempted to take total salaries and multiply them by a benefits percentage of 35.90%. Based on our review of the calculation, we noted that this percentage has nothing to do with benefits and is simply a computation of classified salaries/total salaries. The total benefits should have been $89,950,761.

B) We noted that the "less exclusions for current expense of education" line item included on the District's 50% analysis was computed incorrectly. Based on our testwork, we noted that $1,626,604 was improperly included in the exclusions line item by the District. We also noted that this amount pertains to functional areas greater than 6799, which are not included in the District's analysis. Finally, we noted that four line items starting with GL # 5XXXXX did not tie to the general ledger detail provided by the District. The District's calculation- $19,200,283; KPMG's calculation- $18,067,027; Difference- $1,133,256

C) Based on our review of supporting documentation, we noted that the District stated 10 of the 25 instructor's salaries incorrectly, due to such issues as changes in salaries associated with people changing job responsibilities and employees not getting paid for doctorial differences. Based on our calculations, we noted that the salary expenses for the sampled populations should have been $29,438 higher than the salary the District reported. The exceptions we noted would not have adversely impacted the District's 50% analysis.

Questioned Costs.

None

Effect

By not properly calculating the 50% analysis, the District may be relying on incorrect conclusions, which could impact the District's compliance with the *Education Code* Section 84362.

Recommendation

We recommend that the District revise their benefits spreadsheet and review it for completeness and consistency with the requirements of *Education Code* Section 84362. We also recommend that the District further review the State Compliance guidelines and the CCFS-311 instructions.

District's Response

The District concurs with this finding. The District has revised and submitted the following 50% law worksheet, benefits spreadsheet, less exclusions for current expense of education worksheet, and the instructional salary and benefit worksheets, to ensure accuracy and compliance with the State Guidelines for the CCFS-311.

Finding S-06-02 – Apportionment for Instructional Service Agreements (Section # 423)

Specific Requirement

Determine whether the college or District offers instruction under any Instructional Service Agreements.

Identified Condition

We noted, based on discussion with a Senior Research Analyst, that the District does not track how many courses at the campus level are conducted under an instructional agreement/contract, are held off campus, or are claimed for FTES. We contacted the campuses and requested and obtained the required information; however, the District should maintain a complete listing of this information.

(Continued)

Effect

As a complete listing of Instructional Service Agreements is not maintained, there is a risk that agreements will be executed that don't comply with the District and State guidelines.

Questioned Costs

None

Recommendation

We recommend that the District keep track of the Instructional Service Agreements that are in effect. This will provide auditors with a complete listing of the Agreements. Currently, we are depending on the campuses to identify the Instructional Service Agreements that they have in place; this creates room for error.

District's Response

The District concurs with this finding. The District will explore system modifications to track such data.

Finding S-06-03 – Residency Determination for Credit Courses (Section # 425)

Criteria/Specific Requirement

Test the supporting residency documentation of a sample of students in credit courses to determine whether each student has been properly classified as either a "resident" or a "nonresident."

Identified Condition

Based on our review of the "application of admission," we noted that six of the 25 students tested had listed a major American city as a birth place on the form; however, there was no residency code indicated by the office person that reviewed the application. This discrepancy was noted for four students at Southwest College and two students at West College.

Effect

By not properly documenting residency information, the District may inadvertently claim apportionment based on incorrect information.

Questioned Costs

$849 (apportionment claimed for the nonresident students noted above – $3,860.58 * 0.22 FTES)

Recommendation

We recommend that the appropriate office personnel certify the "application of admission" form by physically writing in and verifying the residency code on the form.

District's Response

The District concurs with this finding. The District has implemented an automated system that utilizes the state residency algorithm. In addition, there is increased use of the electronic application process through CCC Apply, which results in required residency checking and compliance.

(Continued)

Finding S-06-04 – Concurrent Enrollment (Section # 427)

Criteria/Specific Requirement

Determine if the instructor teaching each course satisfies applicable minimum qualifications. Determine if instruction for each course was conducted under the immediate supervision and control of the responsible District employee.

Identified Condition

Out of our sample of 25 employees, we noted that two employees did not satisfy the minimum qualifications. As such, they should not be considered responsible District employees for supervision:

1) The District had sent Pierce College and the employee a notification on February 11, 2006 that the employee was not eligible to teach. The employee did not have a BA or an additional year of experience and we verified this on November 16, 2006.

2) The District had notified the Southwest College employee on March 21, 2006 to submit his evaluation process sheets. The employee has not submitted them since then, and as such should not be teaching. We verified this information on November 16, 2006.

Effect

By not effectively tracking and ensuring compliance with the state's minimum qualifications, the District is at risk of apportionment allocated from the State.

Questioned Costs

$97,760 (the number of FTES claimed for the instructional activities noted above – $3,860.58*25.3227 FTES)

Recommendation

We recommend that the District hire a compliance specialist for each of the colleges. This individual can monitor and enforce state requirements on a regular basis.

District's Response

The District concurs with this finding. The District's Internal Audit Department will help establish a policy to enforce the state requirements on a regular basis.

Finding S-06-05 – Matriculation (Section # 428)

Criteria/Specific Requirement

Contact the matriculation coordinator to review the state approved matriculation plans for credit and noncredit, and discuss any modifications and matriculation related-activities not identified in the plan.

Identified Condition

Consistent with the prior years, 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*. We noted that Southwest College did not provide us their approved credit or noncredit matriculation plans, and Trade-Tech College and City College did not provide their approved noncredit matriculation plans.

Effect

By not having state approved matriculation plans, the District is not maximizing the funding that is available to cover approved matriculation activities.

Questioned Costs

$410,851 (total expenditures claimed for matriculation-related activities for the colleges noted above)

Recommendation

We recommend that the individual colleges prepare, review, and submit their matriculation plans on a timely basis for approval by the State.

District's Response

The State Chancellor's office has granted an extension to submit changes for Southwest College's credit and noncredit matriculation plans. Trade Technical College has already submitted the noncredit matriculation plan.

Finding S-06-06 – Matriculation (Section # 428)

Specific Requirement

Colleges are required to report any changes to their credit and/or noncredit plans and to submit plan revisions/updates to the Chancellor's Office for approval

Identified Condition

We noted that City College's credit and noncredit matriculation plans were not signed and approved by the Chancellor's Office. In addition, Trade-Tech's College credit matriculation plan was not signed and approved by the Chancellor's Office.

Effect

By not following the state's requirements, the District is at risk of loosing funding available to cover approved matriculation activities.

Questioned Costs

None

Recommendation

We recommend that the individual colleges submit their matriculation plans to the Chancellor's Office on a timely basis for approval.

(Continued)

District's Response

The colleges have resubmitted with required signatures the credit and noncredit matriculation plans.

Finding S-06-7 – Improper Salary Classification – Instructional Costs (Section # 327)

Specific Requirement

Community College District's are required to report on the CCFS-311 report supplemental data of Expenditures by Activity in the proper Activity Classification. There should be no instructional salary and benefit costs for Activity Classification greater than 5999, except 6110, 6820, and 7010.

Identified Condition

We noted that 4 of the 25 selections were reported incorrectly on the CCFS-311 report. We noted that the District was also incorrectly including instructional costs as part of these totals.

1) Library (6120 Total) – amount reported should have been reduced by $852,353.
2) Media (6130 Total) – amount reported should have been reduced by $249,434.
3) Custodial (6530 Total) – amount reported should have been reduced by $31,646.
4) Child Dev. (6920 Total) – amount reported should have been reduced by $216,245.

Note: All of the above mentioned LACCD totals incorrectly included instructional costs.

Effect

By not properly reporting instructional salary and benefit costs, the District is understating instructional costs in the CCFS-311 report.

Questioned Costs

None

Recommendation

We recommend that the District review and address the issues noted above related to the preparation of the CCFS-311 instructions before preparing the report.

District's Response

The District agrees with this finding. The District will review the reporting of instructional costs on the 311 report, to ensure compliance with the CCFS-311 guidelines.

Finding S-06-08 – CalWorks (Section # 433)

Specific Requirement

Determine that CalWorks program expenditures reported to the Chancellor's Office agree with District accounting records.

Identified Condition

Based on our review of supporting documentation, we noted two variances (out of 25 selections) pertaining to CalWorks related salaries, which are summarized as follows:

1) #803445/July 1-15 2005: $136 understatement

2) #1000226/Sep. 2005-Mar. 2006: $96 understatement

Effect

The salary information reported to the Chancellor's Office was understated by $232.

Questioned Costs

$232 (see understatements noted above)

Recommendation

We recommend that the District hire a consultant who is familiar with the SAP payroll system, and who can train the payroll department.

District's Response- Pending

The District concurs with this finding. The District is continuing to work with HR and payroll to resolve payroll issues noted in the processing of salary disbursements.

Finding S-06-09 – Minimum Conditions (#436)

Criteria/Specific Requirement

A) Test a sample of student records for students who have repeated courses, to determine if the courses repeated are in compliance with the District's adopted regulations and determine if the District maintains a true and complete academic history showing all course repetitions.

B) Test a sample of student records for students who have repeated courses. For courses designated as repeatable, determine if *repeated* courses were claimed by the District for apportionment for no more than 3 semesters.

Identified Condition

A) We note that there were seven students from Mission College and one student from West Los Angeles College (out of 25 total selections) that took more than the allowable number of repeats for a course.

B) We noted that the District claimed state apportionment for more than the allowable number of semesters for three students from Mission College and three students from West College, of the 25 students in our sample.

Effect

By not properly tracking students repeating courses, the District is at risk for possible disallowed costs for amounts claimed for apportionment incorrectly.

Questioned Costs

$3,668 (apportionment claimed for eight students noted above – $3,861 *0.95 FTEs)

Recommendation

We recommend that the District implement a policy to have the schools run a repeat report after the close of a semester, to catch these situations. We also recommend the colleges implement an adequate control structure to ensure proper follow-up with the illegal repeat reports, including the resolving of all issues. In addition to the campuses implementing improved procedures over working the repeat reports, we recommend that District Attendance Accounting perform spot checks on the number of repeat courses that are claimed for state apportionment.

District's Response

The District concurs with this finding. The District will implement a policy to have the schools run a repeat report after the close of a semester, to ensure compliance with District's policy on minimum conditions. The system automatically blocks students from enrolling if they exceed the courses repeat threshold. In half the cases, the repeats were achieved by the use of a manual override, which is necessary because there are times when such repeats are allowable. The system does not block a student from enrolling in a class for a 3rd time if the previous grades were substandard (D, F, or NCR), but we are supposed to enroll them in a non-FTES generating section of the course.

Finding S-06-10 – Material Fees (#437)

Criteria/Specific Requirement

Identify the population of instructional materials fees charged by the District and test a sample of instructional materials fees charged by the District, to ensure that the instructional materials have continuing value to the students outside of the classroom setting and are tangible personal property that is owned or primarily controlled by the student.

Identified Condition

We noted that the District was unable to explain what four of the 25 materials fees in our sample were for, which are summarized as follows:

1) $33.75 – 80008-P0947 (Posting-3/17/06) (Pierce)

2) $175.48 – 80008-P0947 (Posting-3/17/06) (Pierce)

3) $194.90 – 80008-P0947 (Posting-3/7/06) (Pierce)

4) $169.82 – 80008-P0947 (Posting-6/8/06) (Pierce)

Effect

By not maintaining detailed records to support material fees, the District is at risk for potential disallowed costs.

Questioned Costs

$574 (material fees noted above)

Recommendation

We recommend that the District maintain detailed records of student materials fees.

District's Response

The District concurs with this finding. The District will implement a procedure to ensure detail records of material fees are maintained.

Finding S-06-11 – Material Fees (#437)

Criteria/Specific Requirement

- If there are any fees identified as optional, test a sample of the optional fees to ensure that fees are clearly described to the students as optional and cannot be mistaken as required fields.
- If there are any fees that are required, test a sample of the mandatory instructional materials fees to ensure that the District can justify requiring the student to purchase the material from it.

Identified Condition

We noted that Pierce and Trade-Tech College were unable to provide explanations/support regarding whether these materials fees for 15 of our 25 selections were optional or mandatory to students with fees which totaled $2,452.

Effect

By not maintaining supporting documentation, the District is at risk for potential disallowed costs.

Questioned Costs

$2,452 (material fees related to exceptions noted above)

Recommendation

We recommend that the individual colleges properly organize and file away all necessary syllabi for a minimum of two years.

District's Response

The District concurs with this finding. The District will implement procedures to ensure that all students are properly notified of instructional material fees.

(Continued)

Finding S-06-12 – Matriculation (Section # 428)

Criteria/Specific Requirement

Trace a sample of the reported expenditures to their supporting documentation.

Identified Condition

Based on our review of supporting documentation, we noted certain variances pertaining to matriculation related salaries, which are summarized as follows:

1) #819667/payroll posting date 7/15/05: the actual payroll incurred was $37.68 less than what was reported

2) #1006837/payroll posting date 5/15/06: the actual payroll incurred was $38.64 less than what was reported

3) #1005801/payroll posting date 5/15/06: the actual payroll incurred was $9.66 less than what was reported

Effect

By not properly tracking payroll costs, incorrect amounts were reported to the State.

Questioned Costs

$86 (see payroll differences noted above)

Recommendation

We recommend that the District hire a consultant who is familiar with the SAP payroll system to address the exceptions noted in the processing of salary disbursements at the District.

District's Response

The District concurs with this finding. The District is continuing to work with HR and payroll to resolve payroll issues noted in the processing of salary disbursements.

SCHEDULE OF PRIOR YEAR
FEDERAL AND STATE FINDINGS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2006

Prior year federal findings and recommendations	Finding numbers	Not implemented	Partially implemented	Fully implemented
Student Financial Aid Cluster:				
1 Eligibility and verification – segregation of duties and evidence of review	F-05-01		X	
2 Eligibility – financial aid awards granted less than eligible financial need	F-05-02			X
3 Reporting – FPL and grant overpayment reporting to national student loan data system	F-05-03			X
4 Special tests and provision (verification) – incorrect verification of adjusted gross income resulting in overaward	F-05-04			X
5 Special tests and provision (disbursements to or on behalf of students) – disbursements not made within required time frames	F-05-05		X	
6 Special tests and provisions (return of Title IV) – return of Title IV calculations	F-05-06			X
7 Special tests and provisions (borrower data transmission and reconciliation) - no evidence of monthly borrowing reconciliations	F-05-07			X
8 Special tests and provisions (student status changes) – late reporting of student status changes to NSLDS	F-05-08		X	
9 Reporting and matching – lack of controls and reporting errors over FISAP reporting	F-05-09		X	
VTEA:				
10 Allowable costs – incomplete supporting documentation and unallowed expenditures	F-05-10			X
11 Allowable costs – compensation for personal services	F-05-11			X
12 Equipment management – policies and procedures over equipment disposition	F-05-12	X		
13 Matching, level of effort, and earmarking - noncompliance with supplement not supplant requirements	F-05-13			X
14 Period of availability – expenditures changed in the incorrect period of availability	F-05-14			X
15 Procurement – competitive bidding	F-05-15		X	

(Continued)

Prior year Federal findings and recommendations	Finding numbers	Not implemented	Partially implemented	Fully implemented
Trio Cluster:				
16 Eligibility – controls over eligibility determination for upward bound programs	F-05-16		X	
17 Matching, level of effort, and earmarking and reporting – below minimum required student earmarking ratio for student support services program and upward bound	F-05-17			X
18 Reporting – controls over Trio program reporting federal awards	F-05-18			X
Prior year state findings and recommendations				
1 Salaries of classroom instructors (50% law) (section 421) – improper salary classification	S-05-01	X		
2 Instructional service agreements/contracts (section 423) – unsigned agreement/contracts	S-05-02			X
3 Instructional service agreements/contracts (section 423) – no formal tracking mechanism	S-05-03	X		
4 Residency determination for credit courses (section 425) – incorrect classified students	S-05-04	X		
5 Concurrent enrollment of K-12 students (section 427) – inaccurately classified students	S-05-05			X
6 Concurrent enrollment of K-12 students (section 427) – no K-12 certification of 5% limit	S-05-06			X
7 Use of matriculation funds (section 428) – college matriculation plans	S-05-07	X		
8 Eops administrator/director requirements (section 430) – employee budget exceeds actual	S-05-08			X
9 Eops administrator/director requirements (section 430) – plan not approved	S-05-09			X
10 Eops administrator/director requirements (section 430) – matching separate	S-05-10			X
11 Eops administrator/director requirements (section 430) – district minimum matching	S-05-11			X
12 Eops administrator/director requirements (section 430) – missing full-time director waiver	S-05-12			X
13 Minimum conditions – standards of scholarship (section 436) – exceptions to course repeat policy	S-05-13	X		
14 Student fees – instructional materials and health (section 437) – no course tracking	S-05-14	X		
15 Student fees – instructional materials and health (section 437) – no support for fees assessed	S-05-15	X		

(Continued)

Prior Year Federal Findings and Recommendations

Finding F-05-01 – Eligibility and Verification – Segregation of Duties and Evidence of Review for Eligibility, Verification, and Aid Packaging Controls – Partially Implemented

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 three of the four campuses selected for review of control procedures over eligibility and verification, we noted that there were some instances of lack of segregation of duties and/or evidence of review of financial aid files during the intake of the student's application, verification of eligibility, and/or the packaging of the aid:

- Trade Technical College has an internal control policy for two different financial aid employees to perform the intake of the student file, with a separate employee to perform a review of the file, but does not have a process in place to ensure that these procedures are performed by different employees. In our sample of 30 financial aid files, we noted 2 of the 30 had the same employee process the intake and review, but no compliance exceptions were noted. The college also has an internal control policy to perform a detailed review of approximately 15% of all financial aid files reviewed by a designated financial aid technician, supervisor, or manager. In our sample of 30 files selected for detailed review, we noted 3 of the 30 files sampled contained no evidence of review of the designated employee.
- East College has an internal control policy for three different financial aid employees to perform various eligibility procedures, but does not have a process in place to ensure that these procedures are performed by different employees. In our sample of 30 financial aid files, we noted 9 of the 30 had at least two eligibility procedures performed by the same financial aid employee. The college also has an internal control policy to perform a detailed review of approximately 5% of all financial aid files. In our sample of 30 files, we noted that 18 files had been reviewed and findings noted, but had not resolved the findings within 60 days or longer.
- LA Pierce College adopted electronic processing of applications and utilizes financial aid assistants to complete checklists to assess eligibility, but we were unable to identify any formal controls over the manual elements of that process of the file by a supervisor, but no compliance exceptions were noted.

Criteria

OMB Circular A-133, Subpart C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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

Strengthening of the design of internal control procedures will reduce the risk of noncompliance with these requirements.

Recommendation

We recommend that the District review its current access controls for the different levels of employees in the DEC system to develop a system control to restrict access of various duties (packaging, and the like) to specified employees/job titles to help ensure that there is a segregation of duties for the employees performing the intake and the employee approving the packaging. We further recommend that the campuses examine their current control procedures to ensure that evidence of controls (i.e., review and approvals) be documented.

Questioned Costs

None

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

The colleges have initiated a review process as specified in the corrective action plan. East Los Angeles College and Los Angeles Trade Technical College have designated a Financial Aid Technicians to perform a final review on a sample of files. Pierce does not use Financial Aid Assistants or checklists to assess eligibility. Los Angeles Pierce College uses automated edits and formal procedures. Each Financial Aid Administrator determines the security level access of each of his/her staff. The District will continue to monitor the implementation of the review process to ensure that proper procedures are in place.

Finding F-05-02 – Eligibility – Financial Aid Awards Granted Less Than Eligible Financial Need – Fully Implemented

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

Of the 25 sampled students at City College, it was noted that one student was awarded less than his/her eligible financial need due to a clerical error, which used the incorrect expected family contribution.

- One student at City College was awarded only $1,800, with an eligible Pell grant financial need of $2,025.

Criteria

Title 34, Sec. 690.80 – Recalculation of a Federal Pell Grant award, part (a) Change in expected family contribution.

(1) The institution shall recalculate a Federal Pell Grant award for the entire award year if the student's expected family contribution changes at any time during the award year. The change may result from – (i) the correction of a clerical or arithmetic error under Sec. 90.14; or (ii) a correction based on information required as a result of verification under 34 CFR Part 668, Subpart E.

(2) Except as described in 34 CFR 668.60(c), the institution shall adjust the student's award when an overaward or underaward is caused by the change in the expected family contribution. That adjustment must be made – (i) within the same award year – if possible – to correct any overpayment or underpayment; or (ii) during the next award year to correct any overpayment that could not be adjusted during the year in which the student was overpaid.

Effect

City College underawarded $225 in financial aid to this student.

Recommendation

We recommend that the District strengthen its control policies over packaging of federal Student Financial Aid awards to help ensure that students are awarded the correct amount for their financial needs.

Questioned Costs

None

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

The verification guide of the Federal Student Aid Handbook for 2004-2005 states that "if a student was selected for verification, you can make a first payment based on the original EFC and adjust the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the reprocessed EFC before you pay the student." The District has made the necessary adjustments on the student's record to reflect the reprocessed EFC. The student has already been paid the additional $225 in Federal Pell Grant and is, therefore, no longer underawarded.

(Continued)

Finding F-05-03 – Reporting – FPL and Grant Overpayment Reporting to National Student Loan Data System (NSLDS) – Fully Implemented

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 students that were overpaid during the Fall of 2004 and Spring of 2005, we noted one student from East College whose overpayment was not reported to the NSLDS.

Criteria

Colleges are required to report any overpayment to the NSLDS if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student. The school should report the overpayment to the NSLDS immediately after the 45-day period has elapsed.

Effect

The nonreporting of overpayments to students would constitute noncompliance with reporting requirements.

Recommendation

We recommend that the college strengthen its current control procedures to ensure that all overpayments required to be reported to the NSLDS be reported within the necessary time frame.

Questioned Costs

None

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

Subsequent to the audit, the batch-coded drop was identified, the calculation was completed, and an overpayment letter was sent to the student. A hold was placed on the student's record and the student was reported to NSLDS. The District is in the process of revising the R2T4 policy for 2005-06 and automating the calculations.

Finding F-05-04 – Special Tests and Provisions (Verification) – Incorrect Verification of Adjusted Gross Income Resulting in Overaward – Fully Implemented

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

For one of the 25 students sampled for verification at East Los Angeles College, we noted that the income support provided by the student for verification indicated an AGI of $11,000, but the ISIR indicated an AGI of $5,485, but no adjustment was made.

Criteria

Code of Federal Regulations, Title 34, Sec. 668.59 – Consequences of a change in application information.

(a) For the Federal Pell Grant Program:

(1) Except as provided in paragraph (2) of this section, if the information on an application changes as a result of the verification process, the institution shall require the applicant to resubmit his or her application information to the Secretary for corrections if:

i. The institution recalculates the applicant's EFC, determines that the applicant's EFC changes, and determines that the change in the EFC changes the applicant's Federal Pell Grant award.

ii. The institution does not recalculate the applicant's EFC.

(2) An institution need not require an applicant to resubmit his or her application information to the Secretary, recalculate an applicant's EFC, or adjust an applicant's Federal Pell Grant award if, as a result of the verification process, the institution finds:

i. No errors in nondollar items used to calculate the applicant's EFC.

ii. No dollar amount in excess of $400 as calculated by the net difference between the corrected sum of Adjusted Gross Income (AGI) plus untaxed income minus U.S. taxes paid and the uncorrected sum of Adjusted Gross Income (AGI) plus untaxed income minus U.S. taxes paid. If no federal income tax return was filed, income earned from work may be used in lieu of Adjusted Gross Income (AGI).

Effect

This incorrect verification of the AGI resulted in an overaward of $1,250 to the student.

Recommendation

We recommend that the District instruct campuses to strengthen control policies and procedures that would help ensure that verification procedures are being performed accurately.

Questioned Costs

$1,250 of the $100,150 sampled at East Los Angeles College.

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

The District concurs with this finding. The reviewer failed to correct the Adjusted Gross Income on the Student Aid Report (SAR) to $12,835.00. Corrections to the SAR had been made and submitted to CPS and the new estimated family contribution (EFC) was used to recalculate the student's eligibility resulting in a $1,250.00 overpayment. The student has been given a notice of overpayment. The institution accepts liability and will reimburse the Federal Pell Grant program.

(Continued)

Finding F-05-05 – Special Tests and Provisions (Disbursements To or on Behalf of Students) – Disbursements Not Made within Required Time Frames – Partially Implemented

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 our sample of Federal Family Education Loans (FFEL) program disbursements, we noted that 15 of the 16 disbursements were not made to the students within 3 business days after the funds were advanced to the District. The 15 late disbursements from East Los Angeles and Pierce Colleges were paid after four to seven business days. We also noted in our sample of 23 FFEL loans for students where the funds were advanced to the District but not disbursed to the student, 2 of the 23 were not returned back to the lender within the required 10-day period. The two late returns from Pierce College were returned after 16 and 36 business days.

Criteria

Code of Federal Regulations, Title 34, Sec. 668.162 – Requesting funds.

(a) Advance payment method. Under the advance payment method:

(1) An institution submits a request for funds to the Secretary. The institution's request for funds may not exceed the amount of funds the institution needs immediately for disbursements the institution has made or will make to eligible students and parents.

(2) If the Secretary accepts that request, the Secretary initiates an electronic funds transfer (EFT) of that amount to a bank account designated by the institution.

(3) The institution must disburse the funds requested as soon as administratively feasible, but no later than three business days following the date the institution received those funds.

Code of Federal Regulations, Title 34, Sec. 668.167 FFEL Program funds – Cash Management.

(b) Returning funds to a lender:

(1) Except as provided in paragraph (c) of this section, an institution must return FFEL Program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within:

(i) three business days following the date the institution receives the funds, if the lender provides those funds to the institution by EFT and master check

(2) If the institution does not disburse the loan funds as specified in paragraph (b)(1), the institution must return those funds to the lender promptly, but no later than 10 business days after the date the institution is required to disburse the funds.

Effect

The District is out of compliance for federal student assistance disbursement provisions.

Recommendation

We recommend that the District develop control policies and procedures to ensure that disbursements are made timely and returned timely, as appropriate, in accordance with federal student assistance guidelines.

Questioned Costs

None

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

The District concurs with this finding. The EFT process was initiated in 2004-05 and the District is working on coordinating the EFT schedule with our disbursements.

Finding F-05-06 – Special Tests and Provisions (Return of Title IV) – Return of Title IV Calculations – Fully Implemented

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 our sample of 25 students for return of Title IV calculations at East Los Angeles College, we noted that the midpoint method was not used for the one student in the sample that dropped out without providing official notification to the respective campuses.

We also noted that the East Los Angeles College did not exclude the five consecutive day spring break from its return calculations of days in the payment and enrollment period.

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)).

The total number of calendar days in a payment or enrollment period includes all days within the period, except the institutionally scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence, which are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 CFR Section 668.22(f)).

(Continued)

Effect

By the campus not using the midpoint method, the calculation of amounts owed back by the student in our sample was overstated by $158 and the amount calculated as owed back by the institution was overstated by $78. By the campus not properly excluding Spring break from its calculations, 6 of the 25 students had calculated total differences of $52, with only one owing over $25.

Recommendation

We recommend that the District review the policies for the calculations of return of Title IV funds for this campus to ensure it is compliant with the criteria for schools not required to take attendance with students that cease attendance without providing official notification to the institution, and to ensure that scheduled breaks are excluded from the calculations.

Questioned Costs

$270 of the $1,244 owed back by the institution and $781 owed back by students sampled at East Los Angeles College.

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

The District concurs with this finding. Subsequent to the audit, the batch-coded drop was identified, the calculation was completed, and an overpayment letter was sent to the student. A hold was placed on the student's record and the student was reported to NSLDS. The District is in the process of revising the R2T4 policy for 05-06 and automating the calculations. With regards to the five-day Spring break, while setting up the R2T4 program for Spring 2005, ELAC did not exclude the five-day break by mistake. The error was revised, all calculations were redone, and new letters were sent out for all students who were affected. The difference was minimal (under $20.00).

Finding F-05-07 – Special Tests and Provisions (Borrower Data Transmission and Reconciliation) – No Evidence of Monthly Borrower Reconciliations for Federal Direct Loans – Fully Implemented

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, there was no evidence of control procedures in place over the accuracy, completeness, and timeliness of the required monthly reconciliations of the School Account Statements (SAS) from the Common Origination and Disbursement (COD) for Harbor College, although the reconciliations were completed without exception and there has been significant progress made over this compliance requirement District-wide.

(Continued)

Criteria

OMB Circular A-133, Subpart C, Section 300, Part b, states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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

Strengthening the design of the controls over these reconciliations should reduce the potential risk of noncompliance with this regulation.

Recommendation

We recommend that the District advise its campuses to develop policies and procedures to ensure they comply with this requirement by requiring that evidence of controls (i.e., reviews and approvals) be performed and documented 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 – Current Status of Prior Year Federal Compliance Finding

The District concurs with this finding. Los Angeles Harbor College reconciles its Direct Loan account monthly. Even though there were no reconciling items each month, the college will keep all monthly reconciliations.

Finding F-05-08 – Special Tests and Provisions (Student Status Changes) – Late Reporting of Student Status Changes of FFEL or Direct Loan Borrowers to NSLDS – Partially Implemented

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 FFEL/Direct Loan recipients who graduated, withdrew, or dropped out during the audit period, we noted 1 student from Los Angeles Trade Tech College whose status changed, but was not reported to the NSLDS within 30 days or included in a roster file within 60 days. The instructor dropped the student during the school semester, but the student's status was changed as of August 29, 2004 due to the attendance system backdating all batched instructor drops to the first day of the school year. The student was ultimately reported to the NSLDS as withdrawn January 14, 2005.

Criteria

Code of Federal Regulations, Title 34, Sec. 682.610 – Administrative and fiscal requirements for participating schools.

(c) Student status confirmation reports. A school shall:

(1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and

(2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days:

a. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis

b. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended

c. If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis

d. If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Effect

The District is late on its student status reporting compliance requirements.

Recommendation

We recommend that the District monitor its student status 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 – Current Status of Prior Year Federal Compliance Finding

The District concurs with this finding. The transaction to drop the student was processed after the November 15th submission date, with an effective date prior to that transaction date.

Finding F-05-09 – Reporting and Matching – Lack of Controls and Reporting Errors over FISAP Reporting – Partially Implemented

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 FISAP Reporting, we noted that the reports are compiled in conjunction with the individual campuses and District office, but there is no formal review and tie-out of the entire report with the supporting documentation to ensure that the report is completed accurately. In six of the nine campus FISAP reports, we noted the following errors and omissions:

- Los Angeles City College – Part II Application to Participate, Section F, Information on Eligible Aid Applicants – failed to include taxable income information for 8 students in column (b) *Dependent Undergraduate with Degree*.
- Los Angeles Harbor College – Part V Federal Work-Study, Section G, Information about FWS Students Employed in Community Service Activities, line 25 Nonfederal share of community service earned compensation – was 23.6% of total community service compensation reported earned thus underreported $800. Total reported on FISAP was $10,150, but should be $10,950.
- Los Angeles Pierce College – Part III Federal Perkins Loan Program, Section B, Fund Activity, line 4 *Institutional Capital Contribution (ICC)* deposited into the Fund – was overreported by $17,867. Total reported on the FISAP was $17,867 but should be $0.
  - West Los Angeles College – Part II Application to Participate, line 24, *Total expended for State grants and scholarships made to undergraduates*, line 24 – was underreported by $2,048,388 due to the failure to include the Board of Governors Grant (BOGG) awards. Total reported on FISAP was $249,673, but should be $2,298,151.
    - Part V *Federal Work-Study Program*, Section H. *Information about FWS Students Employed as Reading Tutors of Children or Employed in Family Literacy Activities, line 27, Federal share of earned compensation of FWS students employed as reading tutors of children or*

employed in family literacy activities – overreported $379 by including the nonfederal share of compensation. Total reported on FISAP was $1,516, but should be $1,137.

- East Los Angeles College – Part V *Federal Work-Study Program*, Section D, *Funds Spent from Federal Share of FWS* – the college reported one student as a reading tutor instead of a municipal worker which would have a federal share of 90% instead of the 100%. The student worked as an office assistant, with duties such as office support, copying, faxing, and the like, in a State Senators Office. The incorrect classification impacted the following line items on the FISAP report:
  - Section H, *Information about FWS Students Employed as Reading Tutors of Children or Employed in Family Literacy Activities*:
    - *Line 26, Number of FWS students employed as reading tutors of children or employed in family literacy activities* – was overreported by 1 student. Reported as 11 students, but should be 10.
    - *Line 27, Federal share earned compensation for FWS students employed as reading tutors of children or employed in family literacy activities* – was overreported by $1,897. Reported as $29,457, should be $27,560.
    - *Line 28, Total earned compensation for FWS students employed as reading tutors of children or employed in family literacy activities* – was overreported by $1,897. Reported as $29,457, should be $27,560.
  - Los Angeles Trade Technical College – Part V Federal Work-Study, Section G, Information about FWS Students Employed in Community Service Activities, Line 25. Nonfederal share of community service earned compensation – was underreported by $520. The college has two students working in the Social Security office, but elected to match 25% of all community service funds per Section D. Funds Spent from Federal Share of FWS, which indicates 100% of the federal share of the compensation, was paid at a rate up to 75%. The amount reported on the FISAP was $6,362, but should be $6,882.
  - We noted that the State Grant Expenditures included in Part II, *Application to Participate*, Line 24, *Total expended for State grants and scholarships made to undergraduates*, are reported on a different basis of accounting from the District's accounting records. We noted that the FISAP reports are recorded on the accrual basis, but the grants are recorded on the cash basis.

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 no 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 provide 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 tracking and compiling the data used to report various required federal matching, earmarking, and reporting requirements, the campuses run a greater risk of noncompliance with these requirements.

Recommendation

We recommend that a designated District employee collect and compile all supporting documentation for each FISAP report in an organized and referenced manner into one file retained for audit purposes in accordance with federal record retention requirements. A separate District employee should perform a detailed review and trace the supporting documentation in the file to the numbers reported on the FISAP. This detailed review should be evidenced by a sign-off of the reviewer before it is approved for online submission.

We further 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. This could be done through the creation of specific activity codes in the WBS system for students who are required to be matched and reported in specific FISAP categories. The college could then generate system reports to account for all students paid under the work-study program to reduce the risk of double counting and/or reporting in the incorrect category.

Questioned Costs

None

(Continued)

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

The District concurs with this finding. The District will review the FISAP reports prior to being submitted, to ensure the report is completed accurately.

Finding F-05-10 – Allowable Costs – Incomplete Supporting Documentation and Unallowed Expenditures – Fully Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Condition

In the three of the four campuses selected for review of allowable costs charged to the program, we noted 5 of the 26 sampled expenditures that were either unallowable per OMB Circular A-21, the grant agreement, or there was no documentation to support the expenditure:

- Los Angeles City College expended funds for employee entertainment expenses incurred during an out-of-town conference, which are unallowable per OMB Circular A-21 and the grant agreement, for $11. There was no supporting written justification included in the expense report to justify a nonstandard significant expenditure. The supporting documentation for the mileage submitted did not support the number of miles claimed. Upon subsequent inquiry and follow-up with the employee regarding these expenditures, the corrected supporting documentation resulted in total questioned costs of $14.
- East Los Angeles College was missing supporting documentation to support travel expenditures for hotel for one employee expense report sampled, which totaled $230.
- Los Angeles Valley College expended funds for two furniture acquisitions that are specifically unallowable per the grant agreement, which totaled $289.

Criteria

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J, General Provisions for Selected Items of Cost, No. 17, *Entertainment costs*. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Chancellor's Office for California Community Colleges Grant Agreement, *Cost Guidelines Certification*, *Form VTEA-5*, states among its listed ineligible costs entertainment and facilities and furniture.

Effect

The District is not in compliance with allowable cost principles and applicable OMB cost circulars.

Recommendation

We recommend that the District conduct additional training for the persons responsible for the approval of allowable costs to ensure that they have adequate knowledge of applicable OMB Circulars and Cost Guidelines per the Grant Agreement, to ensure that only allowable costs are being charged to the federally-funded program.

(Continued)

Questioned Costs

$533 of the total $21,201 sampled

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

The District concurs with this finding. The District provided training to staff and managers who are responsible for approving allowable costs to ensure that only the allowable costs are charged to the program. Training includes allowable uses of VTEA funds and supporting documents required for expending these funds.

Finding F-05-11 – Allowable Costs – Compensation for Personal Services – Fully Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Condition

In our procedures performed over the District's policies and procedures over compensation for personal services, we noted that the District used the planned confirmation method for charging salaries to the VTEA program for employees. We noted that the District's method did not include an after-the-fact statement/confirmation from either the employee or supervisor using suitable means of verification that payroll originally planned and charged to the program was reasonable in relation to the work actually performed. Approximately 17% of the payroll costs funded by the program relates to employees working, or more than the VTEA program, which totaled approximately $388,730 for the year ended June 30, 2005. We also noted no independent internal evaluation was performed to ensure the District's planned confirmation system's integrity and compliance with applicable standards.

Criteria

OMB Circular A-21, *Cost Principles for Educational Institutions,* Part J, General Provisions for Selected Items of Cost, No. 10, *Compensation for Personal Services*.

a. (1) *Plan Confirmation*: Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

   (a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

   (b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection (a) need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities.

(c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify indirect and the functions to which they are allocable.

(d) The system will provide for modification of an individual's salary or salary distribution, commensurate with a significant change in the employee's work activity. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity that is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) At least annually, a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges and to indirect cost are reasonable in relation to work performed.

(f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

Effect

By not providing any independent internal evaluation to ensure the system's integrity, the District may not be in compliance with allowable cost principles and applicable OMB cost circulars.

Recommendation

We recommend that the District develop an independent internal evaluation methodology to ensure the salaries being charged to the various federal programs are reasonable in relation to the work that is actually being performed. Various methodologies have been approved and are available to substantiate the allocation of employee salaries, such as time study sampling, to help ensure that salaries are being allocated appropriately.

Questioned Costs

$388,730

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

The District concurs with this finding. Unclassified employees assigned to VTEA funded activities are already required to submit time sheets that indicate the time spent on VTEA program work. For the classified and certificated employees working on VTEA funded programs, a certification form will be used to account for the time spent on VTEA program work. The form is submitted quarterly to the District from the colleges.

Finding F-05-12 – Equipment Management – Policies and Procedures over Equipment Dispositions – Not Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA).

Condition

During our procedures performed over equipment management, we reviewed the District's policies and procedures over equipment disposals and noted that the District did not include specific provisions for equipment purchased with federal funds. The sampled authorization forms for disposals of equipment from Trade-Tech and East Los Angeles Colleges did not include funding source, the original acquisition value and current market value of the asset, proceeds from any cash received or trade-in value, the documentation of authorization from the funding or state agency, and the specific proposed transferred use/disposition for the equipment (i.e., new federal program number, and the like), as applicable.

Criteria

OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, *Post Award Requirements*, *Property Standards*, Section 0.34, *Equipment*– (g) – When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards:

- For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses, provided that compensation is made to the original federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment.
- If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal awarding agency shall determine whether the equipment can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the equipment shall be reported to the General Services Administration by the federal awarding agency, to determine whether a requirement for the equipment exists in other federal agencies. The federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request.

Chancellor's Office, California Community Colleges – *Grant Agreement*, Article II, *Standard Legal Terms and Conditions*, No. 19, *Real Property and Equipment* – Upon completion or termination of the Grant, or when real property or equipment is no longer useful or necessary for purposes of the Grant, it may be disposed of as follows:

a. Equipment with an initial purchase price less than $5,000 may be disposed of as the Grantee deems appropriate.

b. If the Grant-funded project involves system-wide or regional coordination or technical assistance activities, the disposition of real property or equipment with an initial purchase price in excess of $5,000 shall be subject to the approval of the Chancellor's Office.

c. In all other cases, real property or equipment with an initial purchase price in excess of $5,000 may be sold or used in another program funded by the Chancellor's Office. If the real property or equipment is sold, the proceeds of the sale shall be returned to the program funded by this Grant or, if that program has been discontinued, to another program funded by the Chancellor's Office; provided however, that the Grantee may retain $100 or 10% of the sale price (whichever is greater) to cover the costs of sale.

d. Equipment purchased with federal funds shall also comply with any additional or more stringent equipment management requirements applicable to the particular federal funding source.

Effect

Without adequate policies and procedures in place to properly identify equipment disposals acquired with federal funding, the District may be noncompliant with federal and state equipment requirements.

Questioned Costs

None

Recommendation

We recommend that the District enhance its current policies and procedures over the disposals of equipment to include some additional procedures/documentation for equipment acquired with federal funds. They should either enhance the current general equipment disposal forms or create an additional disposal form for federally funded equipment, to include information regarding the market value of the equipment disposed or transferred to another program, cash proceeds, and approval from the awarding federal/state agency (as applicable).

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

The District concurs with this finding. The District will enhance the current disposal forms to include the required information for equipment acquired with federal funds.

Finding F-05-13 – Matching, Level of Effort, and Earmarking – Noncompliance with Supplement not Supplant Requirements – Fully Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Condition

The District does not have a policy in place to perform a documented analysis of compliance each year with the "supplement not supplant" requirements nor was it able to demonstrate compliance for the current fiscal year under audit.

Criteria

The State and its subgrantee may use funds for vocational and technical education activities that shall supplement, and shall not supplant, nonfederal funds expended to carry out vocational and technical education activities and tech-prep activities (Perkins III, section 311(a); USC 2391(a)). In the following instances, it is presumed that supplanting has occurred:

- The SEA or LEA used federal funds (except Bilingual) to provide services that the SEA or LEA was required to make available under other federal, state, or local laws.
- The SEA or LEA used federal funds to provide services that the SEA or LEA provided with nonfederal funds in the prior year.

- The SEA or LEA used Title I, Part A, or MEP funds to provide services for participating children that the SEA or LEA provided with nonfederal funds for nonparticipating children.

These presumptions are rebuttable if the SEA or LEA can demonstrate that it would not have provided the services in question with nonfederal funds had the federal funds not been available.

Effect

Noncompliance with supplement not supplant requirements could be considered a material instance of noncompliance by the granting agency.

Questioned Costs

None

Recommendation

We recommend that the District develop processes and controls over its supplement not supplant requirements and perform a formal documented analysis each year that demonstrates its compliance with the supplement not supplant requirements, to ensure that the District is in compliance with these requirements.

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

Supplement not supplant regulation was a large part of the VTEA training content materials. A checklist for colleges was developed to assist in determining if expenditures were allowable. An analysis of expenditures of federal and nonfederal funds in CTE functional areas has also been performed for fiscal year 2004-2005 and 2005-2006.

Finding F-05-14 – Period of Availability – Expenditures Charged in the Incorrect Period of Availability – Fully Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Condition

Based on our review of a sample of expenditures charged to the program during the 2005 fiscal year, we noted two invoices charged to the program by Los Angeles Trade-Technical College with goods received on June 30, 2004 and services rendered between June 24, 2003 and July 2, 2004, which were not incurred within the period of availability for the fiscal year ended June 30, 2005.

Criteria

Vocational Education Program – In any academic year that a subrecipient does not obligate all of the amounts it is allocated under the Secondary, Postsecondary, and Adult Vocational Education programs for that year, it must return the unobligated amounts to the State to be reallocated under the Secondary, Postsecondary, and Adult Vocational Education Program, as applicable (Perkins III, Section 133(b); 20 USC 2353(b)).

(Continued)

Effect

Expenditures charged that are not within the period of availability will be noncompliant and thus questioned costs for the grant period under audit.

Questioned Costs

$1,178 of the total $52,442 sampled at Los Angeles Trade-Technical College

Recommendation

We recommend that the District enhance its current procedures over expenditures charged to federal programs to ensure that the reviewer is not only reviewing for allowability, but is also ensuring that the expense was incurred and being charged to the correct period of availability.

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

The District concurs with this finding. Training was conducted to include guidelines for expending VTEA funds within the grant period. The District and college program managers will closely monitor budget activities to ensure compliance with this requirement.

Finding F-05-15 – Procurement – Competitive Bidding – Partially Implemented

Program affected: U.S. Department of Education (DOE), Vocational Education – Basic Grants to States (Perkins III) (CFDA #84.048), passed through the California Community Colleges Chancellor's Office as Vocational and Technical Education Act (VTEA)

Condition

We noted four of the 25 procurement transactions sampled did not comply with the District's procurement policy. One procurement transaction for $11,667 contained no quotes without justification for a sole source bidder, and the other three transactions for $7,528, $35,614, and $26,954 contained only two quotations without justification for less than the required three quotations per District policy.

Criteria

OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, Post Award Requirements, Property Standards, Section 0.44 Procurement Procedures.

- Section 0.45 – Cost and price analysis. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.
- Section 0.46 – Procurement records. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

Effect

Procurement records must be maintained for cost price analysis to support compliance with District and federal procurement regulations. Unsupported procurement transactions could be considered disallowed for noncompliance.

Questioned Costs

None

Recommendation

We recommend that the District monitor its procurement transactions more closely to ensure that the required number of quotations is obtained or justification for sole-sourcing bidding is clearly documented in District procurement files, to help ensure compliance with District and federal procurement regulations.

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

The District concurs with this finding. The District will ensure that the persons responsible for procurement transactions are in compliance with the District's procurement policy.

Finding F-05-16 – Eligibility – Controls over Eligibility Determination for Upward Bound Programs – Partially Implemented

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), Educational Opportunity Centers (CFDA #84.066)

Condition

Consistent with prior year, we noted during our review of eligibility determinations for the TRIO Cluster programs two of the four campuses reviewed for eligibility control procedures:

- The eligibility determination process for Upward Bound students at Southwest College and Los Angeles City College does not require employees' review and sign off of the approval of the participant contracts in the program.
- The Upward Bound program at Southwest Los Angeles College does not require applicants to provide documentation to support their low-income status.
- One of the eight sampled students at West Los Angeles College verified his income over the telephone to the school without supporting documentation in the Upward Bound program.

Criteria

OMB Circular A-133, Subpart C, Section 300, Part b, Auditee Responsibilities, states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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."

(Continued)

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 – Current Status of Prior Year Federal Compliance Finding

The District concurs with this finding. The colleges have added two staged sign-off processes. The first is on the actual program application and participation contracts. After the required paperwork is submitted, program staff signs-off as to who received the paperwork and the date received. Next, the paperwork undergoes an initial review after which staff signs off as to its completion (signatures, birthdates, etc.) and the date it was reviewed. Lastly, the program coordinator signs off after a final review is done. The second stage is documented in the participants' program folder. A checklist of all the required documentation is contained in each participant file. This checklist is initialed by staff during periodic file review to certify that all necessary paperwork is contained within and is complete. Every participant that receives program services is required to submit documentation to support his/her low-income status. This documentation is contained for every participant in the file folders in the program office and is aligned with what is required by federal law. This includes:

- A signed statement from the student's parent or legal guardian regarding family income;
- Verification of family income from another governmental source; or
- A signed United States or Puerto Rican income tax return.

Effective January 2006, corrective actions have been implemented to provide a sound control environment that assures eligible participants are provided services. All participants, before being accepted in the program and before receiving student support services, provide eligibility documents to support status as first-generation and low-income students. No phone verifications are accepted. With regards to the sampled student that verified his income over the phone, we received a signed written affidavit from the parent of the sampled student that assured us that the information he provided was accurate and complete.

Finding F-05-17 – Matching, Level of Effort, and Earmarking and Reporting – below Minimum Required Student Earmarking Ratio for Student Support Services Program and Upward Bound – Fully Implemented

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), Educational Opportunity Centers (CFDA #84.066)

Condition

We noted the student data statistical data included in the narrative performance report for Los Angeles City College did not meet the minimum earmarking criteria for the Student Support Services program. The minimum criteria is for at least two-thirds of the students to be low-income and disabled or low-income and first-generation college students, but per review of the performance report only 66.4% of program participants meet that criteria.

Southwest Los Angeles College was unable to provide documentation to support that not less than two-thirds of the project's participants are low-income and potential first-generation students.

Criteria

At least two-thirds of the students served by an SSS project must be low-income individuals who are 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).

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

The college is not in compliance with required minimum student participants.

Recommendation

We recommend that the District more closely monitor student enrollments in the TRIO programs to help ensure that it meets its various student enrollment earmarking requirements.

Questioned Costs

None

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

The colleges closely monitors student enrollment to ensure that the two-thirds minimum criteria requirements are being met. A student database software was purchased in November 2006 to assist with student data collection and records.

Finding F-05-18 – Reporting – Controls over TRIO Program Reporting – Fully Implemented

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), Educational Opportunity Centers (CFDA #84.066)

Condition

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

Criteria

OMB Circular A-133, Subpart C, Section 300, Part b, Auditee Responsibilities, states that the auditee is responsible for "Maintaining internal control over federal programs that provide 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 monitoring the program reporting, reports may be filed inaccurately or untimely, which would be instances of noncompliance.

Recommendation

We recommend that the District review its current policy and procedures over the TRIO program reporting to enhance its monitoring controls to ensure that the program and fiscal reports are consistent, filed within required deadlines, with copies retained at the District level.

Questioned Costs

None

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

The District has strengthened its procedures to ensure that a formal review/sign-off of the annual performance and participant reports are done, that these fiscal reports are consistent and filed within required deadlines, and copies are maintained at the District office.

(Continued)

Prior Year State Findings and Recommendations

Finding S-05-01 – Salaries of Classroom Instructors (50% Law) (Section 421) – Improper Salary Classification – Fully Implemented

Identified Condition

In our sample of 25 salaries being allocated between instructional and noninstructional, we noted one employee's salary that was being charged incorrectly. We noted a library department chairperson was charging her salary to object code 1240XX, which should actually be charged to object code 113100.

Recommendation

We recommend that the District strengthen its internal control procedures over its payroll reporting to ensure that all salaries are charged to proper categories.

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

The District concurs with this finding. The District will fix SAP, the system configuration, to ensure that salaries are charged to the proper accounts.

Finding S-05-02 – Instructional Service Agreements/Contracts (Section 423) – Unsigned Agreements/Contracts – Fully Implemented

Identified Condition

In our sample of the three instructional service agreements that were provided by the District, we noted that two of the agreements were not signed until after the effective period. The contract with the Los Angeles County Sheriff's Department was not signed until September 2005, although the work began in June 2005. There was no signed contract with the Los Angeles County District Attorney's office for the period from October 2001 through June 2005, but there was a signed agreement for the services.

Recommendation

We recommend that the District be more diligent in requiring that contracts be signed before the services are to be performed to ensure that legally enforceable instructional service agreements exist.

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

The District concurs with this finding. The District will improve its procedures to ensure the contracts are signed on a more timely basis.

Finding S-05-03 – Instructional Service Agreements/Contracts (Section 423) and Concurrent Enrollment of K-12 Students in Community College (Section 427) – No Formal Tracking Mechanism for Courses Taught under Agreements/Contracts – Not Implemented

Identified Condition

Consistent with our findings in prior years, 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 its own coding, whereas the District is unable to easily identify these types of courses and must rely upon the colleges' 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 – Current Status of Prior Year State Compliance Finding

The District concurs with this finding. The District will work with IT to develop a formal structured coding system for the colleges.

Finding S-05-04 – Residency Determination for Credit Courses (Section 425) – Incorrectly Classified Student – Not Implemented

Identified Condition

In our sample of 25 students for residency determination, we noted one student who was classified as a code 100 resident, but has a series B visitor visa. The campus asserted that the student had provided proof of an application for a work authorization card in 2001, when the student originally enrolled. The campus was unable to supply supporting documentation for this assertion nor did it obtain future support for residency status in any subsequent years of enrollment. Its policy is not to recheck student residency after initial enrollment.

Recommendation

We recommend that 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 students' residency information is captured and reported accurately to the State Chancellor's Office.

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

The District concurs with this finding. The District will work with Admissions and Records to improve the residency information being reported to ensure compliance requirements are being met.

Finding S-05-05 – Concurrent Enrollment of K-12 Students in Community College (Section 427) – Inaccurately Classified Students – Fully Implemented

Identified Condition

In our sample of 25 students that were classified as concurrently enrolled, KPMG noted one of those students sampled was actually a regular student, but had previously been a concurrently enrolled student. Consistent with our prior year finding, we noted that once students are initially classified as concurrently enrolled students in the District's student data system, their classification status had not been 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

The District has asserted that it has implemented programming corrections to correct this student classification issue as of November 8, 2004. The one exception noted was from our Fall 2004 students sampled, and no exceptions were noted in the Spring 2005 sample, which appears to be consistent with the District's assertion.

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

The District concurs with this finding. The District will work with Admissions and Records to improve the residency information being reported to ensure compliance requirements are being met.

Finding S-05-06 – Concurrent Enrollment of K-12 Students in Community College (Section 427) – No Policies or Procedures to Obtain Certification of 5% Limit from K-12 School – Fully Implemented

Identified Condition

We noted that the District does not have policies or procedures in place to request certification from the recommending K-12 school principals that the number of students recommended to attend college courses does not exceed the 5% statutory limit as advised by the Q&A regarding concurrent enrollment (legal advisory 05-01) issued by the state of California Chancellor's Office on January 4, 2005. The Q&A stated that administrative records containing the principal's 5% certification in addition to parental consent, and the principal's recommendation as specified in the statute, would appear to constitute acceptable documentation of efforts to ensure that the law has been followed.

Recommendation

We recommend that the District enhance current policies and procedures, which could include a standardized form for completion by the recommending school principal, to help ensure that acceptable documentation efforts are maintained in accordance with law.

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

The District concurs with this finding. The District will work with the colleges to standardize the form to ensure compliance.

Finding S-05-07 – Use of Matriculation Funds (Section 428) – College Matriculation Plans – Not Implemented

Identified Condition

Consistent with the prior years, 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 colleges' 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 its 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

The Credit and Non-Credit Matriculation plans were updated in October 2005 for eight of the nine colleges. For Southwest College the approved extension letter was submitted, but they have not received the approved extension letter from the State Chancellor's Office.

Finding S-05-08 EOPS Administrator/Director Requirements (Section 430) – Budgeted EOPS Employee Assignments Exceeded Actual Support Provided – Fully Implemented

Identified Condition

In our sample of 25 salaries being charged to the EOPS program, we noted one employee at East Los Angeles college who was budgeted as a full-time employee under the EOPS program, but was actually working less than full time on the EOPS program.

Recommendation

We recommend that the District request approval from the Chancellor for any modifications in dedicated EOPS employees' time that reduces it to below the approved level.

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

The District concurs with the finding. The District requests approval from the Chancellor on any changes in the budget for EOPS employee work assignments.

The District will request from the Chancellor's Office approval on any changes in the budget on EOPS employee work assignment.

Finding S-05-9 EOPS Administrator/Director Requirements (Section 430) – Plan Approval by State Chancellor's Office – Fully Implemented

Identified Condition

During our review of the college's plans within the District, we noted that Southwest Los Angeles College had not yet received approval from the State Chancellor's office for its 2004-05 plan.

Recommendation

We recommend that the District monitor each college to ensure that it is submitting plans and receiving required approvals from the State Chancellor's Office to ensure that they are in compliance with state guidelines.

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

The District concurs with this finding. The State Chancellor's Office approved the 2004-05 plan in March 2006.

(Continued)

Finding S-05-10 EOPS Administrator/Director Requirements (Section 430) – Matching Separate from Categorical Programs – Fully Implemented

Identified Condition

Consistent with our findings in prior years, we were unable to verify 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 details 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 – Current Status of Prior Year State Compliance Finding

The District concurs with this finding. Some of the colleges have separate accounts, which identify and provide supporting audit trails for matching expenses.

Finding S-05-11 EOPS Administrator/Director Requirements (Section 430) – District Minimum Matching Requirements – Fully Implemented

Identified Condition

In our sample of District matching expenditures for the nine campuses, we noted that four of the nine were under the required minimum current year matching requirement, which is the average of the previous three-year matching amounts contributed or 15%, whichever is greater. California Code of Regulations (CCR) 56210 states the Chancellor may approve reductions in the required amount if enrollments in the EOPS program decline. Upon further inquiry, we noted that Los Angeles Mission College had requested and received approval from the Chancellor's office to reduce its matching contribution below the minimum level. The other three campuses (Los Angles Pierce College, Los Angeles Valley College, and West Los Angeles College) had included their projected matching contribution, which would have been below the required minimum level, in their original budgets. These budgets were approved by the Chancellor's office. These three campuses did not obtain specific approval for the reduction of their matching contribution as did Los Angeles Mission College. We are unable to determine if the approval of the budget by the Chancellor's office signifies a concurrent approval for the reduction in the matching level.

Recommendation

We recommend that the colleges request either specific approval or a specific acknowledgement from the Chancellor's Office that in conjunction with the approval of the budget they are also approving the colleges' matching requirement to be below the minimum required level.

(Continued)

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

The District does not concur with this finding. The District 2004-05 final expenditure reports for Los Angeles Pierce College, Los Angeles Valley College, and West Los Angeles were submitted to the State Chancellor's office. The reports were all approved including the minimum District contribution requirements.

Finding S-05-12 EOPS Administrator/Director Requirements (Section 430) – Missing Waiver from State Chancellor's Office – Fully Implemented

Identified Condition

In reviewing the allocation of salaries of the EOPS Directors at the nine campuses, we noted one director from Southwest College who was unable to provide support for a waiver received from the State Chancellor's Office for approval of a director position for a less than full-time employee in an EOPS program.

Recommendation

We recommend that the District obtain required approvals (as necessary) and maintain necessary documentation to support such approvals.

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

The District concurs with this finding. The College will request an approval from the State Chancellor's office for any position changes.

Finding S-05-13 Minimum Conditions – Standards of Scholarship (Section 436) – Student Exceptions to the Course Repeat Policy – Not Implemented

Identified Condition

In our sample of 25 students who have repeated courses, we noted 9 students from Los Angeles City College and Los Angeles Pierce College who have repeated courses more than allowable limit. 8 of these students did not have signed petitions on file and one was not captured in the "illegal repeat report." We also noted 9 of the 25 students sampled had been claimed for state apportionment over the 3-semester limit with these repeated courses. Upon further inquiry, we noted that the District does not have a process in place to identify and exclude these students who have repeated courses more than the allowable limit to be claimed for apportionment to exclude them from the apportionment claimed.

Recommendation

We recommend that the District strengthen current policies and procedures to ensure that student enrollment in repeated courses conforms to the District's policy and that students are not claimed over the allowable number of times for repeated courses in accordance with the State Chancellor's policy.

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

The District concurs with this finding. The District will work with the Colleges to ensure accurate reporting of student enrollment in repeated courses.

Finding S-05-14 Student Fees – Instructional Materials Fees and Health Fees (Section 437) – No Course Tracking of Instructional Material Fees – Not Implemented

Identified Condition

The District does not have a formal process in place to identify, track, and report courses that assess instructional material fees charged to students for specific courses or if the material fees assessed are optional or required. The District is unable to easily identify these courses to provide the universe of instructional material fees charged to be sampled for audit purposes to comply with this new audit requirement. The District had previously tracked this information but discontinued its tracking a number of years ago.

Recommendation

We recommend that the District reimplement this tracking mechanism to separately identify courses, which assess required and optional instructional material fees to assist in the compliance with additional required state compliance testing.

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

The District concurs with this finding. The District will work with IT to implement a tracking mechanism that ensures full compliance.

Finding S-05-15 Student Fees – Instructional Materials Fees and Health Fees (Section 437) – Support for Instructional Material Fees Assessed – Not Implemented

Identified Condition

The instructional material fees are communicated to the students either verbally or through a course syllabus, but are not included on the course schedule or catalog. In our sample of 25 classes that were identified as assessing instructional material fees, the District was unable to provide support (i.e., syllabi) for the fee amounts assessed or if the fees were optional or required.

Recommendation

We recommend that the District implement policies and procedures to ensure that all students are properly notified of amounts of instructional material fees and if they are optional or required. This notification should not only be included on the course syllabus but should also be included on the course schedule for full disclosure to the students before they enroll in the course.

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

The District concurs with this finding. The District will implement procedures to ensure that all students are properly notified of instructional material fees.

REPORT TO MANAGEMENT

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

March 6, 2007

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

Members of the Board:

We have audited the financial statements of Los Angeles Community College District (the District) for the year ended June 30, 2006, and have issued our report thereon dated March 6, 2007. In planning and performing our audit of the basic financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

We noted certain matters involving internal control and its operation that we consider to be a reportable condition under auditing standards generally accepted in the United States of America. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.

The reportable condition noted during our audit relating to payroll, which has been discussed with the appropriate members of management, is summarized as Finding FS-06-01 on pages 69 to 71. Although not considered to be reportable conditions, we also noted other items during our audit which we would like to bring to your attention that have been summarized on the following pages. These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2006 financial statements, and this communication does not affect our report on these financial statements dated March 6, 2007. We have not considered internal control since the date of our report.

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:			
1 Lack of documented policies and procedures for change control	X		
2 Lack of documented policies and procedures for program development	X		
3 Lack of documented policies and procedures for information security	X		
4 Lack of documented policies and procedures for administering logical access to the Network, SAP, and DEC system	X		
5 Lack of review of roles and access rights across the systems	X		
6 Inappropriate user access on systems	X		
7 Lack of documentation, policies, and procedures surrounding backup media and restoration	X		
8 Application-related issues in relation to business processes	X		
Prior year comments:			
1 Accounts receivable aging report	X		
2 Verification of exception reports			N/A
3 Excessive VMS user access			X
4 Password sharing		X	
5 Logical access restriction to background job processing		X	
6 SAP logical access		X	
7 Access to production systems and data			N/A
8 Authorization of transports to production			X
9 HIS logical access		X	
10 Warrant registers			X
11 Payroll exception reports		X	
12 Inappropriate VMS system access		X	
13 Inappropriate SAP system access		X	
14 Change management		X	
15 Internal audit		X	
16 Lack of formal IT strategic plan		X	
17 Recording of capital leases		X	
18 Payroll procedures manual		X	

(Continued)

Current Year Comments

(1) Lack of Documented Policies and Procedures for Change Control

Observation

During our review of the general controls environment, we noted that the District does follow informal procedures with regards to change management of its Network, SAP, and the DEC system. However, no formal policies and procedures have been documented and/or established. We noted that the District has not documented the overall process of applying both conventional and emergency changes to the Network, SAP, and the DEC system.

We also noted that prior to the June 2006 implementation of the Quickbase Transport Request application, the District did not retain documentation or evidence for the following significant change-related events:

- Requesting of change made to Network, SAP, and the DEC system
- Approval of unit testing of Network, SAP, and the DEC system (by programmers)
- Proper migration of SAP and DEC system changes
- Approval of user acceptance testing of Network, SAP, and the DEC system (by users)

Prior to the June 2006 implementation of the Quickbase Transport Request application, the above change-related events were transferred informally by the Software Systems Engineering team into an Excel spreadsheet known as the ‘Transport Log’. We also noted that this ‘Transport Log’ was publicly available and that no access security restrictions over the spreadsheet existed, thus allowing any and all users to edit the log.

Additionally, during our review of the general controls environment, we noted that the District’s DEV (SAP Development) environment has not been refreshed since 07/15/2005. We also noted that the District’s QAS (SAP Testing) environment has not been refreshed since 03/02/2006. Neither of the DEV nor the QAS environments reflects a recent copy of data from the PRD (SAP Production) environment.

Impact

Weaknesses in change management or a lack of formal change management procedures compromise system integrity. Once a system is operational, further changes to the system are usually required to meet the business’s developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there is little or no control over system changes, the benefits originally gained by controlling the system’s implementation are lost as subsequent changes are made.

The following implications may occur in relation to the above finding:

- There is a potential risk that changes can be implemented without proper authorization, as no documentation of management authorization is required;
- Management reports developed in an uncontrolled environment may result in inaccurate or misleading information being issued to management;

- User acceptance testing may reveal specification problems where the system does not really meet the user's needs or that the system performance is unacceptable. Therefore, the absence of formal user acceptance testing for patches, minor upgrades, and reporting changes increases the risk that changes put through do not meet business requirements.

Recommendation

We recommend that management design and implement adequate change management procedures to help ensure that changes to the District's business systems are made in a controlled manner. Specifically, in addition to developing and documenting change management policies, we recommend the following:

a) All changes should be reviewed to ensure that information will be consistently processed in a controlled environment; the District should refresh its SAP development environments in order to accomplish this

b) Control and review should be maintained by appropriate user personnel over development, testing, and migration to production, including maintaining separation between change developer and personnel in charge of change migration; the District should maintain its current use of the Quickbase Transport Request application to log such migrations

Management Response

- Management Response to (a): We have instituted a refresh schedule for the Production and ancillary landscapes on a periodic basis. Also, procedures are being developed to keep DEV and QAS in synch from a development perspective for development task items. The refresh has already been put in place.
- Management Response to (b): The Quickbase Transport process already enforces change management procedures with appropriate separations of duties: only IT management can approve transports to PRD and QAS. Only Basis personnel can perform the import into PRD and QAS. These process are currently in place.

(2) Lack of Documented Policies and Procedures for Program Development

Observation

During our review of the general controls environment, we noted that the District does follow informal procedures with regards the development and acquisition of major systems. However, no formal policies and procedures, such as a standardized systems development life cycle (SDLC) document, have been documented and/or established.

During our testwork, we also noted that during the implementation of the SAP-HR module conducted during FY06, the District did not perform any parallel testing between new SAP-HR module and the legacy system used earlier.

Impact

A lack of formal systems development or acquisition policies and procedures compromises system integrity. The potential for greater, more costly changes to be made to a system once operational is high. If

(Continued)

there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes to the newly implemented system are made. Additionally, a lack of parallel (conversion) testing compromises the validity and accuracy of data transported from previously used systems.

Recommendation

We recommend that management formalize a set of system development/acquisition policies and procedures to help ensure that any major developments or acquisitions are reviewed, approved, tested, and converted in a controlled manner.

Management Response

As part of the original consulting contracts for the SAP implementation, the District requested that the consultant provide the SLDC, which is the SAP ASAP methodology. While it is true that there is no specific District SDLC, all package implementations have used a formal SDLC methodology appropriate to the project. For instance, for smaller implementations such as the Protocol acquisition and implementation, we used Gartner's implementation and tool set. In the case of the forthcoming Degree Audit acquisition, we used the Gartner package acquisition methodology and will use the selected vendors' methodology for the implementation. That being said, we agree with the auditors that there is value in having a formal statement of our current practices. Infotech has as a project for 2007 to compile a comprehensive set of IT policies and procedures and SLDC will be one component of that.

(3) Lack of Documented Policies and Procedures for Information Security

Observation

While some controls are currently in place and certain administrative procedures are being practiced, policies, standards, and procedures have not been developed, formally documented, or communicated to the District personnel. The 'Business Rule 27' and 'Business Rule 28' documents contain an adequate description of many of these standards and procedures; however, they do not address formal password policies and establish standards.

Impact

Without proper formalization of documentation and communication of the District's specific policies and guidelines, the user community may not be aware of them and will be much less likely to adhere to the practices. Also, without proper documentation of password policies, the District is at risk of compromised Network and application security via password breaches. Weak logical controls may present an access point for fraudulent or unauthorized activity and present significant risk to the organization.

(Continued)

Recommendation

We recommend that management add formal password policy guidelines to its existing 'Business Rule 27' and 'Business Rule 28' information security policies, standards, and procedures. As a general rule, a password policy should indicate that all platforms and systems should adopt the stronger password usage where applicable. Once these policies, standards, and procedures have been implemented, management should communicate them to all personnel. Some of the areas that should be addressed in the policies, standards, and procedures are:

a) Standard password policies for user passwords to the Network, SAP, and the DEC system, including, but not limited to, policies regarding the standard length, age, and complexity of passwords.

b) Logging, reporting, and follow-up of security incidents that may adversely impact the confidentiality and integrity of information processed.

c) Data classification and the security requirements for storage and transmission of data.

d) Minimum baseline standards for securing systems and networks.

e) Controlling and safeguarding media containing sensitive information including procedures for erasing and deleting information.

f) Information protection training to inform personnel of their personal responsibilities, threats, vulnerabilities, and prohibited activities.

g) Maintaining access privileges, including procedures for setting up new profiles, changes in system access due to employee transfers, and suspension/deletion of system privileges for terminated employees.

h) Monitoring access to the business-critical applications, including periodic reviews of user access and segregation of duties between critical business functions.

Management Response

Management's response to a-h above: We disagree with the auditors' observations. We do have consistent password/login standards, which are consistent with most (but not all) industry standards. These are well known and understood by the District's technical staff. There has been some hesitation to formally publishing these standards for fear of potential misuse by hackers.

(Continued)

(4) Lack of Documented Policies and Procedures for Administering Logical Access to the Network, SAP, and the DEC System

Observation

During our review of the general controls environment, we noted that the District employs informal processes of granting personnel logical access to the Network, SAP, and the DEC system No formal policies and procedures have been documented and/or established. The District has not documented or does not retain documentation or evidence for the following significant events related to administering logical and physical access:

- Creating new Network profile for user (granting access to the Network)
- Disabling user's Network profile (revoking access to the Network)
- Creating new SAP user ID for user (granting access to SAP)
- Disabling user's SAP user ID (revoking access to SAP)
- Granting user access to District Office Data Center
- Revoking user access to District Office Data Center

Additionally, we noted that although the District has a monthly review of user access rights on its District Office Network and the DEC system, the procedures surrounding this monthly review are not documented. Due to the District's reliance upon this control to revoke users' access from its systems upon termination or transfer, the lack of documentation surrounding this control is inappropriate.

Impact

By not formally documenting and communicating policies, standards, and procedures governing the granting and revoking of logical and physical access, the District is at a risk of granting unauthorized access to personnel. This may compromise the physical security of critical hardware components, as well as the security of critical data and confidential information stored on computing resources.

Recommendation

We recommend that management design and implement adequate procedures to help ensure access administration over the Network, SAP, and the DEC system is conducted in a controlled manner. Specifically, in addition to developing and documenting access administration policies, we recommend the following:

- Codeveloping policies, standards, and procedures for access administration to ensure alignment of priorities among departments and enforce adherence
- Documenting Computer and Network Operations group approval for the granting of physical access to the Data Center
- Creating a manual log of creations/disables of Network, SAP, and DEC system profiles to maintain appropriate auditable evidence

(Continued)

- Establishing of a separate procedure to revoke terminated or transferred user access to the Network, SAP, or the DEC system

Management Response

While informal procedures are in place, management recognizes that a more formal process needs to be developed. The plan is to address this issue as part of the SDLC project scheduled to kick off in 2007. It must be noted that SAP access does require management approval. An interim SAP procedure will also be developed to help manage the approval and revoke process.

(5) Lack of Review of Roles and Access Rights across Systems

Observation

During our review of the general controls environment and per inquiry of IT personnel, we noted that the District does not conduct reviews of roles within the organization to determine the appropriate level of access for each role. We also noted that the District does not conduct reviews of user access to determine that it is appropriate. In specific, we noted the following:

- We noted that the District does not perform reviews of segregation of duties within its key business processes, nor within its in-scope applications, including DEC system applications (Student Information System and the Financial Aid Management System) and SAP.
- We noted that although the District performs reviews of inappropriate access within the District Office network, this review is not similarly conducted within the rest of the District campus networks.
- We noted that although the District performs a monthly review of inappropriate access within the District Office network and the DEC system applications, the District does not maintain evidence of such reviews having taken place. The District was unable to provide us with the 'LAN Access by PerNur' and 'DEC Access by PerNur' documents corresponding to months sampled for our testwork (08/2005, 12/2005, and 03/2006).

Impact

This may compromise the security and reliability of data and confidential information stored on the District's major systems.

Recommendation

We recommend that management conduct periodic reviews of both roles within the organization and of user access for all systems and applications. Over time, user access may become inappropriate, especially since the District does not have a control in place to revoke old access rights from terminated or transferred personnel in a timely manner.

Management Response

The District concurs. Once HR and Payroll define the appropriate roles and segregation of duties, IT can enforce these authorizations. We need to develop a procedure for coordinating change/termination of staff assignments that would be then applied to SIS. SAP FI and HR access are automatically done in SAP. We used to have a monthly report we delivered to LAN Administrators showing staff with no assignments per campus when HIS was part of the DEC but since we went live with SAP HR, it is no longer up to date. The District will review if this could be converted and reactivated.

(6) Inappropriate User Access on Systems

Observation

Based on our review of security within the District's in-scope applications and systems, including the Network, SAP, and the DEC system applications (Financial Aid Management System and Student Information System), we observed that certain obsolete, inactive, or otherwise inappropriate user profiles have not been disabled. Below is the list of the issues we encountered during our review:

- During our testwork, we noted that three (3) total user profiles have administrative access to the Novell NetLogin application, and can thus add, change, or delete users' network profiles. Of these three user profiles, one profile had inappropriate access. **REMEDIATION:** We observed Richard Heath delete the profile from Novell NetLogin on 07/11/2006. We noted that the issue was appropriately remediated.
- During our testwork, we noted that 39 user profiles are assigned to the SAP_ALL profile within SAP, and thus have super-user access to the application. Of these 39 user profiles, we identified 6 profiles with inappropriate access.
- Our inspection of program X053 within the DEC system revealed that forty-three active user profiles have the ability to grant access to the DEC system to users within the District's colleges. Of these forty-three active user profiles, we noted that three have inappropriate access. **REMEDIATION:** We observed that the District disabled the aforementioned three user profiles on 07/18/06. We noted that the issue was appropriately remediated.
- During our testwork, we noted that thirty-nine (39) user profiles are assigned to the SAP_ALL profile within SAP, and thus have super-user access to the application. Of these thirty-nine user profiles, we identified one (1) profile of which the password is shared amongst multiple personnel. The profile 'OPERATOR' is shared amongst multiple members of the Computer Operations team.
- Similarly, we also noted that the privileged DEC system accounts BACKUP (No. 3) and OPERATOR (No. 21) are used by Computer and Network Operations staff for maintenance tasks related to the DEC system. We also noted that these IDs are shared among Computer and Network Operations staff.
- During our testwork, we noted that 39 unique access profiles assigned to the 'setprv' and 'sysprv' roles within the DEC system (encompassing both FAMS and SIS) have super-user access to the applications. Of these thirty-nine user profiles, we identified one (1) profile with inappropriate access. **REMEDIATION:** We observed that the District entered the DEC system on 07/18/06 and disabled the aforementioned ID, thus removing its inappropriate access. We noted that the issue was appropriately remediated.
- During our testwork, we noted that the Novell NetLogin software (network) is configured to allow passwords of a minimum length of five characters. Industry leading practice guidelines recommend a minimum length of at least six characters for passwords.

- During our testwork, we noted that a total of sixty-seven (67) badges are encoded by the NPowerDNA Access System to have DATA CENTER or ALL DOORS access. These types of access allow personnel to enter the District's data center. Of these sixty-seven badges, sixteen (16) belong to users who should not have access to the data center. Backup tape media is stored within the data center; thus, sixteen badges exist that allow users inappropriate access to the backup tape media.
- During our testwork, we noted that five (5) badges encoded by the NPowerDNA Access System to have ALL DOORS access belong to Payroll, Accounts Payable, and Financial Aid personnel who require access to the District's check printing hardware stored within the data center. These users require DATA CENTER access, but have unrestricted ALL DOORS access.

Impact

This can potentially expose the District to an increased risk of unauthorized access to transactions and data in the various systems in the absence of effective controls over system access. This impact is heightened due to the existence of unauthorized access across all of the District's in-scope applications.

Recommendation

We recommend that management delete or disable the profiles identified in the *Observation* above, as well as conduct a review of users within all groups on the Network, SAP, and the DEC system in order to determine if profiles have been appropriately deleted. *Please note that several items were remediated during the course of our audit work.*

Management Response

Our OPERATOR account is shared for batch production purposes. Operators who share this account are identified individually on our daily production hardcopy work schedules. Creating individual user accounts to run batch production for all of operations staff (with privileges). We currently do not have the software systems manpower resources to implement this requirement.

End users are removed periodically. However a formal process will be developed as part of the 2007 SDLC project. The District does have a policy in place that deactivates user access within 90 days if no activity has been recorded. The current SAP listing has been updated and those deemed not needing access have been removed.

(7) Lack of Documentation, Policies, and Procedures Surrounding Backup Media and Restoration

Observation

During our review of the general controls environment and per inquiry of IT personnel, we noted that the District has not formalized policies and procedures detailing processes surrounding the storage and testing of backup media. We noted that although the District conducts as-needed restorations of files, the District does not perform a periodic restoration in order to validate the effectiveness of its backup media:

a) During our testwork, we noted that the District performs as-needed restorations of files and data from tape per user request (which tests the effectiveness of backup media). However, the District does not perform the restoration process on a periodic basis (i.e. monthly, semi annually). Though as-needed tests of backup media are performed, no periodic tests of backup media are performed.

b) The District does not retain evidence that files have properly been restored from backup media for three (3) sampled data restoration requests. The Legato Backup application does not maintain such evidence.

c) During our testwork, we noted that a total of sixty-seven (67) badges are encoded by the NPowerDNA Access System to have DATA CENTER or ALL DOORS access. These types of access allow personnel to enter the District's data center. Of these sixty-seven badges, sixteen (16) belong to users who should not have access to the data center. Backup tape media is stored within the data center; thus, sixteen badges exist that allow users inappropriate access to the backup tape media.

Impact

This may compromise the District's ability to recover quickly and fully from a major loss of data or similar disaster.

Recommendation

- We recommend that management conduct a periodic test of its backup tape media similar to the as-needed restorations conducted for end users.
- We recommend that management re configure the Legato Backup application to maintain backup logs for at least one year as auditable evidence of the performance of periodic or as-needed restorations.
- We recommend that management remove any noted unauthorized access to its Data Center, so as to limit the potential for a breach of security.

Management Response

- Management response to (a) above: Restoring files and full server systems is done periodically at the request of our Software and Systems and Programming group. Once our new "Data Protector" Enterprise Backup software in installed, we will review and setup restore testing procedures.
- Management response to (b) above: Our current Legato backup software does not have the necessary logs to capture this data. Once "Data Protector" is implemented, we will investigate and produce the necessary log reports regarding our restores.
- Management response to (c) above: The NPowerDNA Access System is managed by building management and is not controlled by the IT Department. A recent review of the data center access list was completed and 30 names were removed from the access list. A monthly review of data center access will be implemented.

With the implementation of our new Data Protector software, a full review of our backup procedures will be done. IT management has reviewed the data center access list and removed individuals who do not require access.

(Continued)

(8) Application-Related Issues in Relation to Business Processes

Observation

During our review of application-specific controls and per inquiry of IT personnel, we noted issues of adverse impact related to in-scope applications and business processes used to generate management reports. These include the following:

- **Human Resources Process:**

  a) During our testwork, we noted that 96 of the 138 users configured with access to HR/Payroll functions do not demonstrate job responsibilities commensurate with this privilege. Moreover, KPMG LLP noted that 20 users demonstrated at least one segregation-of-duties (SOD) conflict between the HR and Payroll functions.

- **Procurement Process:**

  a) During our testwork, we noted that the SAP system is not appropriately configured to prevent the processing of a Purchase Order (PO), specifically, if funds are insufficient. If the PO (i.e., the FI postings) price exceeds the remaining available budget, the system does not put a hold on the PO.

  b) During our testwork, we noted that although the SAP system is configured to assign a sequential number to every system-generated PR and PO, it also provides the user with the option to generate a nonsequential (external) PO number.

  c) During our testwork, we noted that 106 user profiles have been granted access to process payments within SAP. Of these 106 user profiles, we identified 35 profiles with inappropriate access.

  d) During our testwork, we noted that 85 user profiles have been granted access to create/change vendors within SAP. Of these 85 user profiles, we identified 17 profiles with inappropriate access.

  e) During our testwork, we noted that 115 user profiles have been granted access to create/change vendors within SAP. Of these 115 user profiles, we identified 29 profiles with inappropriate access.

- **Payroll Process:**

  a) During our testwork, we noted that one (1) of the six (6) users configured with access to update tax scale tables in SAP did not demonstrate job responsibilities commensurate with these privileges. Moreover, the Payroll Manager has been granted access to the tax tables using a separate application installed on the Payroll Manager's desktop. This application connects to the SAP Tax tables using an ODBC driver and allows the Payroll Manager to make direct changes to the tax tables in the production environment. Although the Payroll Manager has been appropriately granted access to update the Tax Scale table, he should not be authorized to make direct changes to these tables in production. All changes should be made in the test environment and then transported to production using the SAP Transport Management system.

Impact

The findings above compromise both the security and accuracy of data within the SAP system used during the indicated business processes.

Recommendation

- We recommend that management conduct periodic reviews of both roles within the organization and of user access for the SAP system in order to remove user access that generates segregation-of-duties conflicts within the HR, Procurement, and Payroll processes.
- Furthermore, we recommend that management configure the SAP application to prevent the processing of a PO when funds to process the order are insufficient.

Management Response

- Management response to (a) in Procurement Process section above: As part of the business process, we do allow payroll posting to an unmatched account to process payroll. This is partially correct. The business rule at the District is that all employees will receive payment. If a fund does not have sufficient funding, the payroll posting is attributed to an alternate fund.
- Management response to (b) in the Procurement Process section above: This conclusion is partially correct. The SAP system is configured to assign a sequential number to every system-generated PR and PO only. Users DO NOT have the option to generate a nonsequential (external) PO number.
- Management response to (c) in the Procurement Process section above: Business staff is granted access based on approved request and previously agreed work structure needs. A review of access granted to Business staff will be addressed as part of an authorization review project waiting to be scheduled. District IT staff listed on the spreadsheets provided were reviewed and corrected.
- Management response to (d) in the Procurement Process section above: Business staff is granted access based on approved request and previously agreed work structure needs. A review of access granted to Business staff will be addressed as part of an authorization review project waiting to be scheduled. District IT staff listed on the spreadsheets provided were reviewed and corrected.
- Management response to (e) in the Procurement Process section above: Business staff is granted access based on approved requests and previously agreed work structure needs. A review of access granted to Business staff will be addressed as part of an authorization review project waiting to be scheduled. District IT staff listed on the spreadsheets provided were reviewed and corrected.

Management Overall Response

Some duties as identified in small organizations cannot be easily segregated due to staff resources availability. The District will look at limiting the Payroll Manager’s capability to update tax tables directly in SAP. The District has also reviewed the access reports and has already made changed to reflect more appropriate access rights for selected users. More will be updated over the coming months as additional reviews are completed an additional staff is brought on board.

(Continued)

Prior Year Comments

(1) Accounts Receivable Aging Report – Not Yet Implemented

Observation

Based on discussions with management, we noted that the District does not have an Accounts Receivable aging report.

Recommendation

Due to the lack of an Accounts Receivable aging report, the District is unable to clearly decipher the age of their outstanding accounts. Thus, this effects the valuation of the receivables. We recommend that the District develop an Accounts Receivable aging report to facilitate management's review of outstanding receivables and expedite the collection efforts of delinquent receivables.

District Response – Current Status of Prior Year Management Letter Comment

The District is working with IT to finalize the Accounts Receivable aging report.

(2) Verification of Exception Reports – Prior Year Comment Related to DEC is No Longer Applicable

Observation

The Payroll Supervisor is not signing the exception reports as proof that the reports were reviewed. These reports are generated from DEC and are generated on a daily basis or during a day when changes to the employee files are made.

Recommendation

Without verification that exception reports are reviewed and authorized, no one can verify that the control governing authorization of employee file changes are taking place. As DEC is no longer used after July 1, 2005, management should ensure that the authorization controls within SAP are in place so that when employee files are altered, there is a documented management review taking place.

District Response – Current Status of Prior Year Management Letter Comment

The District will make sure that these reports are signed off to ensure that management review has taken place and adequate controls are in place.

(3) Excessive VMS User Access – Fully Implemented

Observation

During our review of the District's controls relating to the VMS system, we noted that there are many user IDs that belong to users who are no longer employed by the District, who no longer require access to a certain function, or who share user IDs. Based on our limited review of security in the VMS system, we observed the following:

- 9 out of 45 existing user IDs with 'setprv' functionality are disabled because they are no longer employed with the District or are no longer providing services to the District.

(Continued)

- 2 out of 39 existing user IDs with 'sysprv' functionality are disabled because they are no longer employed with the Company.
- 3 of 7 existing user IDs with ACMSDEBUG rights identifier are disabled because they are no longer employed with the Company.

We noted the user IDs were disabled and that the accounts were not accessed during the period under review.

Recommendation

Not deleting terminated user IDs can potentially expose the District to an increased risk of unauthorized access to transactions and data in the VMS system. We recommend that management create a formalized procedure for deleting user IDs upon termination of an employee or contractor as well as conduct periodic reviews of the user access lists in the VMS system. Unwanted and alternate or temporary User IDs should be deleted. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to reflect the user's job responsibilities.

District Response – Current Status of Prior Year Management Letter Comment

The file system in VMS links to the user account of the creators and editors of files. This feature enables us to easily determine when changes have been made and by whom, a critical requirement for establishing audit trails. By deleting the user account, we would lose the audit trail. Since disabling the account has the same effect as deletion of preventing unauthorized access, our policy has been and will remain to disable accounts rather than delete them.

(4) Password Sharing – Partially Implemented

Observation

During our review of the District's controls relating to the VMS system, we noted that the Computer Operations team shares one (1) password which allows for the executing of job runs between the SIS application and SAP. We noted that the password is changed every ninety (90) days and redistributed to the Computer Operations team.

Recommendation

There is no ability to determine who executed jobs in the event that a job is run incorrectly or controls over who can execute a job if the integrity of the password is compromised. We recommend that management assign individual user IDs and passwords which allows for the execution of batch jobs to users according to job responsibilities.

District Response – Current Status of Prior Year Management Letter Comment

The District does not agree with this recommendation. The Operations teams on each shift have worked together for many years. By running jobs on a single account, they are able to share responsibilities much more readily. Separating the accounts would significantly lower their productivity. The Operations team religiously keeps a log of jobs run which mitigates the impact cited above. While the recommendation may be appropriate for a data center with high turnover, it would reduce our Operations team's effectiveness with no real gain in security or risk reduction.

(5) Logical Access Restriction to Background Job Processing – Partially Implemented

Observation

During our review of the District's logical controls relating to the SAP system, we noted that several dialogue accounts have been created for the purpose of running batch processes and that these accounts have been granted SAP_ALL access. We noted that these IDs should generally not be configured as dialogue accounts and, if used, should be accompanied by strong batch authority controls. We performed a query over transaction SM36, with specific reference to the S_BTCH_NAM authorization object. This object allows a user to execute batch jobs in the background under another username, which in the case of a batch ID with SAP_ALL privileges, would allow the user to introduce a malicious code into the production system, or enable a user to execute any program regardless of that user's system access. We noted fifty-five (55) total users with the ability to execute this function.

Recommendation

As noted above, the current system configuration may create an increased risk to the Company of batch IDs being exploited for unauthorized access to functions and data, as well as the introduction of malicious code to the production system. We recommend that management change the ID types to System/Background as opposed to Dialogue to prevent users from logging into the system. We further recommend that management remove batch IDs that are not entirely necessary and/or revoke the level of privileges assigned to these IDs. Concurrently, we recommend that management restrict the S_BTCH_NAME authorization object to only those users demonstrating job responsibilities commensurate with this privilege, if necessary at all.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the recommendation. During the period immediately following go-live, it was unclear which authorizations batch processes are needed in order to run successfully. SAP_ALL was granted to those jobs that were critical to processes such as payroll runs to ensure that they would not abort and risk late payrolls. We will analyze the batch jobs associated with SAP_ALL and assign the appropriate authorizations level.

(6) SAP Logical Access – Partially Implemented

Observation

During our review of the District's logical controls relating to the SAP system, we noted that several critical transactions were not restricted to only those individuals with commensurate job responsibilities. Specifically, we noted the following security risks:

- SAP_ALL is not appropriately restricted. Eleven (11) inappropriate user IDs had access to this powerful profile.
- Security Administration transactions are not appropriately restricted. Sixteen (16) user IDs were either extraneous or did not demonstrate job responsibilities appropriate to access transaction 'SU01

– User Maintenance.' We also noted that thirty-three (33) users had access to 'SU02 – Maintain Authorization Profiles' and 'SU03 – Maintain Authorizations' in the production environment. Profiles and Authorizations should be developed in a development/test environment and transported to production through the appropriate change control process.

- Access to Post Journal Entries is not appropriately restricted. Sixteen (16) users with access to transaction 'FB01 – Post Journals' did not demonstrate job responsibilities commensurate with this privilege, while 30 users and 172 users were found to have inappropriate access to the 'F-02 – Enter G/L Acct Posting' and 'FB50 – G/L Account Posting' transactions, respectively.
- Access to the Vendor Master is not appropriately restricted. Fourteen (14) users with access to 'FK01 – Create Vendor (Accounting)' and 'FK02 – Change Vendor (Accounting)' did not demonstrate job responsibilities commensurate with this privilege. Similarly, twenty-three (23) users were configured with inappropriate access to the MK01 and MK02 (Create/Change Vendor – Purchasing) transactions and thirteen (13) users had inappropriate access to the XK01 and XK02 (Create/Change Vendor Centrally) transactions.
- Access to process payments is not appropriately restricted. Forty-three (43) users with access to execute transaction F110 did not demonstrate job responsibilities commensurate with these privileges.

Recommendation

Lack of proper security, or the absence of effective logical access controls, can potentially expose the District to an increased risk of unauthorized access to transactions and data in the mission-critical systems. We recommend that detailed review be performed over the validity of all users within SAP and their current user privileges, as inappropriate access configurations appear to be systemic. This review should be conducted to help assert that only appropriate users have access to the critical transactions and that their access is in line with their job responsibilities. In addition, users' access should be reviewed on a regular basis to help ensure that user access is in compliance with the District's policies and practices. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to the SAP system.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with this recommendation. The District will improve its procedures to remove unauthorized SAP users and review existing SAP users to ensure compliance to District policy.

(7) Access to Production Systems and Data – Prior Year Comment Related to DEC is No Longer Applicable

Observation

During our review of the District's change management process, we noted that access to migrate changes to the production environment of the DEC and SAP systems is not restricted from developers. With respect to SAP, we noted fifty-one (51) users with inappropriate access to the 'SE01 – Transport Organizer' transaction, which would allow them to migrate transports directly in production. We also noted that several developers have access to migrate changes to the DEC production environment.

Recommendation

Without appropriate controls, it is possible for unauthorized program changes to be promoted to the production environment that either have not been tested or approved. There is also the risk that production data may be accidentally or intentionally changed, corrupted, or deleted. We recommend that access to production programs and data be restricted to personnel independent of the development function and that programs are implemented into the live production environment only upon receipt of appropriate authorization. Authorization for changes should only be granted subject to evidence of adequate documentation and testing of changes to systems.

District Response – Current Status of Prior Year Management Letter Comment

The District concurs with the recommendation. The District will improve its procedures on granting access to production systems to ensure that unauthorized program changes do not occur.

(8) Authorization of Transports to Production – Fully Implemented

Observation

During our review of the District's change management process, we noted a weakness with respect to authorizing the migration of transports to production. Specifically, we noted that authorization is granted by entering initials of the approving official into an Excel spreadsheet, the *DEV_QAS_PRD_Change_Request_Log*, and that no physical nor electronic signature is retained as evidence of authorization. We noted that a single, protected version of the log is not maintained, nor are the initials alone an effective means for authenticating an authorized approver. We also noted that the responsibility to retain authorization, testing, and approval documentation has not been clearly defined or assigned to a specific role. Additionally, a repository for archiving such documentation has not been established. As a result, no reliable evidence of authorization, testing, and approval was available for our review.

Recommendation

Given the frequency of transports migrated to production, the lack of a reliable authorization control increases the risk of unauthorized or erroneous changes being migrated to the live environment. Furthermore, no effective means of investigating changes historically made to the system is available. We recommend that management implement a means to authenticate the personnel approving the migration of a change to production, either through a physical or electronic signature. We further recommend that roles and responsibilities be clearly delineated for retaining documentation related to authorization, testing, and approval of changes. Finally, we recommend that a repository be created for the retention and archival of such documentation.

District Response – Current Status of Prior Year Management Letter Comment

The systems engineers who perform transports require an e-mail approving the transport from either the ERP Manager or the CIO, or their respective back approvers. The Change Request Log is used to document information about the changes and simply captures the identity of the authorizer. However, we do recognize the need for improvements in the documentation of the entire process of change management. We have installed SAP's Solution Manager, a broadly featured tool for system management and are assessing its change management capabilities with an eye toward addressing the concerns noted above.

(9) HIS Logical Access – Partially Implemented

Observation

During our review of the District's logical controls relating to the Human Resources Information System (HIS), we noted that several critical transactions were not restricted to only those individuals with commensurate job responsibilities. Specifically, we noted the following security risks:

- Access to modify employee data is not appropriately restricted. Six (6) users with access to transactions 'E353 – RPA Entry' and 'E356 – RPA Worksheet' did not demonstrate job responsibilities commensurate with this privilege or had left the department, and three (3) users were found to have inappropriate access to the 'E054 – Roster Personnel Update.'
- Access to process time, payroll adjustments, and deductions is not appropriately restricted. Twelve (12) users with access to transaction 'E254 – Time Adjustment' did not demonstrate job responsibilities commensurate with this privilege. One (1) out of seven (7) users was found to have inappropriate access to transaction 'E065 – Payroll Adjustment.' One (1) user out of three (3) was found to have inappropriate access to the 'E971 – Deduction Code Table Update' and 'E960 – Federal Income Tax Payable.'
- Access to modify tax tables is not appropriately restricted. All four (4) users with access to transactions 'E960 – Federal Income Tax Table Update' and 'E961 – State Income Tax Table Update' were noted to have inappropriate access not commensurate with their job responsibilities.
- Access to modify significant HR data and perform payroll processing transactions within HIS is not appropriately segregated. Eleven (11) users out of seventy-eight (78) total users that had access to the various payroll and HR transactions demonstrated segregation-of-duties conflicts due. These HIS users are assigned access to HIS_Debug, which allows them to execute all transactions within the HIS system (excepting creating users or profiles in HIS) and, as a consequence, these users might be in a position to have both the ability to perpetrate and to conceal errors or fraud in the normal course of their duties.

Recommendation

Lack of proper security, or the absence of effective logical access controls, can potentially expose the District to an increased risk of unauthorized access to transactions and data in the mission-critical systems. We recommend that detailed review be performed over the validity of all users within HIS and their current user privileges, as inappropriate access appears to be systemic. This review should be conducted to help assert that only appropriate users have access to the critical transactions and that their access is in line with their job responsibilities. In addition, users' access should be reviewed on a regular basis to help ensure that user access is in compliance with the District's policies and practices. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to the HIS system.

District Response – Current Status of Prior Year Management Letter Comment

The District implemented SAP HR and initially, the focus was on stabilizing the system. The District will perform a thorough review of all users' access to ensure compliance with District policy.

(10) Warrant Registers – Fully Implemented

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. POs 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 – Current Status of Prior Year Management Letter Comment

Access in SAP will need to be restricted to prevent unauthorized individuals from removing blocks.

(11) Payroll Exception Reports – Partially Implemented

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.

Recommendation

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

District Response – Current Status of Prior Year Management Letter Comment

The District will make sure that these reports are signed off to ensure that management review has taken place and adequate controls are in place.

(12) Inappropriate VMS System Access – Partially Implemented

Observation

During our high-level review of Student Information System (SIS) access controls, we 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 the 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 the District 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 – Current Status of Prior Year Management Letter Comment

The file system in VMS links to the user account of the creators and editors of files. This feature enables us to easily determine when changes have been made and by whom, a critical requirement for establishing audit trails. By deleting the user account, we would lose the audit trail. Since disabling the account has the same effect as deletion of preventing unauthorized access, our policy has been and will remain to disable accounts rather than delete them.

(13) Inappropriate SAP System Access – Partially Implemented

Observation

During our high-level system access review, we 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 the District does not have transaction logging turned on to allow us to validate it.
- 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. The District 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 – Current Status of Prior Year Management Letter 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. Role-based authorizations were implemented for SAP HR. System audit logging has been implemented for sensitive transactions.

(14) Change Management – Partially Implemented

Observation

During our review, we 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 email 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 code could be moved into production. If the production source code does not match the production executable programs, there may also be time lost 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 – Current Status of Prior Year Management Letter 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 appropriately 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. The 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.

(15) Internal Audit – Partially Implemented

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 – Current Status of Prior Year Management Letter Comment

The District has recently completed an examination of District functions using an outside consultant. While mapping District processes and finding ways to improve performance, it was recognized that Internal Audit needed to have a more prominent position in the District Office. The proposed organization will accomplish that goal. Furthermore, the District has budgeted a new position of Director of Internal Audit in order to provide more leadership and time-on-task for the area.

(16) Lack of Formal IT Strategic Plan – Partially 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 short- and long-term IT strategic plans that are aligned with the District's overall business strategy. The IT strategic plans 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 affect 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 has completed a strategy for District-wide IT infrastructure. Since the Chancellor and Cabinet are undertaking a strategic planning effort this year, we have postponed the development of an applications strategy so that it can be based on the business direction that will be contained in the District's overall strategy.

(17) Recording of Capital Leases – Partially Implemented

Observation

During our prior year's 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 lease obligations.

District Response – Current Status of Prior Year Management Letter Comment

The District's Contracts section is continuing to work with SAP to finalize the function to identify such assets, and to be able to provide access to create an ad hoc report as needed by Accounting.

(Continued)

(18) 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 of 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 new SAP software for HR and Payroll was implemented July 1, 2005. The District will continue to update the Business Process Procedures for all SAP-HR processes, including payroll.