KPMG

Los Angeles Community College District

Report on Audited Basic Financial Statements

June 30, 2005

LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2005

Los Angeles County, California:

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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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

December 7, 2005

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, 2005. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditor's Report, the Basic Financial Statements, the Supplemental Information, the Current Year State Findings and Recommendations, and the Current Year Federal Findings & Questioned Costs including the Status of Prior Year Findings and Recommendations. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

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

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

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.

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

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 112,000 students, employs approximately 3,706 full-time and 10,629 part-time personnel and covers a service area of more than 800 square miles.

Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2005 decreased 5.8% from the previous year.

Enrollment figures (credit student headcounts) by campus for the 2004-2005 fiscal year were as follows:

	Fall	Spring
East Los Angeles College	20,973	20,348
Los Angeles City College	16,268	15,862
Los Angeles Harbor College	8,542	8,100
Los Angeles Mission College	7,328	7,289
Los Angeles Pierce College	16,764	16,741
Los Angeles Southwest College	6,107	5,838
Los Angeles Trade-Technical College	12,307	11,941
Los Angeles Valley College	16,920	16,306
West Los Angeles College	8,305	8,216
Instructional Television	1,167	994
Total Districtwide	114,681	111,635

Even though the Fall and Spring enrollment figures by headcount decreased, our FTES (Full time equivalent student) figures, the measure by which the State of California funds Community Colleges, increased by 3.2% from the previous year as follows:

	Credit	Non-Credit
East Los Angeles College	17,889	863
Los Angeles City College	13,638	1,582
Los Angeles Harbor College	6,657	136
Los Angeles Mission College	5,289	267
Los Angeles Pierce College	12,472	330
Los Angeles Southwest College	4,954	732
Los Angeles Trade-Technical College	11,581	505
Los Angeles Valley College	12,554	357
West Los Angeles College	6,161	322
Instructional Television	695	—
Total Districtwide	91,892	5,092

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

Sincerely,

Darroch F. Young
Chancellor

MANAGEMENT’S DISCUSSION AND ANALYSIS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2005

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, 2005. 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, 2005 by $320.1 million (net assets). Of this amount, $51.1 million (unrestricted net assets) may be used to meet the District's ongoing obligations and $31.3 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 $237.7 million of amounts invested in capital assets, net of related debt.
- The District's total net assets increased $49.8 million during the fiscal year ended June 30, 2005. A significant portion of the increase in the District's net assets was a result of increases in state apportionment and local taxes provided for General Obligation Bonds debt services payments in the fiscal year ended June 30, 2005.
- The District's investment in capital assets increased by $113.2 million or 18.8% during the year ended June 30, 2005. Capital construction projects related primarily to the Proposition A and AA Bonds which accounted for $95.2 million in capital expenditures at June 30, 2005. The District also acquired one property, valued at $19.5 million, for the District Educational Services Center, and one property, valued at $476,503, for the East Los Angeles College.
- The District's total long-term liabilities increased by $114.2 million or 16.9% during the fiscal year ended June 30, 2005. During fiscal year 2005, the District issued $103.9 million of General Obligation Bonds and refunded $437.45 million of General Obligation Bonds. The refunding of the 2001 Series A, General Obligation Bonds generated $12.3 million in savings that were added to the college construction projects budgets. The issuances and refunding bonds will be used to finance construction and improvements to college and support facilities at the various campuses of the District.

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 represents the revenues received, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District. The

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

Balance Sheets

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 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.

Financial Analysis of the District as a Whole

As of June 30, 2005, the District's net assets have increased $49.8 million or 18.4% from $270.4 million to $320.1 million at June 30, 2004. The increase in net assets resulted from a $48.1 million increase in current assets, a $100.3 million increase in net capital assets, a $15.6 million decrease in current liabilities, and a $114.2 million increase in long-term liabilities.

Summary Schedule of Net Assets

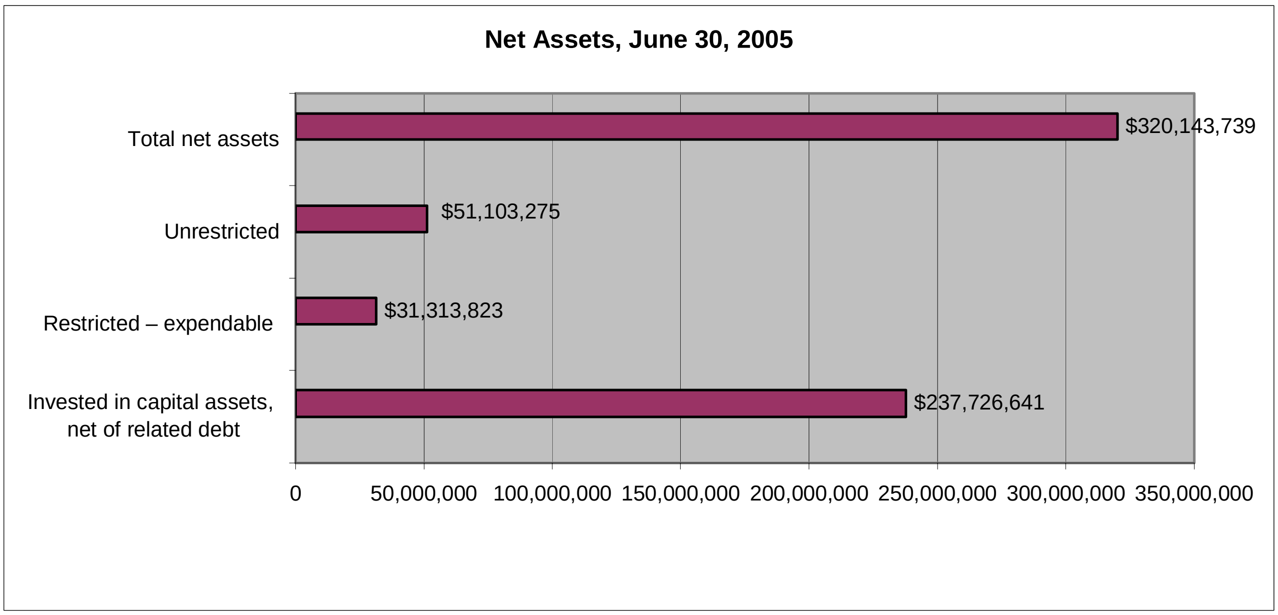
June 30, 2005 and 2004

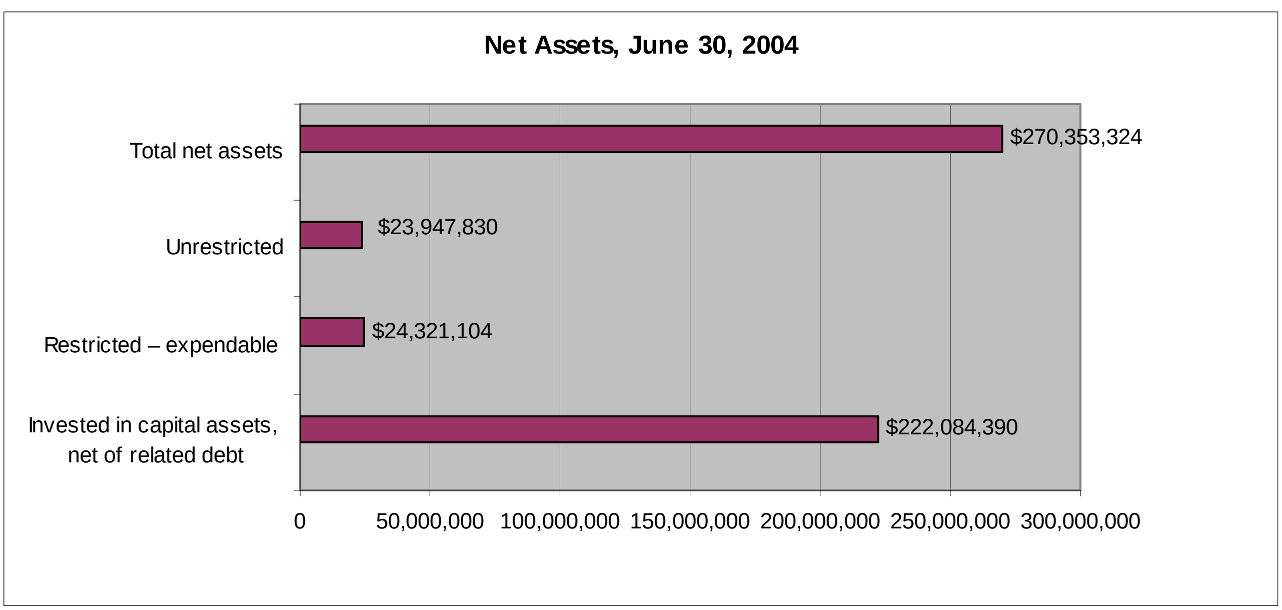
		2005	2004	Increase (decrease)
Assets:				
Current and other assets	$	695,284,582	647,133,331	48,151,251
Capital assets, net		524,104,261	423,846,193	100,258,068
Total assets		1,219,388,843	1,070,979,524	148,409,319
Liabilities:				
Current liabilities		110,910,730	126,520,501	(15,609,771)
Noncurrent liabilities		788,334,374	674,105,699	114,228,675
Total liabilities		899,245,104	800,626,200	98,618,904
Net assets:				
Invested in capital assets, net of debt		237,726,641	222,084,390	15,642,251
Restricted – expendable		31,313,823	24,321,104	6,992,719
Unrestricted		51,103,275	23,947,830	27,155,445
Total net assets	$	320,143,739	270,353,324	49,790,415

In 2005, the District spent $113.2 million in capital assets and depreciated $13.0 million of such assets. The District deposited the bond proceeds from Propositions A and AA in the County Treasury cash and investment pool. Restricted investments decreased $122.4 million, and restricted cash and cash equivalents increased $120.0 million during fiscal 2005. The $48.1 million increase in current and other assets is due in part to the $12 million increase in cash and cash equivalents, the $5.5 million increase in accounts receivable and notes receivable, the $5 million decrease in other deposits, and the $30.1 million for the deferred amounts on the refunding and $5.8 million for deferred issuance costs and prepaid interest.

The $15.6 million decrease in current liabilities is due in part to a $6.7 million decrease in accounts payable, a $3.3 million decrease in deferred revenue, and a $4.5 million decrease in current portion of long-term debt.

The $114.2 million net increase in long-term liabilities is primarily due to a net $71.5 million increase in long-term debt, a $40.5 million increase for accrued original bond premiums, and a $2.2 million increase in accrued vacation benefits, general liabilities, and workers' compensation. The increase in long-term debt liabilities is partially due to $103.9 million of 2004 Series A and B and $437.45 million of 2005 Refunding Series A of General Obligation Bonds issued in October 2004 and March 2005.





LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2005

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 $320.2 million at June 30, 2005. A significant portion of the District's net assets represents $469.6 million of restricted cash, cash equivalents, and investments for capital projects, and $524.1 million of capital assets. As stated earlier, the District spent $113.2 million for additional capital assets during fiscal 2005. These capital asset expenditures are included in the Balance Sheet. Also, the District depreciated its capital assets by approximately $12.9 million for the year ended June 30, 2005 resulting in a net increase in capital assets of $100.3 million. The District's net assets also include $745.6 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, 2005 and 2004

	2005	2004	Change
Revenues:			
Operating revenues:			
Net tuition and fees	$ 37,955,195	34,933,192	3,022,003
Grants and contracts, noncapital	137,375,462	136,210,828	1,164,634
Other	31,931,965	32,158,675	(226,710)
Nonoperating revenues:			
State apportionments, noncapital	283,300,926	233,197,594	50,103,332
Property taxes	111,875,128	128,467,415	(16,592,287)
Investment income	13,856,312	17,106,021	(3,249,709)
Local tax for G.O. Bonds	79,409,260	48,299,831	31,109,429
Other	20,529,402	19,280,136	1,249,266
Other revenues:			
State apportionments, capital	11,458,690	17,412,941	(5,954,251)
Local property taxes and revenues, capital	2,482,619	2,680,142	(197,523)
Total revenues	730,174,959	669,746,775	60,428,184
Expenses:			
Operating expenses:			
Salaries	325,929,879	312,263,765	13,666,114
Employee benefits	97,334,775	98,014,693	(679,918)
Supplies, materials, and other operating expenses and services	193,902,991	214,123,001	(20,220,010)
Other	20,222,595	19,080,149	1,142,446
Total operating expenses	637,390,240	643,481,608	(6,091,368)
Nonoperating expenses:			
Interest expense	34,836,125	30,421,167	4,414,958
Other	8,158,179	3,356,407	4,801,772
Total expenses	680,384,544	677,259,182	3,125,362
Change in net assets	$ 49,790,415	(7,512,407)	57,302,822

The summary of revenues, expenses, and changes in net assets reflects an increase of $49.8 million in the net assets at the end of the year as explained below.

In 2005, operating revenue for tuition and fees, grants, and contracts – noncapital resulted in a net increase of $4 million, which includes a $3 million increase in tuition and fees, a $1 million increase in federal funded programs, a $2.2 million increase in state-funded categorical programs, a $2 million decrease in local revenue, and a $226,710 decrease in auxiliary enterprise sales and charges.

Nonoperating revenues increased $62.6 million. The increase is due in part to the following:

(1) $50.1 million increase in state apportionments in part due to a $8.1 million increase in COLA (2.41%), $32 million in enrollment growth revenue, and a $16.6 million increase in state apportionment to offset decrease in property tax revenue

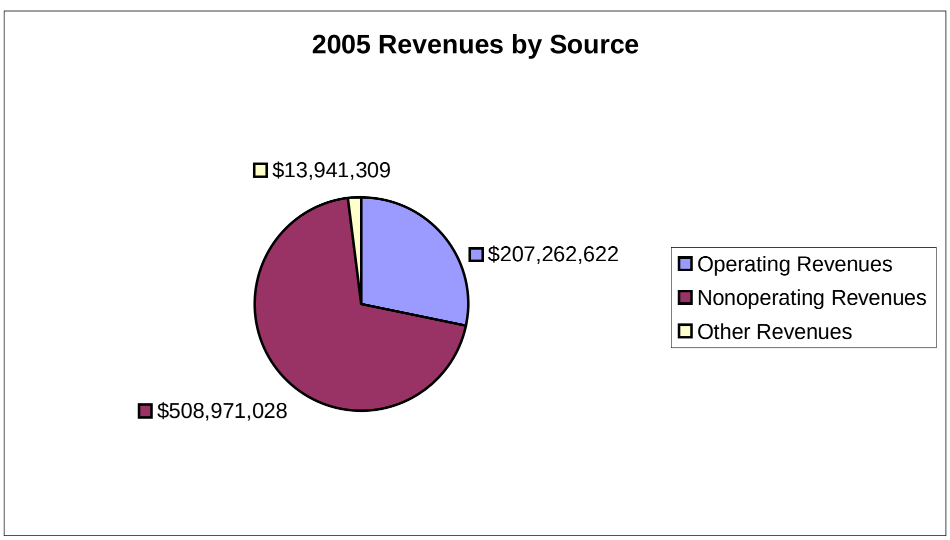
(2) $16.6 million decrease in property tax

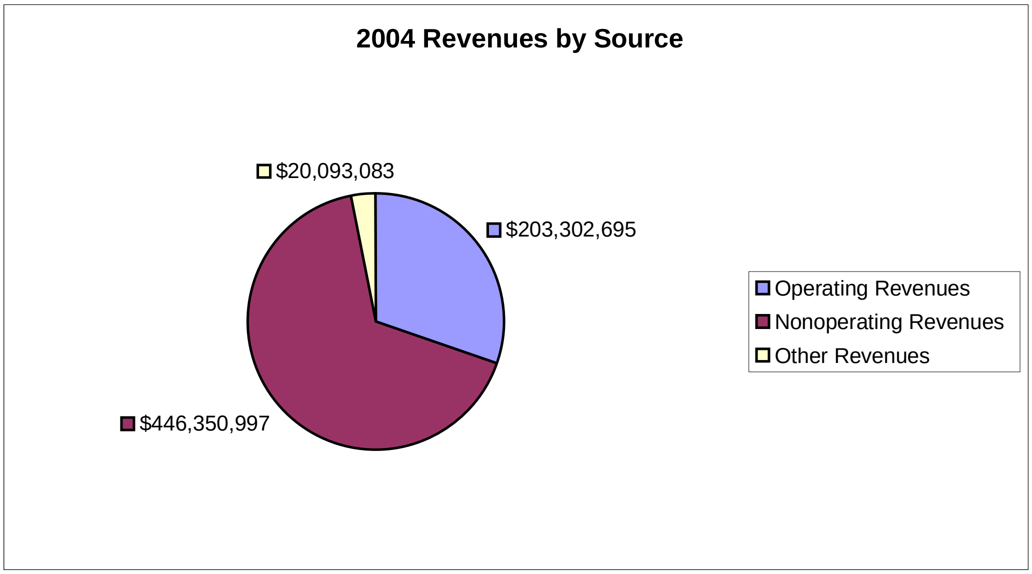
(3) $3.3 million decrease in investment income

(4) $1.5 million increase in other nonoperating revenue

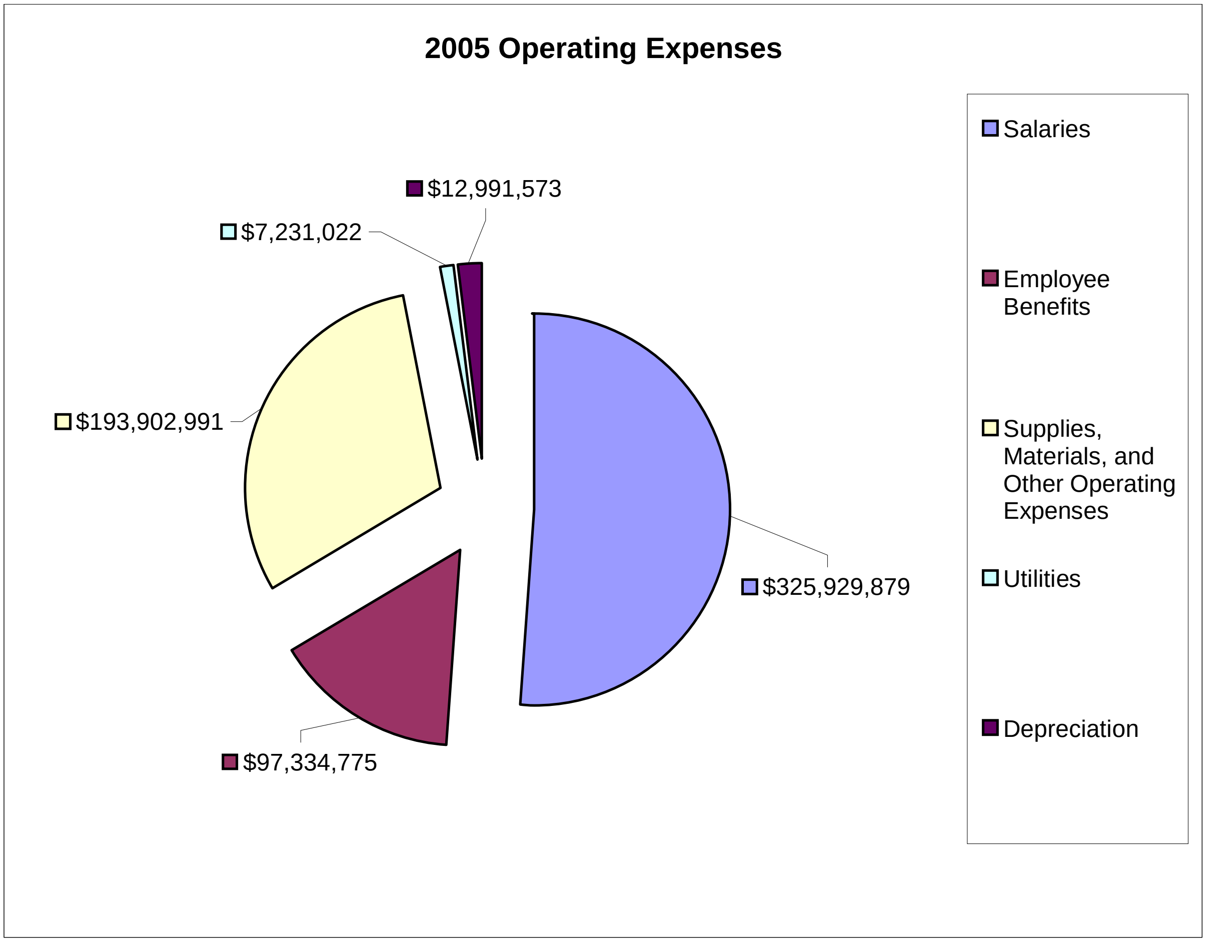
(5) $31.1 million increase in local taxes for G.O. Bonds

Operating expenses decreased $6 million, due primarily to a $13.7 million increase in salaries resulting from the COLA increase of 2.41% and increase in class offerings, and a $20.2 million decrease in supplies, materials, and other operating expenses and services. The decrease in other operating expenses and services is due in part from the deferments of prior and current year General Obligation Bond issuance costs and the reversals of the District Office building accrued leases.




2004 Revenues by Source
$20,093,083
$203,302,695
$446,350,997
Operating Revenues
Nonoperating Revenues
Other Revenues

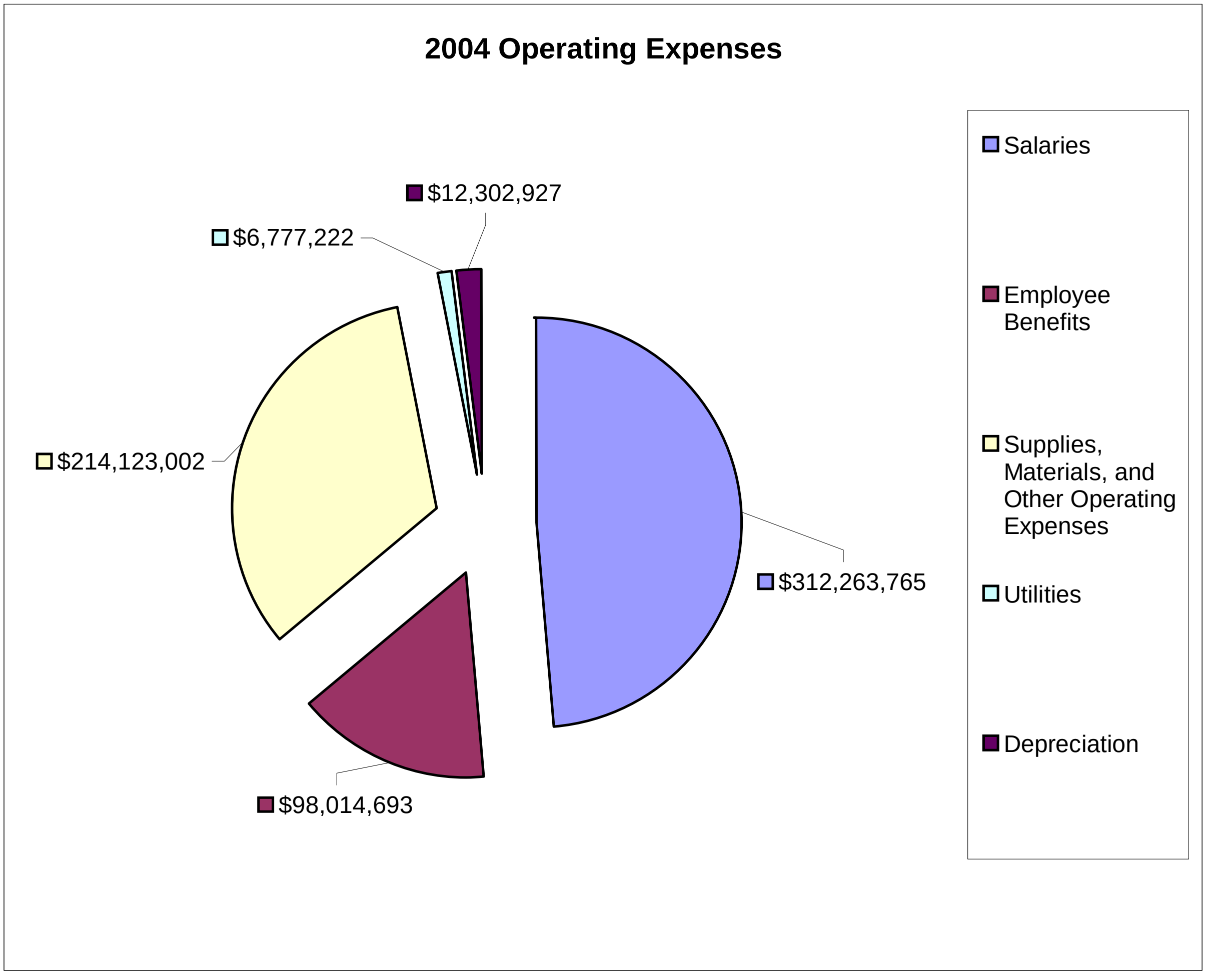
Salary expenses represent 51% of the District's total operating expenses. Employee benefits decreased by $679,918 during the year ended June 30, 2005 due to adjustment in Workers' Compensation liabilities.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2005



Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2005 and 2004 totaled $524.1 million and $423.9 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, 2005 and 2004:

Capital Assets, Net

	2005			
	Balance at July 1, 2004	Additions/ Transfers	Transfers	Balance at June 30, 2005
Land	$ 39,993,706	5,490,000	—	45,483,706
Land improvements	31,278,667	7,574	—	31,286,241
Buildings	324,237,771	50,324,739	—	374,562,510
Construction in progress	161,724,856	92,640,168	(39,074,327)	215,290,697
Works of art	518,000	—	—	518,000
Equipment	41,630,589	3,861,487	—	45,492,076
Infrastructure	2,895,800	—	—	2,895,800
Total	602,279,389	152,323,968	(39,074,327)	715,529,030
Less accumulated depreciation	(178,433,196)	(12,991,573)	—	(191,424,769)
Net capital assets	$ 423,846,193	139,332,395	(39,074,327)	524,104,261

- For the year ended June 30, 2005, the District recorded an additional $113.2 million in capital assets and $12.9 million in depreciation. During the year ended June 30, 2005, 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 $92.6 million of capital outlay funds were spent for assets under construction. In addition, the District also acquired one property, valued at $19.5 million, for the District Educational Services Center, and one property, valued at $476,503, for the East Los Angeles College.

Capital Projects

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

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

The District is in the fourth year of the Proposition A and the third year of Proposition AA Bond construction projects. Approximately $400.2 million has been spent to date for Proposition A and AA combined for several capital projects at all nine colleges and to refinance outstanding debt (Certificates of Participation Notes) at both the District and colleges. In July 2004, another $103.9 million in taxable bonds were issued to fund various joint ventures, non-government revenue providing projects and to fund owner-controlled insurance programs. The District anticipates completion of these capital projects by the year 2012.

Long-Term Debt

At June 30, 2005 and 2004, the District had $745.6 million and $676.4 million in long-term debt, respectively. The District's long-term debt increased during the year ended June 30, 2005 as a result of the issuance of $103.9 million of General Obligation Bonds and refunded $437.45 million of General Obligation Bonds.

Summary of Outstanding Long-Term Debt

June 30, 2005 and 2004

		2005	2004
Revenue Bonds:			
Energy and Water Efficiency Revenue Bonds – Phase IV	$	1,710,000	1,995,000
Energy and Water Efficiency Revenue Bonds – Phase V		729,917	851,570
Refunding COPS:			
G.O. Bonds Prop A, 2001 Series		48,545,000	483,930,000
G.O. Bonds Prop AA, 2003 Series		153,285,000	189,685,000
G.O. Bonds Prop A and AA, 2004 Series		103,900,000	—
G.O. Bonds Prop A, 2005 Series		437,450,000	—
Total long-term debt	$	745,619,917	676,461,570

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

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

Economic Factors

State Economy

On July 11, 2005, the State Adopted Budget (SB77) for fiscal year 2005-06 was signed by the Governor. California Community Colleges received $5.7 billion. The California Community College system received a 9.1% increase in funding from the prior year. The State gave California Community Colleges approximately 10.46% of Proposition 98 funds. The increases have provided a 4.23% COLA and an additional $12 million in enrollment growth revenue to the District. The District has also increased its contingency reserve from 3% ($12.3 million in 2004-05) to 3.5% ($16.1 million) for fiscal year 2005-2006 to cover unforeseen events. The District ended the year with an increase in its ending balance to over 8% of its annual expenditures.

Student Enrollment and State Funding

The student enrollment fee remains at $26 per unit. In 2005-06, the State provided 3% enrollment growth for apportionments for California Community Colleges. The District has budgeted $12.46 million in enrollment growth in enrollment revenue for a 3.47% increase in enrollment to ensure receipt of these funds and to meet the District's funded growth cap. To improve student access and success, the District is conducting enrollment scanning and developing long-term enrollment strategies by generating marketing plans to support a marketing plan campaign for nine colleges. The District continues to seek legislative changes to provide for additional funding for enrollment, to strengthen efforts to modernize facilities and renew programs and services to ensure access to students and community.

KPMG 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, 2005 and 2004, 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 10, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis on pages 1 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The management's discussion and analysis does not include 2004 information that accounting principles generally accepted in the United States of America requires to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures to the 2005 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 42 through 53 and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information on pages 40 through 41 and pages 55 through 57 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

November 10, 2005

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	$ 98,958,498	86,961,636
Short-term investments (note 3)	48,627	45,810
Accounts receivable, net of allowance (note 4)	61,732,336	53,685,864
Student loans receivable, net – current portion (note 4)	63,300	428,910
Deposit with bond trustee	16,307,316	3,841,479
Deposit with superior court	—	17,500,000
Inventory	8,810,781	8,389,528
Deferred amount on refunding	30,120,783	—
Bond issuance costs	5,775,021	—
Prepaid expenses and other assets	2,251,910	451,927
Total current assets	224,068,572	171,305,154
Noncurrent assets:		
Restricted cash and cash equivalents	275,863,810	155,886,836
Restricted investment	193,775,533	316,220,406
Student loans receivable, net – noncurrent portion (note 4)	1,576,667	3,720,936
Capital assets (note 6):		
Land	45,483,706	39,993,706
Land improvements	31,286,241	31,278,667
Buildings	374,562,510	324,237,770
Construction in progress	215,290,697	161,724,856
Works of art	518,000	518,000
Machinery and equipment	45,492,076	41,630,589
Infrastructure	2,895,800	2,895,800
Accumulated depreciation	(191,424,769)	(178,433,196)
Capital assets, net	524,104,261	423,846,192
Total assets	$ 1,219,388,843	1,070,979,524

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2005 and 2004

Liabilities and Net Assets	**2005**	**2004**
Current liabilities:		
Accounts payable	$ 49,941,752	56,578,163
Deferred revenue	5,944,156	9,221,659
Compensated absences payable	685,204	1,207,415
General liability	418,993	314,224
Workers' compensation	4,321,970	6,254,972
Other accrued liabilities	3,520,464	3,426,285
Amounts held in trust for others	488,624	1,849,128
Revenue bonds payable – current	406,653	406,653
Long-term debt – current	43,975,000	46,400,000
Capital leases – current	1,207,914	862,002
Total current liabilities	110,910,730	126,520,501
Noncurrent liabilities:		
Compensated absences payable	11,022,473	10,444,099
General liability	2,673,007	1,790,776
Workers' compensation	31,157,030	30,332,028
Revenue bonds payable – noncurrent	2,033,264	2,439,917
Long-term debt – noncurrent	739,763,463	627,215,000
Capital leases – noncurrent	1,685,137	1,883,879
Total noncurrent liabilities	788,334,374	674,105,699
Total liabilities	899,245,104	800,626,200
Net assets:		
Invested in capital assets, net of related debt	237,726,641	222,084,390
Restricted for:		
Expendable:		
Scholarships and loans	7,957,322	5,991,189
Other special purposes	23,356,501	18,329,915
Unrestricted	51,103,275	23,947,830
Total net assets	320,143,739	270,353,324
Total liabilities and net assets	$ 1,219,388,843	1,070,979,524

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, 2005 and 2004

	2005	2004
Operating revenues:		
Tuition and fees (gross)	$ 69,038,339	55,556,901
Less scholarship discounts and allowances	(31,083,144)	(20,623,709)
Net tuition and fees	37,955,195	34,933,192
Grants and contracts, noncapital:		
Federal	90,272,888	89,270,746
State	35,126,955	32,937,820
Local	11,975,619	14,002,262
Auxiliary enterprise sales and charges	31,931,965	32,158,675
Total operating revenues	207,262,622	203,302,695
Operating expenses:		
Salaries	325,929,879	312,263,765
Employee benefits	97,334,775	98,014,693
Supplies, materials, and other operating expenses and services	193,902,991	214,123,001
Utilities	7,231,022	6,777,222
Depreciation	12,991,573	12,302,927
Total operating expenses	637,390,240	643,481,608
Operating loss	(430,127,618)	(440,178,913)
Nonoperating revenues (expenses):		
State apportionments, noncapital	283,300,926	233,197,594
Local property taxes	111,875,128	128,467,415
State taxes and other revenue	1,385,456	1,620,763
Local tax for G.O. Bonds	79,409,260	48,299,831
Investment income – noncapital	1,610,710	1,536,978
Investment income – capital	12,245,602	15,569,043
Interest expense on capital asset-related debt	(34,836,125)	(30,421,167)
Other nonoperating revenues	19,143,946	17,659,373
Other nonoperating expense	(8,158,179)	(3,356,407)
Total nonoperating revenues	465,976,724	412,573,423
Income (loss) before other revenues, expenses, gains, or losses	35,849,106	(27,605,490)
State apportionments, capital	11,458,690	17,412,941
Gifts and grants, capital	2,036,106	2,135,893
Local property taxes and revenues, capital	446,513	544,249
Increase (decrease) in net assets	49,790,415	(7,512,407)
Net assets:		
Beginning of year	270,353,324	277,865,731
End of year	$ 320,143,739	270,353,324

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Tuition and fees	$ 38,028,354	33,716,280
Grants and contracts	132,922,221	131,743,418
Payments to suppliers	(206,904,143)	(206,789,276)
Payments for utilities	(7,231,022)	(6,777,222)
Payments to employees	(325,929,879)	(311,037,847)
Payments for benefits	(97,442,266)	(94,876,094)
Bookstore and cafeteria sales	31,370,070	32,599,708
Other receipts (payments)	(572,317)	270,034
Net cash used in operating activities	(435,758,982)	(421,150,999)
Cash flows from noncapital financing activities:		
State appropriations	285,086,007	208,943,558
Property taxes	111,875,128	128,029,122
State taxes and other revenues	1,385,456	1,620,763
Local tax for G.O. Bond	79,409,260	48,299,831
Other receipts	10,964,708	17,119,515
Net cash provided by noncapital financing activities	488,720,559	404,012,789
Cash flows from capital financing activities:		
Proceeds from capital debt	581,908,463	189,685,000
Capital appropriations, local property tax, grant and gift, capital	13,941,309	20,093,083
Purchases of capital assets	(112,081,881)	(105,809,207)
Principal paid on capital debt and leases	(509,112,337)	(118,233,467)
Interest paid on capital debt and leases	(34,836,125)	(30,421,167)
Deposit with trustee	(12,465,837)	56,727,853
Deposit with superior court	17,500,000	(17,500,000)
Net cash used in capital financing activities	(55,146,408)	(5,457,905)
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	359,615,504	617,268,154
Interest on investments	11,716,609	14,253,467
Purchase of investments	(237,173,447)	(465,380,700)
Net cash provided by investing activities	134,158,666	166,140,921
Net increase in cash and cash equivalents	131,973,835	143,544,806
Cash and cash equivalents – beginning of the year	242,848,473	99,303,666
Cash and cash equivalents – end of year	$ 374,822,308	242,848,472
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (430,127,618)	(440,178,913)
Appraisal adjustments, net		
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,991,573	12,302,927
Changes in assets and liabilities:		
Receivables, net	(4,779,685)	(4,965,979)
Inventories	(421,253)	(1,516,682)
Other assets	(1,799,983)	(413,793)
Accounts payable	(7,013,351)	7,745,286
Deferred revenue	(3,277,503)	2,350,058
Deposits held for others	(1,360,504)	(760,142)
General liability	987,000	415,476
Workers' compensation	(1,108,000)	3,324,000
Compensated absences	56,163	(606,136)
Other liabilities	94,179	1,152,899
Net cash used in operating activities	$ (435,758,982)	(421,150,999)
Noncash capital financing activity:		
Equipment acquired through new capital lease obligations	$ 1,172,050	947,190

See accompanying notes to basic financial statements.

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.

(Continued)

(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.

(Continued)

(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 with 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. 40

For the fiscal year ended June 30, 2005, the District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have an impact on the District's financial statements for the year ended June 30, 2005, but required additional disclosures related to deposits and investment risks.

(3) Cash and Investments

Cash and investments at June 30, 2005 and 2004 consist of the following:

		2005	2004
Cash in County Treasury	$	345,597,827	226,186,783
Cash in banks		29,224,481	16,661,689
Total cash and cash equivalents		374,822,308	242,848,472
Investments:			
Investments in the County Treasury		189,091,955	312,633,881
Other		4,732,205	3,632,335
Total investments		193,824,160	316,266,216
Total cash and investments	$	568,646,468	559,114,688

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, 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. At June 30, 2004, the District had cash in banks with a carrying value and bank balance of $16,661,689 and $38,898,356, respectively. Of the bank balance, $347,079 was covered by federal depository insurance, of which $38,551,277 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. 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, 2005 and 2004, 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 non-negotiable 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.

The School Districts and the Courts are required by legal provisions to participate in the County's investment pool. Eighty-nine percent (89%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District, and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the County's External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2005 to support the value of shares in the Treasurer's investment pool. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

A summary of investments held by the Treasurer's Pool as of June 30, 2005 and 2004 is as follows (in thousands):

	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			

	June 30, 2004 (In 000's)			
	Fair value	Principal	Interest rate percentage range	Maturity range
U.S. government securities	$ 9,034,177	9,073,386	1.00% – 9.25%	07/15/04 – 12/01/08
Negotiable certificates of deposit	1,901,375	1,904,364	1.045% – 1.725%	07/06/04 – 05/03/05
Commercial paper	3,674,496	3,675,123	1.03% – 1.47%	07/01/04 – 01/25/05
Corporate and deposit notes	253,466	255,002	1.09% – 2.10%	07/08/04 – 11/06/06
Repurchase agreements	500,000	500,000	1.35%	07/01/04
Los Angeles County securities	40,538	40,538	1.46% – 4.905%	06/30/05 – 08/01/07
Deposits	101,036	101,036		
	$ 15,505,088	15,549,449		

As of June 30, 2005 and 2004, the District had $534,689,782 and $538,820,664 invested in the County Treasurer's Pool which represents approximately 3.5% of the County's pooled cash and investments.

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, 2005, over 70% have a maturity of six months or less. Of the remainder, less than 12% have a maturity of more than one year.

As of June 30, 2005, variable-rate notes comprised 5.20% 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, 2005, 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, 2005, the County was invested in guaranteed investment contracts and the Local Agency Investment Fund, which are unrated as to credit quality.

At June 30, 3005, 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.

The following is 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, 2005:

	S&P	Moody's	% 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, 2005 and 2004 was 2.16% and 1.37%, respectively.

(4) Accounts, Notes, and Other Receivables

Accounts, notes, and other receivable at June 30, 2005 and 2004 are summarized as follows:

	2005	2004
Tax delinquencies	$ 15,572,087	14,393,105
Federal and state programs	14,400,495	14,631,065
State lottery	6,734,504	6,600,000
Interest receivable	1,743,888	1,118,051
Accounts receivable – principal apportionment	25,697,827	20,213,640
Accounts receivable – campus students	1,880,286	1,653,119
Accounts receivable – credit memos	—	733
Accounts receivable – NDSL/Perkins	4,151,506	4,150,945
Other	11,275,336	12,456,683
Less allowance for doubtful accounts	(18,083,626)	(17,381,631)
Total, net	$ 63,372,303	57,835,710

The allowance for doubtful accounts is maintained at an amount sufficient to fully reserve tax delinquencies as well as the possible uncollectibility of other receivable balances. Tax delinquencies represent prior and current year unpaid/unreceived property taxes which were assessed and billed by Los Angeles County during the 2004/2005 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, 2005 and 2004 are summarized as follows:

		2005	2004
Vendors payable	$	16,314,738	18,778,361
Capital Outlay & Program Management – DMJM		16,148,353	14,182,973
Payroll accrual		3,279,172	10,348,567
Grants		7,261,121	8,029,147
Principal apportionment		3,885,991	2,661,248
Interest payable		—	1,513,866
L.A. Sheriff's Department		917,998	884,535
Financial aid payable		518,266	179,466
Election expense payable		1,616,113	—
Total	$	49,941,752	56,578,163

(6) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2004	Additions/ Transfers	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	50,324,739	—	374,562,510
Equipment	41,630,589	3,861,487	—	45,492,076
Infrastructure	2,895,800	—	—	2,895,800
Total capital assets being depreciated	400,042,827	54,193,800	—	454,236,627
Total costs	602,279,389	152,323,968	(39,074,327)	715,529,030
Less accumulated depreciation	(178,433,196)	(12,991,573)	—	(191,424,769)
Total	$ 423,846,193	139,332,395	(39,074,327)	524,104,261

		Balance at July 1, 2003	Additions/ Transfers	Transfers	Balance at June 30, 2004
Capital assets not being depreciated:					
Land	$	32,499,839	7,493,867	—	39,993,706
Construction in process		73,722,369	94,967,951	(6,965,464)	161,724,856
Works of art		518,000	—	—	518,000
Total capital assets not being depreciated		106,740,208	102,461,818	(6,965,464)	202,236,562
Capital assets being depreciated:					
Land improvements		30,856,097	422,570	—	31,278,667
Buildings		316,172,413	8,065,358	—	324,237,771
Equipment		38,762,110	2,868,479	—	41,630,589
Infrastructure		2,895,800	—	—	2,895,800
Total capital assets being depreciated		388,686,420	11,356,407	—	400,042,827
Total costs		495,426,628	113,818,225	(6,965,464)	602,279,389
Less accumulated depreciation		(166,130,269)	(12,302,927)	—	(178,433,196)
Total	$	329,296,359	101,515,298	(6,965,464)	423,846,193

(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, 2005, minimum lease commitments under long-term lease contracts, including the District's central office lease, were as follows:

Year ending June 30:		
2006	$	2,381,166
2007		1,678,940
2008		1,347,207
2009		898,874
2010		50,844
Total	$	6,357,031

(8) Employee Retirement Systems

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

(a) Plan Descriptions and Provisions

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

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

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

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

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

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

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

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

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

Public Agency Retirement System (PARS)

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

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

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

(b) Contributions Required and Contributions Made

For fiscal year 2004-2005, 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, 2005, 2004, and 2003 are as follows:

		Contributions	Percent of required contributions
STRS:			
2005	$	14,144,048	100%
2004		13,819,205	100
2003		14,019,805	100
PERS:			
2005	$	10,167,471	100%
2004		9,784,984	100
2003		2,605,393	100
Cash Balance STRS:			
2005	$	829,302	100%
2004		620,415	100
PARS:			
2005	$	683,899	100%
2004		630,306	100
2003		1,392,368	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, 2005 and 2004, expenditures of $22,584,634 and $20,319,798, respectively, were recognized for postretirement health benefits.

(d) Postretirement Benefits – GASB 45

The Governmental Accounting Standards Board (GASB) has recently issued its final accounting standards for retiree healthcare and other postemployment benefits, GASB 45. Based on the actuarial study done in October 2005, the best estimate of the Present Value liability of future benefits is approximately $721 million at June 30, 2005. The effective date for implementing GASB 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, 2005. 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, 2005 and 2004, the total value of these contracts to be paid over the course of two years approximated $417,336,361 and $313,243,037, 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, 2005 and 2004:

	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	—
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
Vacation benefits payable	11,651,514	741,367	(685,204)	11,707,677	685,204
Capital lease obligations	2,745,881	1,172,050	(1,024,880)	2,893,051	1,207,914
Total	$ 729,550,965	588,441,843	(478,642,700)	839,350,108	51,015,734

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

(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, 2005 are as follows:

		2001 Series A		
		Principal	Interest	Total
Year ending June 30:				
2006	$	3,655,000	1,871,275	5,526,275
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 – 2012		19,835,000	840,156	20,675,156
Total	$	48,545,000	8,187,570	56,732,570

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, 2005 are as follows:

	2003 Series A, B, and C		
	Principal	**Interest**	**Total**
Year ending June 30:			
2006	$ 36,980,000	5,932,992	42,912,992
2007	34,305,000	4,633,617	38,938,617
2008	2,455,000	3,871,265	6,326,265
2009	2,505,000	3,795,388	6,300,388
2010	2,605,000	3,709,469	6,314,469
2011 – 2015	14,745,000	16,657,063	31,402,063
2016 – 2020	18,625,000	12,658,000	31,283,000
2021 – 2025	23,770,000	7,391,087	31,161,087
2026 – 2028	17,295,000	1,325,375	18,620,375
Total	$ 153,285,000	59,974,256	213,259,256

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.

(Continued)

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2005 are as follows:

		2004 Series A and B		
		Principal	**Interest**	**Total**
Year ending June 30:				
2006	$	—	5,245,802	5,245,802
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 – 2015		16,050,000	23,148,287	39,198,287
2016 – 2020		20,090,000	18,953,243	39,043,243
2021 – 2025		25,835,000	13,009,604	38,844,604
2026 – 2028		33,670,000	4,933,293	38,603,293
Total	$	103,900,000	85,862,835	189,762,835

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.

(Continued)

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2005 are as follows:

	2005 Series A		
	Principal	Interest	Total
Year ending June 30:			
2006	$ 3,340,000	18,703,829	22,043,829
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 – 2015	44,590,000	105,090,730	149,680,730
2016 – 2020	112,640,000	83,853,675	196,493,675
2021 – 2025	178,870,000	47,802,000	226,672,000
2026	95,620,000	4,470,500	100,090,500
Total	$ 437,450,000	346,776,185	784,226,185

(a.2) Advance Refunding Bonds

The Los Angeles Community College 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, 2005 and 2004, $1,710,000 and $1,995,000 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, 2005 and 2004, the outstanding balance was $729,917 and $851,570, respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2005 are as follows:

		Revenue bonds		
		Principal	**Interest**	**Total**
Year ending June 30:				
2006	$	406,653	—	406,653
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	$	2,439,918	—	2,439,918

(c) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2005 are as follows:

		Lease purchase financing		
		Principal	**Interest**	**Total**
Year ending June 30:				
2006	$	1,207,914	205,659	1,413,573
2007		859,243	110,318	969,561
2008		593,142	44,686	637,828
2009		183,212	12,568	195,780
2010		49,540	1,304	50,844
Total	$	2,893,051	374,535	3,267,586

(11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of $500,000 for each workers' compensation claim, $250,000 per employment practices claims, $100,000 for each general liability claim up to an amount aggregate of $300,000; thereafter, self-insured decreases to $10,000 per each claim up to $25,000,000 per claim. The District currently reports all of its risk management activities in the 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 February 2005. The amount of the outstanding liability at June 30, 2005 and 2004 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, 2005 and 2004 were as follows:

		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

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

During the years ended June 30, 2005 and 2004, the District made total premium payments of approximately $1,334,409 and $1,535,506, respectively, for general liability and property claims.

(12) Subsequent Events

On July 1, 2005, the District implemented SAP software for HR and Payroll. The new software modernizes and where possible simplifies the District's complex and vast human resource, payroll, and employee benefit systems.

On October 5, 2005, the board of trustees approved the agreement with The Los Angeles College and Faculty Guild, Local 1521 governing wages, hours, and other terms of employment for the period July 1, 2005 through June 30, 2008.

On October 19, 2005, the board of trustees approved the agreement(s) with The Service Employees International Union, Local 99 and The Los Angeles/Orange Counties Building and Construction Trades Council governing wages, hours, and other terms of employment for the period July 1, 2005 through June 30, 2008.

(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 1999-00 THROUGH 2004-05

Fiscal year	Local secured	Utilities	Unsecured	Total before redevelopment	Total after redevelopment
1999-00	$ 273,329,473,215	345,386,897	22,901,421,645	296,576,281,757	277,029,580,280
2000-01	291,725,439,435	334,166,624	24,455,208,606	316,514,814,665	293,858,405,633
2001-02	311,073,692,090	366,311,302	26,558,685,481	337,998,688,873	313,794,103,657
2002-03	331,732,106,353	479,791,023	25,821,193,010	358,033,090,386	331,113,645,710
2003-04	357,678,671,379	489,141,868	25,293,229,310	383,461,042,557	355,170,843,908
2004-05	386,483,327,672	481,361,281	24,891,908,667	411,856,597,620	383,631,546,830

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 is slightly lower than the rates shown in the table.

Major Taxpayers and Concentration

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

2004-05 Largest Local Secured Taxpayers

	Property owner	Primary land use	2004-05 Assessed valuation	% of total (1)
1.	Douglas Emmett Realty Funds	Office Building	$ 1,345,293,439	0.35%
2.	Universal Studios Inc.	Motion Picture Studio	1,286,002,903	0.33
3.	Arden Realty Finance Partnership	Office Building	895,745,737	0.23
4.	Anheuser Busch Inc.	Industrial	764,527,064	0.20
5.	One Hundred Towers LLC	Office Building	521,447,324	0.13
6.	Maguire Partners, 355 S. Grand LLC	Office Building	460,855,687	0.12
7.	Duesenberg Investment Company	Office Building	375,441,587	0.10
8.	Paramount Pictures Corp.	Motion Picture Studio	359,197,153	0.09
9.	Century City Mall LLC	Shopping Center Mall	336,758,548	0.09
10.	Trizechahn Hollywood LLC	Retail/Entertainment	326,624,335	0.08
11.	1999 Stars LLC	Office Building	315,670,600	0.08
12.	AP Properties Ltd.	Commercial	310,577,294	0.08
13.	Casden Properties	Apartments	289,765,194	0.07
14.	Twentieth Century Fox Film Corp.	Motion Picture Studio	287,958,493	0.07
15.	Maguire Partners 555 West Fifth LLC	Office Building	283,000,000	0.07
16.	Prime Park La Brea Holdings	Apartments	275,724,296	0.07
17.	South Hope Street LLC	Office Building	275,040,900	0.07
18.	TPG Plaza Investments LLC	Office Building	275,040,900	0.07
19.	2121 Avenue of the Stars LLC	Office Building	260,000,000	0.07
20.	Donald T. Sterling	Apartments	257,073,194	0.07
			$ 9,501,744,648	2.44%

Source: California Municipal Statistics, Inc.
[1] 2004-05 Local Secured Assessed Valuation was $386,483,327,672

Tax Rates

The following table sets forth typical tax rates for property within the District for fiscal years 2000-01 through 2004-05:

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Countywide 1%	1.000000	1.000000	1.000000	1.000000	1.000000
City of Los Angeles	0.026391	0.040051	0.042312	0.050574	0.055733
Los Angeles Unified School District	0.040765	0.048129	0.036973	0.077145	0.088839
Los Angeles Community College District	—	—	0.014598	0.019857	0.018098
County of Los Angeles	0.001314	0.001128	0.001033	0.000992	0.000923
Los Angeles County Floor Control District	0.001552	0.001073	0.000881	0.000462	0.000245
Metropolitan Water District	0.008800	0.007700	0.006700	0.006100	0.005800
Total	1.078822	1.098081	1.102497	1.155130	1.169638

Source: California Municipal Statistics, Inc.

SUPPLEMENTAL FINANCIAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Balance Sheet

June 30, 2005

Assets

Cash in County treasury	$	30,857,304
Cash in banks		5,309,822
Cash in revolving fund		166,665
Investments		449,429
Accounts, notes, interest, and loans receivable, net		52,197,757
Due from other funds		10,224,832
Prepaid expenses and other assets		1,390,518
Total assets	$	100,596,327

Liabilities and Fund Equity

Liabilities:		
Accounts payable	$	27,272,159
Due to other funds		6,067,562
Deferred revenue		6,411,061
General liability claims payable		1,689,524
Workers' compensation claims payable		1,900,000
Other liabilities		4,381,004
Total liabilities		47,721,310
Fund equity:		
Restricted		13,182,968
Unrestricted		39,692,049
Total fund equity		52,875,017
Total liabilities and fund equity	$	100,596,327

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

Revenues:	
Federal revenues:	
Higher Education Acts	$ 8,458,318
Job Training Partnership Act	764,588
Temporary Assistance for Needy Families (TANF)	993,785
Vocational Education Act	5,678,628
Veterans Education	7,685
College Work Study	2,198,153
Seog	85,330
Pell (Beog)	46,990
Other	2,301,887
Total federal revenues	20,535,364
State revenues:	
State apportionments	269,857,093
Tax relief subvention	1,385,456
State lottery	13,186,208
CA Works Opportunity and Responsibility to Kids	4,867,242
Extended opportunity program	6,208,116
Matriculation program	4,779,296
Instructional Equipment/Modem Technology	2,036,106
Disabled Students Programs and Services	4,941,174
Telecommunication and Technology	494,333
Other	13,828,117
Total state revenues	321,583,141
Local revenues:	
Local property taxes	111,875,128
Enrollment fees	18,634,445
Tuition and fees, net of scholarship discounts and allowance	8,002,441
Community service fees	6,359,107
Parking fees	2,402,233
Health service fees	1,291,865
Student fees and charges	1,315,846
Interest	1,541,268
Other	11,368,984
Total local revenues	162,791,317
Total revenues	504,909,822
Expenditures:	
Current:	
Academic salaries	197,686,957
Classified salaries	116,365,926
Employee benefits	95,550,587
Books and supplies	10,600,925
Contract services, student grants, and other operating expenditures	50,185,638
Capital outlay and equipment replacement	11,585,887
Other	969,596
Total expenditures	482,945,516
Excess of revenues over expenditures	21,964,306
Other financing uses:	
Operating transfers out	(464,354)
Net increase in fund balance	21,499,952
Beginning of year	31,375,065
End of year	$ 52,875,017

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Balance Sheet

June 30, 2005

Assets		**Special Reserve Fund**	**Child Development Fund**	**Bookstore Fund**	**Cafeteria Fund**	**Total**
Cash in County Treasury	$	56,646,193	426,648	—	—	57,072,841
Cash in banks		—	58,286	900,250	33,229	991,765
Cash in Revolving Fund		—	—	203,396	8,189	211,585
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		4,088,587	1,509,693	1,611,122	218,813	7,428,215
Due from other funds		2,270,889	213,894	1,028,253	550,358	4,063,394
Inventory		—	—	8,711,203	99,578	8,810,781
Total assets	$	63,005,669	2,208,521	12,454,224	910,167	78,578,581
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	$	3,264,113	287,919	300,480	46,952	3,899,464
Due to other funds		2,247,788	1,746,721	2,139,221	857,525	6,991,255
Deferred revenue		—	—	20,561	—	20,561
Total liabilities		5,511,901	2,034,640	2,460,262	904,477	10,911,280
Fund equity:						
Capital projects		57,493,768	—	—	—	57,493,768
Unrestricted		—	173,881	4,391,311	5,690	4,570,882
Reserve for facility improvements and inventory		—	—	5,602,651	—	5,602,651
Total fund equity		57,493,768	173,881	9,993,962	5,690	67,667,301
Total liabilities and fund equity	$	63,005,669	2,208,521	12,454,224	910,167	78,578,581

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

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

Year ended June 30, 2005

	Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Revenues:					
Federal revenues:					
Tuition and fees	$ —	166,730	—	—	166,730
Other	—	—	—	272,743	272,743
Total federal revenues	—	166,730	—	272,743	439,473
State revenues:					
State apportionment	11,458,690	—	—	—	11,458,690
Other	—	5,874,557	—	7,824	5,882,381
Total state revenues	11,458,690	5,874,557	—	7,824	17,341,071
Local revenues:					
Food service sales	—	—	—	2,383,453	2,383,453
Bookstore sales	661,638	166,730	29,548,512	—	30,376,880
Interest	1,070,903	30,025	3,780	—	1,104,708
Other	245,117	82,787	6,566	298,227	632,697
Total local revenues	1,977,658	279,542	29,558,858	2,681,680	34,497,738
Total revenues	13,436,348	6,320,829	29,558,858	2,962,247	52,278,282
Expenditures:					
Current:					
Academic salaries	33,095	3,440,649	—	—	3,473,744
Classified salaries	1,324,878	1,591,585	4,429,015	1,057,773	8,403,251
Employee benefits	370,336	986,632	1,186,143	292,914	2,836,025
Books and supplies	15,563	210,378	22,398,509	1,984,369	24,608,819
Contract services, student grant, and other operating expenditures	6,271,082	919,330	302,302	63,315	7,556,029
Utilities	—	400	332,362	1,777	334,539
Capital outlay and equipment replacement:					
Building	3,963,939	24,704	—	—	3,988,643
Equipment	1,330,246	55,192	79,234	18,587	1,483,259
Total expenditures	13,309,139	7,228,870	28,727,565	3,418,735	52,684,309
Excess (deficit) of revenues over (under) expenditures	127,209	(908,041)	831,293	(456,488)	(406,027)
Other financing sources – operating transfers in	5,648,938	779,338	682,550	431,245	7,542,071
Net increase (decrease) in fund balances	5,776,147	(128,703)	1,513,843	(25,243)	7,136,044
Beginning of year	51,717,621	173,879	8,480,119	30,933	60,402,552
End of year	$ 57,493,768	45,176	9,993,962	5,690	67,538,596

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Balance Sheet

June 30, 2005

Assets		
Cash held with trustee	$	436,686
Due from other funds		887,271
Total assets	$	1,323,957
Liabilities and Fund Equity		
Liabilities	$	—
Total liabilities		—
Fund equity:		
Capital projects		1,323,957
Debt service		—
Total fund equity		1,323,957
Total liabilities and fund equity	$	1,323,957

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

Revenue:	
Interest	$ 5,931
Total local revenues	5,931
Expenditures:	
Current:	
Debt service:	
Principal	50,393,291
Interest	33,009,260
Total expenditures	83,402,551
Deficit of revenues over expenditures	(83,396,620)
Other financing sources (uses):	
Operating transfers out	(3,410,724)
Local tax for G.O. Bonds	79,409,260
Proceeds from issuance of debt	461,131,663
Payments to refunded debt	(457,138,373)
Total other financing sources	79,991,826
Decrease in net assets	(3,404,794)
Beginning of year	4,728,751
End of year	$ 1,323,957

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Balance Sheet

June 30, 2005

Assets

Cash in County Treasury	$	462,177,455
Cash in banks		17,640,001
Cash in revolving fund		468
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts		1,475,409
Due from other funds		2,199,657
Prepaid expenses and other assets		861,392
Total assets	$	484,354,382

Liabilities and Fund Equity

Liabilities:		
Accounts payable	$	17,461,737
Due to other funds		4,164,476
Total liabilities		21,626,213
Fund equity:		
Reserved for capital expenditures		462,728,169
Total fund equity		462,728,169
Total liabilities and fund equity	$	484,354,382

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

Local revenues:		
Interest	$	9,186,888
Total revenue		9,186,888
Expenditures:		
Other operating expenses and services		26,783,199
Capital outlay and equipment replacement:		
Land		5,461,385
Buildings		95,186,083
Equipment		1,562,077
Total capital outlay		102,209,545
Total expenditures		128,992,744
Deficit of revenues over expenditures		(119,805,856)
Other financing sources:		
Operating transfers out		(3,666,993)
Proceeds from issuance of debt		116,230,000
Total other financing sources		112,563,007
Decrease in net assets		(7,242,849)
Beginning of year		469,971,018
End of year	$	462,728,169

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Balance Sheet

June 30, 2005

Assets

Cash in County treasury	$	452,812
Cash in banks		715,488
Accounts, notes, interest, and loans receivable, net		4,681,435
Due from other funds		68,536
Total assets	$	5,918,271
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	$	1,159,610
Due to other funds		220,397
Total liabilities		1,380,007
Fund equity:		
Restricted		4,538,264
Total fund equity		4,538,264
Total liabilities and fund equity	$	5,918,271

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

Revenues:	
Federal revenues:	
Seog	$ 2,355,732
Pell (Beog)	61,901,515
Direct loan	5,244,246
Total federal revenues	69,501,493
State revenues:	
Extended opportunity program	5,753,379
Cal grant	7,060,655
Total state revenues	12,814,034
Local revenues:	
Interest	39,934
Other	202,979
Total local revenues	242,913
Total revenues	82,558,440
Expenditures:	
Other operating expenses and services	80,669,658
Total expenditures	80,669,658
Excess of revenues over expenditures	1,888,782
Beginning of year	2,649,482
End of year	$ 4,538,264

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Balance Sheet

June 30, 2005

Assets	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Cash in banks	$ 187,290	432,641	56,338	91,361	105,952	40,767	1,153,168	291,111	419,682	2,778,310
Investments	1,382,540	—	364,766	159,967	900,418	60,100	505,469	909,516	—	4,282,776
Accounts, notes, interest, and receivable, net of allowance for doubtful accounts	3,230	13,998	65	—	661	10,422	—	—	—	28,376
Capital assets	11,936	12,193	—	—	183,875	9,711	110,792	228,801	41,256	598,564
Total assets	$ 1,584,996	458,832	421,169	251,328	1,190,906	121,000	1,769,429	1,429,428	460,938	7,688,026
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	$ —	24,663	278	—	1,462	20,744	91,485	—	10,150	148,782
Deferred revenue	956	—	—	—	—	—	—	—	202	1,158
Long-term liabilities (note 2)	—	—	18,373	—	—	7,300	10,595	—	—	36,268
Scholarship and trust	1,345,549	681	—	165,960	564,229	33,871	681,862	204,038	233,522	3,229,712
Other liabilities	—	—	—	—	32,454	—	—	222,030	—	254,484
Total liabilities	1,346,505	25,344	18,651	165,960	598,145	61,915	783,942	426,068	243,874	3,670,404
Fund equity:										
Investment in fixed assets	11,936	12,193	—	—	183,875	9,711	110,792	228,801	41,256	598,564
Fund balances – designated for future expenditures	226,555	421,295	402,518	85,368	408,886	49,374	874,695	774,559	175,808	3,419,058
Total fund equity	238,491	433,488	402,518	85,368	592,761	59,085	985,487	1,003,360	217,064	4,017,622
Total liabilities and fund equity	$ 1,584,996	458,832	421,169	251,328	1,190,906	121,000	1,769,429	1,429,428	460,938	7,688,026

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Revenues:										
Interest	$ 8,891	604	6,218	2,304	11,355	409	26,538	28,713	3,082	88,114
Other	72,455	119,523	77,707	25,217	151,650	32,340	60,828	31,853	88,873	660,446
Total revenues	81,346	120,127	83,925	27,521	163,005	32,749	87,366	60,566	91,955	748,560
Expenditures:										
Contract services and other operating expenditures	67,520	53,379	90,533	20,574	196,285	20,569	62,946	61,713	90,681	664,200
Total expenditures	67,520	53,379	90,533	20,574	196,285	20,569	62,946	61,713	90,681	664,200
Net increase (decrease) in fund balance	13,826	66,748	(6,608)	6,947	(33,280)	12,180	24,420	(1,147)	1,274	84,360
Beginning of year	224,665	366,740	409,126	78,421	626,041	46,905	961,067	1,004,507	215,790	3,933,262
End of year	$ 238,491	433,488	402,518	85,368	592,761	59,085	985,487	1,003,360	217,064	4,017,622

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2005

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

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

The Board of Trustees for the fiscal year ended June 30, 2005 was comprised of the following members:

Board of Trustees

Name	Office	Term Expires
Kelly G. Candaele	President	6/30/09
Sylvia Scott-Hayes	Vice President	6/30/07
Mona Field	Member	6/30/07
Warren T. Furutani	Member	6/30/07
Georgia L. Mercer	Member	6/30/07
Nancy Pearlman	Member	6/30/09
Michael D. Waxman	Member	6/30/09
Robyn M. Mims	Student Trustee	5/31/06

Administration

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

* Interim.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2005

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

* Interim

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Full-Time Equivalent Students and Apprenticeship Clock Hours

Year ended June 30, 2005

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	66,473	2,162
Daily census	8,208	204
Actual hours of attendance	3,267	54
Independent study/work experience	916	9
Summer intercession	13,028	297
Total	91,892	2,726
Noncredit FTES:		
Actual hours of attendance	4,223	
Summer intercession	869	
Total	5,092	
Fall census credit student headcount	114,681	
Gross square footage – existing facilities	5,267,672	
FTES in leased (or rented) space of less than 100%	1,625	

Apprenticeship clock hours **Reporting periods**	**Total hours annual report**
July 1, 2004 – December 31, 2004	13,019
January 1, 2005 – April 15, 2005	14,515
April 16, 2005 – June 30, 2005	—
	27,534

See accompanying independent auditors’ report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311)

Year ended June 30, 2005

		Balance
June 30, 2005 total net assets per annual financial budget report	$	590,746,324
Adjustments and reclassification increasing (decreasing) fund balance:		
Booked to adjust the prior year's fund balance:		
To reinstate prior year District Office accrued rent		(5,083,038)
To record prior year reserve to equity – part-time faculty health insurance		772,346
To record prior year reserve to equity – student loan receivable		(2,167,892)
To record prior year reserve to equity – bookstore fund		4,719,181
To reinstate prior year fixed assets, net of accumulated depreciation		423,254,637
To reinstate prior year debt – general liability		(2,105,000)
To reinstate prior year debt – compensated absences		(11,651,514)
To reinstate prior year debt – workers' compensation		(34,687,000)
To reinstate prior year debt – revenue bonds		(2,846,570)
To reinstate prior year debt – capital lease		(2,745,881)
To reinstate prior year debt – G.O. Bonds		(673,615,000)
June 30, 2005 unaudited ending fund balance		284,590,593
Current period's audit adjustments:		
To adjust District Office accrued rent at June 30, 2005		5,083,038
To adjust reserve to equity – bookstore fund at June 30, 2005		883,470
To adjust accounts receivable at June 30, 2005		(1,028,512)
To adjust allowance for doubtful accounts		2,167,892
To reclass capital outlay expenditures to fixed assets		109,789,116
To record depreciation expense for current year		(12,991,573)
To adjust reserve for general liability existed at June 30, 2005 per actuarial study		(987,000)
To adjust reserve for vacation benefit liability at June 30, 2005		(56,163)
To adjust revenue bonds payable at June 30, 2005 and payments made in FY04/05		406,653
To adjust reserve for workers' compensation payable at June 30, 2005		1,108,000
To reclass capital lease payments		1,024,880
To reverse reserve setup for Pierce College's recognized MTA lease income		1,941,086
To reverse reserve setup for revenue bond future payments		2,439,918
To set up accrued original issue premium		(42,536,046)
To record amortization of accrued original issue premium		1,977,583
To set up deferred issuance cost		6,364,046
To record amortization of deferred issuance cost		(589,025)
To set up prepaid interest expense		31,358,623
To record amortization of prepaid interest expense		(1,237,840)
To record current year principal payments of general obligation bonds		471,785,000
To reclass new general obligation bonds proceeds		(541,350,000)
June 30, 2005 audit adjusted ending net assets	$	320,143,739

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

As of June 30, 2005

	Federal CFDA or project number	Pass-Through Identification Number	Revenue recognized Federal	State	Total	Expenditures
General Fund						
U.S. Department of Education						
Direct programs:						
Higher Education Act :						
Strengthening Institutions	84.031		$ 3,704,564		3,704,564	3,704,685
Student Support Services	84.042		1,168,638		1,168,638	1,176,287
Talent Search	84.044		617,782		617,782	619,863
Upward Bound	84.047		1,254,155		1,254,155	1,253,367
Educational Opportunity Centers	84.066		259,335		259,335	259,335
Comprehensive Program	84.116		699,825		699,825	696,865
Minority Science & Engineering Improvement	84.120		92,668		92,668	92,668
Business and International Education	84.153		72,192		72,192	72,192
No Child Left Behind Act:						
Quality Childcare Initiative	84.215		170,892		170,892	170,992
Improvement of Education	84.215		76,743		76,743	76,743
Child Care Access Means Parents in School:						
Child Care Access Means	84.335		126,622		126,622	126,622
Student financial assistance :						
Pell Grant	84.063		46,990		46,990	62,322
FSEOG	84.007		85,330		85,330	101,145
Federal work-study	84.033		2,198,153		2,198,153	2,416,697
Pass-through State of California:						
Vocational and Applied Technology Education Act:						
Title IC	84.048	03-C01-027			—	391,687
Title IC	84.048	04-C01-027	4,698,164		4,698,164	4,729,597
Subtotal	84.048		4,698,164		4,698,164	5,121,284
Tech Prep - East	84.243	03-139-032			—	271
Tech Prep - District	84.243	03-139-033			—	5,794
Tech Prep - Harbor	84.243	03-139-034			—	1,049
Tech Prep - Valley	84.243	03-139-038			—	5,861
Tech Prep - Southwest	84.243	03-139-039			—	6,083
Tech Prep - East	84.243	04-139-032	65,158		65,158	65,158
Tech Prep - District	84.243	04-139-033	126,085		126,085	126,085
Tech Pep - Harbor	84.243	04-139-034	72,266		72,266	72,266
Tech Prep - Mission	84.243	04-139-035	66,748		66,748	66,748
Tech Prep - Pierce	84.243	04-139-036	68,800		68,800	70,276
Tech Prep - West	84.243	04-139-037	68,797		68,797	68,797
Tech Prep - Valley	84.243	04-139-038	67,090		67,090	73,024
Tech Prep - Southwest	84.243	04-139-039	73,018		73,018	73,018
Tech Prep-Local Network	84.243	4386	8,762		8,762	8,762
Tech Prep-Local Network	84.243	4392	7,692		7,692	7,692
Tech Prep-Hospitality	84.243	2136			—	4,970
Tech Prep-Hospitality	84.243	3166	70,592		70,592	70,592
Tech Prep-Hospitality	84.243	3296	163,626		163,626	163,627
Tech Prep-Hospitality	84.243	4188			—	2,844
Tech Prep-COOL	84.243	3269	52,318		52,318	52,351
Tech Prep-Fashion	84.243	2222			—	305
Tech Prep-Fashion	84.243	3214	67,177		67,177	67,177
Subtotal	84.243		5,676,293		5,676,293	6,134,034
Subtotal U.S. Department of Education			16,250,182	—	16,250,182	16,963,817
U.S. Department of Energy:						
Direct programs:						
Developing the Foundations for a SMART Technology Training	84.049		241,170		241,170	241,170
Subtotal U.S. Department of Energy			241,170	—	241,170	241,170
U.S. Department of Labor :						
Pass-through City of Los Angeles:						
Regional Collaborative for Economic and Workforce	17.258	C108102	480,556		480,556	480,556
WIA-Youth Opportunity	17.259	C107114	21,962		21,962	21,962
Subtotal pass-through City of Los Angeles			502,518	—	502,518	502,518
Pass-through County of Los Angeles:						
WIA Dislocated Worker DPN	17.260	CK22453	40,175		40,175	40,175
WIA Com Career Title I - Adult	17.258	CK22438	123,236		123,236	123,159
WIA Com Career Title I -Dislocated	17.260	CK22407	295,769		295,769	295,735
Project Access	17.260	CK22467	68,393		68,393	68,393
Disability Program Navigator	17.261	CK22466	66,228		66,228	66,228
Subtotal pass-through County of Los Angeles			593,801	—	593,801	593,690
Subtotal U.S. Department of Labor			1,096,319	—	1,096,319	1,096,208

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

As of June 30, 2005

	Federal CFDA or project number	Pass-Through Identification Number	Revenue recognized Federal	State	Total	Expenditures
U.S. Department of Health and Human Services:						
Pass-through State of California:						
Temporary Assistance for Needy Families	93.558		993,785		993,785	1,017,619
Pass-through National College Association:						
National Youth Sports	93.570	03-176	—		—	3,400
National Youth Sports	93.570	04-1081	81,000		81,000	81,000
Subtotal pass-through National College Association			81,000	—	81,000	84,400
Subtotal U.S. Department of Health and Human Services			1,074,785	—	1,074,785	1,102,019
National Science Foundation:						
Direct programs:						
Chemical Technology	47.076		49,126		49,126	51,706
Subtotal National Science Foundation			49,126	—	49,126	51,706
U.S. Department of Housing and Urban Development:						
Direct programs:						
Hispanic Serving Institution	14.514		$ 186,763		186,763	186,678
Pass-through City of Los Angeles:						
Family Development Network	14.218	99389	850,492		850,492	850,492
Subtotal U.S. Department of Housing and Urban Development			1,037,255	—	1,037,255	1,037,170
National Aeronautics and Space Administration:						
Pass-through United Negro College Foundation						
Curriculum Improvement Partnership Award Program	1260.15C4		235,139		235,139	235,140
Subtotal National Aeronautics and Space Administration			235,139	—	235,139	235,140
Total federal			19,983,976	—	19,983,976	20,727,230
State Assistance programs:						
Disabled Students Program and Services				5,766,153	5,766,153	5,791,885
State Matriculation				4,779,296	4,779,296	5,256,954
Instructional Equipment/Modern Technology :						
One-Time Block Grant				—	—	1,388,968
Instructional Equipment/Deferred Maintenance				2,036,106	2,036,106	1,442,263
Extended Opportunity Program and Services				6,208,116	6,208,116	6,266,962
CalWORKS Program				4,642,822	4,642,822	4,681,712
Telecommunication & Technologies				494,333	494,333	1,421,489
Economic Development				1,745,486	1,745,486	1,734,952
FSS - Fund for Student Success				200,706	200,706	197,384
Transfer & Articulation Program				50,459	50,459	47,015
Other state assistance programs				11,051,887	11,051,887	11,266,113
Total state assistance programs			—	36,975,364	36,975,364	39,495,697
Total General Fund			19,983,976	36,975,364	56,959,340	60,222,927
Special Revenue Fund						
U.S. Department of Agriculture :						
Direct programs - no major programs:						
Summer Food Service	10.559		280,566		280,566	280,409
Pass-through California Department of Education:						
Child Care Food Programs	10.558	19-2432-2A	208,026		208,026	205,935
Subtotal U.S. Department of Agriculture			488,592	—	488,592	486,344
U.S. Federal Emergency Management Administration						
Pass-through State of California:						
Hazard Mitigation Grants	97.039	DR-1008-1016-CA	—		—	332,023
Subtotal U.S. Federal Emergency Management Administration			—		—	332,023
U.S. Department of Health and Human Services:						
Pass-through California Department of Education:						
Child Development Block Grant	93.596	FCTR-4058	173,866		173,866	174,198
Subtotal U.S. Department of Health and Human Services			173,866	—	173,866	174,198
Total federal			662,458	—	662,458	992,565
State Assistance Programs :						
Child Development Pre-School Care				2,692,571	2,692,571	2,727,824
Child Development Services				203,591	203,591	203,595
Family Child Care Homes Network				1,049,946	1,049,946	1,105,621
Total state assistance programs			—	3,946,108	3,946,108	4,037,040
Total Special Revenue Fund			662,458	3,946,108	4,608,566	5,029,605

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal and State Awards

As of June 30, 2005

	Federal CFDA or project number	Pass-Through Identification Number	Revenue recognized Federal	State	Total	Expenditures
Student Financial Aid Fund						
U.S. Department of Education :						
Pell Grant	84.063		61,896,990		61,896,990	62,116,461
Direct Loan	84.268		5,244,246		5,244,246	5,220,163
Federal Perkins Loan Program	84.038		—		—	3,924,887
FSEOG	84.007		2,355,732		2,355,732	2,346,706
Subtotal U.S. Department of Education			69,496,968	—	69,496,968	73,608,217
U.S. Department of Health and Human Services:						
Direct program:						
Nursing Student Loans	93.364		—		—	226,619
Subtotal U.S. Department of Health and Human Services			—	—	—	226,619
Total federal			69,496,968	—	69,496,968	73,834,836
State assistance programs :						
CAL Grants				7,060,267	7,060,267	7,029,651
Extended Opportunity and Services				5,753,379	5,753,379	5,777,791
Total state assistance programs			—	12,813,646	12,813,646	12,807,442
Total Student Financial Aid Fund			69,496,968	12,813,646	82,310,614	86,642,278
Grand total federal			$ 90,143,402	—	90,143,402	95,554,631
Grand total state assistance programs			$ —	53,735,118	53,735,118	56,340,179
Grand total All Funds (General, Special Revenue, Financial Aid)			$ 90,143,402	53,735,118	143,878,520	151,894,810

(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	$	53,735,118
Add:		
General Fund:		
Basic and equalization aid		269,857,093
State lottery		13,186,208
Tax relief subvention		1,385,456
Other state funds		179,020
Total other General Fund revenues		284,607,777
Special Revenue Fund:		
Community College Construction Act		7,355,624
Scheduled Maintenance Program		4,103,066
Other state funds		1,936,661
Total other Special Revenue Fund revenues		13,395,351
Total state revenues in fund financial statements	$	351,738,246

(4) Federal Perkins Loans

For the year ended June 30, 2005, the District advanced loans totaling $431,995 for the Federal Perkins Loans Program (CFDA # 84.038). As of June 30, 2005, the District had an outstanding loan balance of Federal Perkins Loans in the amount of $3,924,887. These loan balances outstanding are included in the Schedule of Federal Expenditures of Federal and State Awards.

(5) Nursing Student Loans

During the year ended June 30, 2005, the District processed approximately $0 of new loans under the Student Nursing Program (CFDA # 93.364). As of June 30, 2005, the District had an outstanding loan balance of Nursing Student Loans in the amount of $226,619. These loan balances outstanding are included in the Schedule of Expenditures of Federal and State Awards.

(Continued)

(6) Subrecipients

The District did not provide any funds to subrecipients during the year ended June 30, 2005.

(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	$	603,715
WIA Youth Activities	17.259		21,962
WIA Dislocated Workers	17.260		404,303
		$	1,029,980
TRIO Cluster:			
Student Support Services	84.042		1,176,287
Talent Search	84.044		619,863
Upward Bound	84.047		1,253,367
Educational Opportunity Centers	84.066		259,335
		$	3,308,852
Student Financial Assistance Cluster:			
Federal Supplementary Educational Opportunity Grants (FSEOG)	84.007		2,447,851
Federal Work Study (FWS)	84.003		2,416,697
Federal Perkins Loan (FPL)	84.038		3,924,887
Federal Pell Grant Program (PELL)	84.630		62,178,783
Federal Direct Student Loans (Direct Loan)	84.268		5,220,163
Nursing Student Loans	93.364		226,619
		$	76,415,000

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE REQUIREMENTS

KPMG
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 examined Los Angeles Community College District's (the District) compliance with the following compliance requirements based on Section 400 (revised May 2005) of the California Community Colleges' *Contracted District Audit Manual* during the year ended June 30, 2005, except the requirements discussed in the fifth paragraph of this report.

Our examination 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% law) (421)
- Apportionment for Instructional Service Agreements/Contracts (423)
- Required Data Elements (424)
- Residency Determination for Credit Courses (425)
- Concurrent Enrollment of K-12 Students in Community College Credit Courses (427)
- Uses of Matriculation Funds (428)
- Allocation of Costs (DSPS and EOPS) (429)
- EOPS Administrator/Director Requirements (430)
- Gann Limit Calculation (431)
- Enrollment Fee (432)
- Scheduled Maintenance Program (434)
- Open Enrollment (435)
- Minimum Conditions – "Standards of Scholarship" (436)
- Student Fees – Instructional Materials Fees and Health Fees (437).

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-05-01 through S-05-15 described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2005.

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

KPMG LLP

November 10, 2005

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS

KPMG

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, 2005 and have issued our report thereon, dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2005.

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

KPMG LLP

November 10, 2005

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, 2005. 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, 2005. 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-05-02 through F-05-06, F-05-08 through F-05-10, F-05-14, F-05-15, and F-05-17.

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-05-01, F-05-07, F-05-09, F-05-11 through F-05-13, F-05-16 and F-05-18.

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

November 10, 2005

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

(1) Summary of Auditors' Results

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

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

Material weaknesses: **No.**

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

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

Material weaknesses: **No**.

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

Student Financial Aid Cluster **- Unqualified opinion**.

TRIO Cluster **- Unqualified opinion**.

Vocational Education – **Unqualified opinion.**

(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 Education Program – CFDA 84.048.

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$2,866,000.**

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

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

None noted.

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

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

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

Condition

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

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

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

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

Effect

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 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

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 Technician 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

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

Of the 25 sampled students at City College, it was noted that one student was awarded less then 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 of their financial needs.

Questioned Costs

None.

District's Response

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.

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

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 45^{th} 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

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

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 1 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

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.

Finding F-05-05 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 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 4 to 7 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.

(b) 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 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

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 that institutionally scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence 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)).

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 are 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 institution and $781 owed back by students sampled at East Los Angeles College.

District's Response

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

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.

Criteria

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

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

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

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

Effect

Strengthening the design of the controls over these reconciliations should reduce the potential risk of non-compliance 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

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

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 of the 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

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

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 Non-Federal 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*, 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 or 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*, 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. Non-Federal 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 Federally 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 not a consistent policy on how to identify and track the students that are either working for a private-for-profit company, community service, reading or math tutor within one of the two above categories. Some campuses keep a manual log of students, while others use a segregated account within the general ledger to track the funds paid to those particular students.

Criteria

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

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

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 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 on-line 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 a 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.

District's Response

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

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 reports sampled which totaled $230.
- Los Angeles Valley College expended funds for two furniture acquisitions which 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 to be 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.

Questioned Costs

$533 of the total $21,201 sampled.

District's Response

The District concurs with this finding. The District will provide additional training to ensure only the allowable costs are charged to the program.

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

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 original 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 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

The District concurs with this finding. The District's HRS System (Personnel/Payroll) system tracks all employee assignments and payments by program accounts and funding sources (federal, state, and local). The new SAP/HRS system will have work schedule with cost distribution account assigned to each regular employee. Unclassified employees are required to submit positive time reporting for actual worked hours.

In some instances, employee with multiple assignments may be charged to a cost distribution account and then reallocated to proper program amounts. The District will review the cost distribution procedures and develop a process to ensure that salaries are charged to the correct program accounts.

Finding F-05-12 –Equipment Management – Policies and Procedures Over Equipment Dispositions

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*, Sub-Part C, *Post Award Requirements*, *Property Standards*, Section .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.

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 has a policy for disposals of all equipment but needs to make sure the college is complying with District policy.

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

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, non-Federal 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 non-Federal 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 non-Federal 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 non-Federal 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 Response

There is no indication that any costs were charged to VTEA programs that could have been paid or had been paid for in the past with non-federal funds. The District will develop a procedure and perform on analysis to ensure that federal funds are not used to supplant non-federal funds.

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

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)).

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 Response

The District concurs with this finding. The District will strengthen procedures to ensure expenses are charged within the program's period.

Finding F-05-15 – Procurement – Competitive Bidding

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 4 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*, Sub-Part C, Post Award Requirements, Property Standards, Section .44 Procurement Procedures.

- Section .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 .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 are 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 Response

The District concurs with this finding. The District has a policy for competitive bidding and needs to make sure the colleges are in compliance with District policy.

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

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

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

Effect

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 Response

The District concurs with this finding. The District will strengthen the current procedures to improve the process of eligibility determination and maintain proper documentation.

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

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 participant 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 the first generation college students or individuals with disabilities. Not less than one-third of the individuals with disabilities must also be low-income individuals. The remaining students served must be low-income individuals, first-generation college students, or individuals with disabilities (34 CFR Sections 646.7 and 646.11).

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

The District concurs with the finding. The District will monitor more closely student enrollments to ensure compliance with earmarking requirements.

Finding F-05-18 Reporting – Controls Over TRIO Program Reporting

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

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

Effect

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

The District concurs with the finding. The District will strengthen its procedures to ensure that the program and fiscal reports are consistent, filed within required deadlines, with copies retained at the District level.

SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Findings and Recommendations

Year ended June 30, 2005

	State findings and recommendations	Finding numbers	Not implemented	Fully implemented
Current Year:				
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	

CURRENT Year State Findings and Recommendations

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

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

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

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

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

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 College's manual identification and reporting of these types of courses to the District.

Recommendation

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

District's Response

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

Finding S-05-04 Residency Determination for Credit Courses (Section 425) – Incorrectly Classified Student

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 student's residency information is captured and reported accurately to the State Chancellor's Office.

District's Response

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

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 concurrently enrolled student. Consistent with our prior year finding, we noted that once students are initially classified as concurrently enrolled student in the District's student data system, their classification status had not updated been 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

The District concurs with this finding. The District continues to implement programming corrections to ensure a more correct student classification occurs.

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

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 additional 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 the law.

District's Response

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

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 College's plans, it was noted that not all activities are consistent with "activities claimable against state matriculation funds."

Recommendation

We recommend that the District continue to review 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

The Credit and Non-Credit Matriculation plans were updated in October 2005 for eight of the nine colleges.

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

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 employee's time that reduces it to below the approved level.

District's Response

The District concurs with the finding. The District will request from the Chancellor's Office for approval on any changes of the budget on EOPS employee work assignment.

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

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

The District concurs with this finding. The college recently resubmitted the 2004-05 plan for approval.

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

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 detail so that we could pull a sample of the expenditures to verify that the funds were actually expended for EOPS services.

Recommendation

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

District's Response

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

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

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 3-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 College's matching requirement to be below the minimum required level.

District's Response

The District does not concur with this finding. Per the Chancellor's office; with the approval of the budget and final expenditure reports for 2004-05, Los Angeles Pierce College, Los Angeles Valley College, and West Los Angeles College met their minimum District contribution requirements in 2004-05.

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

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 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

The District concurs with this finding. The District will make sure all colleges request an approval to the 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

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. Eight 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

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*

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

The District concurs with this finding. The District will work with Information Technology 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

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 which 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

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

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, 2005

	Prior year Federal findings and recommendations	Finding numbers	Not implemented	Partially implemented	Fully implemented
	Student Financial Aid Cluster				
1	Eligibility - Lack of Eligibility and Aid Packaging Controls	F-04-01		X	
2	Eligibility - Financial Aid Awards Granted More Than Student's Financial Need	F-04-02			X
3	Matching, Level of Effort, and Earmarking and Reporting - Salaries Paid for FWS Students	F-04-03		X	
4	Reporting - Inconsistent FISAP Reporting	F-04-04		X	
5	Verification - Lack of Verification Process Controls	F-04-05		X	
6	Verification - Documentation in Student Files for Income Discrepancies Found	F-04-06			X
7	Special Tests (Disbursments to Students) - Inconsistent Controls Over Disbursements	F-04-07			X
8	Special Tests (Return of Title IV) - Controls Over Return Calculations	F-04-08		X	
9	Special Tests (Return of Title IV) - Return of Title IV Calculations	F-04-09		X	
10	Special Tests (Borrower Data Transmission & Reconciliation) - Evidence of Reconciliation	F-04-10			X
11	Special Tests (Disbursements to Students) - Late and Inaccurate Borrower Data Transmission	F-04-11			X
	TRIO Cluster				
12	Allowable Costs - No Approved or Submitted Indirect Cost Proposal	F-04-12			X
13	Matching, Level of Effort, and Earmarking - Proper Classification of Upward Bound Students	F-04-13			X
14	Matching, Level of Effort, and Earmarking - Proper Classification of S.S.S. Students	F-04-14			X
15	Reporting - Inconsistent Program Reports and Ineligible Participants Participation	F-04-15			X
16	Period of Availability - Expenditures Incurred and Changed in Incorrect Period	F-04-16			X
17	Eligibility - Controls Over Eligibility Determination for Upward Bound	F-04-17		X	
	General				
18	Preparation of the Schedule of Expenditures of Federal Awards	F-04-18			X

(Continued)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2005

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

(Continued)

PRIOR YEAR FEDERAL FINDINGS AND RECOMMENDATIONS

Finding F04-01 Eligibility – Lack of Eligibility and Aid Packaging Controls

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

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

Criteria

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

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

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

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

Effect

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

Recommendation

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

Questioned Costs

None.

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

The District has initiated a review process to improve the current monitoring policy and procedures at each college and will continue to monitor its implementation.

Finding F04-02 Eligibility – Financial Aid Awards Granted More Than Student's Financial Need

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

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

(Continued)

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

$3,140

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

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

Finding F04-03 Matching, Level of Effort, and Earmarking and Reporting – Lack of Formal Policy to Identify Type of Work Performed under the Work-Study of Student Claimed for Matching Requirements and Reported on FISAP

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

Condition

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

Criteria

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

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District established new activity codes for On-campus (6420) and Off-Campus (6423) in FY2004-05. The District has a formal policy in place for the matching and earmarking requirements for the Federal Work-Study Program. The District continues to improve procedures to include all necessary provisions related to the Federal Work-Study matching, earmarking, and reporting requirements. However, each college makes its own informed decision with regard to institutional matching contributions to better serve the students.

(Continued)

Finding F04-04 Reporting – Inconsistent FISAP Reporting

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

Condition

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

Criteria

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District has improved the review process to ensure that the FISAP reports are properly prepared.

(Continued)

Finding F04-05 Verification – Lack of Verification Process Controls

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

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

Criteria

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

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

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

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

Effect

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

(Continued)

Recommendation

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

Questioned Costs

None

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

The District has initiated a review process to improve current verification process controls. Additionally, Trade and East have each designated a Technician to perform a final review of a selected sample. At Pierce, automated edits are used.

Finding F04-06 Verification – No Documentation in Student Files for Income Discrepancies Found During Verification Procedures

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

Criteria

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

Effect

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

(Continued)

Recommendation

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

Questioned Costs

None

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

The District has strengthened procedures during the verification process to help ensure that the campuses are in compliance with the verification guidelines.

Finding F04-07 Special Tests and Provisions (Disbursements To or on Behalf of Students) – Inconsistent Controls over Disbursements to Students

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

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

Criteria

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

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

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District disbursement process produces exception reports that are printed at and reviewed by the Financial Aid Office at each college. If adjustments are needed, the Financial Aid Office will make the corrections on the financial aid records. Copies of the reports are maintained at the District and the College financial aid offices.

Finding F04-08 Special Tests and Provisions (Return of Title IV) – Controls over the Return of Title IV Calculations

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

Criteria

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

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

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District has improved the review process to ensure appropriate reviews and approvals of Title IV calculations.

Finding F04-09 Special Tests and Provisions (Return of Title IV) – Return of Title IV Calculations

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

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District has reviewed the policy with the colleges to ensure compliance.

(Continued)

Finding F04-10 Special Tests and Provisions (Borrower Data Transmission and Reconciliation) – No Evidence of Monthly Borrower Reconciliations for Federal Direct Loans

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

Condition

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

Criteria

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District requires a monthly reconciliation for the Federal Direct Loans.

Finding F04-11 Special Tests and Provisions (Disbursements To or on Behalf of Students) – Late and Inaccurate Borrower Data Transmissions

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

Condition

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

None

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

This finding was an isolated case caused by the college financial aid office relocation, and their computers were inoperative for a short time. Direct Loan disbursements are reported regularly within the prescribed timeframe.

Finding F04-12 Allowable Costs – No Approved or Submitted Indirect Cost Proposal for Claim Indirect Costs

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

Condition

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

Criteria

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

Effect

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

Recommendation

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

Estimated Questioned Costs

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

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

The District has an approved indirect cost rate with the Department of Health and Human Services thru the period ending June 30, 2005.

Finding F04-13 Matching, Level of Effort, and Earmarking – Proper Classification of Participants for Earmarking Requirements

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

(Continued)

Condition

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

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The Director has improved the internal controls to ensure the program is in compliance. The college conducts an internal program review and has been receiving parental signatures for verification of income and eligibility. This verification is acceptable by the U.S. Department of Education per federal regulations.

Finding F04-14 Matching, Level of Effort, and Earmarking and Reporting – Proper Classification of Participants for Earmarking Requirements for the Student Support Services Program

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

Condition

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

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District has the colleges conduct an internal program review to ensure full compliance with earmarking requirements.

Finding F04-15 Reporting – Inconsistent Program Reports and Ineligible Graduates Participating in the Student Support Services Program

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

Condition

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

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

Undeterminable

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

The District has reviewed the eligibility determinations to ensure compliance with program guidelines.

Finding F04-16 Period of Availability – Expenditures Incurred and Charged After the End of the Performance Period

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

Condition

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

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

Criteria

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

Effect

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

Recommendation

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

Questioned Costs

$1,922

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

The District monitors more closely expenditures charged to the program that are incurred during the performance period.

Finding F04-17 Eligibility – Controls over Eligibility Determination for Upward Bound Programs

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

Condition

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

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

Criteria

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District has strengthened it procedures for documenting eligibility determination to help ensure compliance.

(Continued)

Finding F04-18 Preparation of the Schedule of Expenditure of Federal Awards

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

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

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

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

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

Condition

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

Criteria

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

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

Effect

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

Recommendation

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

Questioned Costs

None

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

The District reviews more closely the information being presented during preparation of the Schedule of Federal Awards to ensure the report is accurately completed.

PRIOR YEAR STATE FINDINGS AND RECOMMENDATIONS

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

Identified Condition

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

Recommendation

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

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

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

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

Identified Condition

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

Recommendation

We recommend that the District either instruct the Colleges to maintain the required residency documentation or to forward the District the information for retention to meet the document *Retention Period for Records Basic to an Audit*, as prescribed by the California Community Colleges Chancellor's

Office Student Attendance Accounting Manual for Class 3 – disposable records, which states "records shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code, Section 84040 requirement for annual audit or of any other legally required audit, or after the ending date of any retention period required by any agency other than the state of California, whichever is later."

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

The District has asked the colleges to share best practices and suggest improvements for residency documentation.

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

Identified Condition

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

Recommendation

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

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

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

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

Identified Condition

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

Recommendation

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

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

The District has implemented a policy to defer a portion of the summer term fees collected before June 30, where the services are provided on or after July 1.

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

Identified Condition

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

Recommendation

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

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

The District has established policies to ensure that enrollment fees are recorded in the proper year.

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

Identified Condition

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

Recommendation

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

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

The District has improved procedures to ensure accurate CCFS 311 reporting.

(Continued)

Finding S-04-07 Matriculation – College Matriculation Plans

Identified Condition

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

Recommendation

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

District'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 nine colleges.

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

Identified Condition

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

Recommendation

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

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

The District will more closely monitor the College Instructional Officers to maintain documentation to ensure compliance.

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

Identified Condition

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

Recommendation

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

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

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

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

Identified Condition

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

Recommendation

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

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

The District is working with Information Technology to develop a formal structured coding system for the colleges.

(Continued)

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

Identified Condition

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

Recommendation

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

District's Response

The District continues to improve internal control and the review process to properly allocate benefits to programs.

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

Identified Condition

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

Recommendation

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

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

The District has strengthened procedures to ensure that employees indicate the allocated time on their timesheets to specific programs.

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

Identified Condition

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

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

Recommendation

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

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

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

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

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

Identified Condition

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

Recommendation

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

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

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

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

Identified Condition

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

Recommendation

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

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

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

REPORT TO MANAGEMENT

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

November 10, 2005

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

Members of the Board:

We have audited the basic financial statements of Los Angeles Community College District (the District) for the year ended June 30, 2005, and have issued our report thereon, dated November 10, 2005. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

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

During the completion of our procedures, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the following report to management on pages 133 to 146.

* * * * * * *

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

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Report to Management

Year ended June 30, 2005

	Not yet implemented	Partially implemented	Fully implemented
Current year comments:			
1 Accounts receivable aging report	X		
2 Verification of exception reports	X		
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	X		
8 Authorization of transports to production	X		
9 HIS logical access	X		
Prior year comments:			
1 Bank reconciliation			X
2 Warrant registers	X		
3 Payroll exception reports		X	
4 Inappropriate VMS system access	X		
5 Inappropriate SAP system access	X		
6 Change management	X		
7 Internal audit	X		
8 Lack of formal IT strategic plan	X		
9 Recording of capital leases		X	
10 Payroll procedures manual		X	

CURRENT YEAR COMMENTS

(1) Accounts Receivable Aging Report

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

The District is working with Information Technology to finalize the Accounts Receivable aging report.

(2) Verification of Exception Reports

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

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

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 Company or are no longer providing services to the Company.
- 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

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

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

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

Observation

During our review of the Company'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 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

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 insure 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

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

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

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

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

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

The systems engineers who perform transports require an email 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 that 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

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 users was found to have inappropriate access to transaction 'E065 - Payroll Adjustment.' One (1) user out of three was found to have inappropriate access to the 'E971 - Deduction Code Table Update' '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 Human Resource 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 Company 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

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.

PRIOR YEAR COMMENTS

(1) Bank Reconciliation – Fully Implemented

Observation

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

Recommendation

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

District Response

All bank reconciliations are reviewed/signed-off monthly by the Supervising Accountant and/or Accounting Manager.

(2) Warrant Registers – Not 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. Purchase orders that have variances in them could be released for payment causing a misstatement in expenses and thus effecting net income.

Recommendation

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

District Response

Access in SAP will need to be restricted to prevent unauthorized individuals from removing blocks.

(3) 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's Response

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.

(4) Inappropriate VMS System Access – Not Implemented

Observation

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

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

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

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

Recommendation

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

District Response

The 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.

(5) Inappropriate SAP System Access – Not Implemented

Observation

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

- 27 of 129 users with inappropriate access to post journal entries using transaction FB50. With the assistance of the Software Systems Engineer, we performed a system query within SAP to validate the last date of use for all unauthorized user accounts. We noted that 10 of the 27 inappropriate users either have not logged into SAP during the period under audit or had only accessed the system while they were still authorized. We were unable to determine if any of the other 17 inappropriate users actually posted journal entries during the period under review because LACCD does not have transaction logging turned on to allow us to validate.

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

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

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

Recommendation

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

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

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

District Response

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.

(6) Change Management – Not Implemented

Observation

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

- 5 of 30 SAP change requests did not include properly documented approval or testing.
- 7 of 15 VMS change requests did not include properly documented approval or testing. Most of these were made by 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 lost time trying to track down logic errors in the wrong source code version.

Recommendation

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

District Response

Subsequent to KPMG's IT audit, new transport change request procedures for SAP were written and implemented. In addition, an improved change request transport log is now being utilized which provides for more detailed information on change requests and in some cases, dual approval authority to ensure changes are made appropriate in the system. Moreover, the current business process mandates that no change shall be made to the system unless it is requested, approved, and confirmed as complete in the transport log. 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.

(7) Internal Audit – Not 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

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.

(8) Lack of Formal IT Strategic Plan – Not Implemented

Observation

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

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

Recommendation

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

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

District Response

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.

(9) Recording of Capital Leases – Partially Implemented

Observation

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

Recommendation

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

District Response – Current Status of Prior Year Management Letter Comment

The District'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.

(10) Payroll Procedures Manual – Partially Implemented

Observation

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

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

Recommendation

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

District Response

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.