



**ACCREDITING
COMMISSION
for COMMUNITY and
JUNIOR COLLEGES**

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November 18, 2009

Mr. Elihu Harris, Chancellor
Peralta Community College District
333 East Eighth Street
Oakland, California 94606

Dear Chancellor Harris:

The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, collects annual fiscal report data, including copies of the required annual external audit, from member institutions. It is my responsibility to review these reports and to identify any issues reflected in the reports that place or may place institutions out of compliance with Commission Standards and policies. Standard III.D., Fiscal Management, includes Standards regarding institutional fiscal management, risk management, integrity and stability. I have attached a copy of Standard III.D and IV for your information.

The external audit issued by Vavrinek, Trine, Day & Co., LLP, for the Peralta Community College District, dated February 27, 2009, contains information that triggered a review by a Commission subcommittee. The audit report identified 9 material weaknesses, 19 significant deficiencies, and 1 control deficiency. The Audit indicates the auditors were unable to render an opinion on certain portions of the financial statements presented by the District for Fiscal Year 2007-8. The 2008 Audit also cited previous 2007 findings which had not been addressed (items 2007-1 through 2007-13, 2007-15 through 2007-16, and 2007-18 through 2007-19) and which are restated in the 2008 Audit. (**Eligibility Requirement 18**)

The Commission asks that the Peralta Community College District submit a Special Report by March 15, 2010, on its response to the audit findings and issues described below (***bold italic*** typeface). The report will be followed by a visit from Commission representatives in conjunction with an already-scheduled visit to the District's colleges and the District office. (**Standard III.D**)

1. Other Post Employment Benefits (OPEB) Liabilities:

The District's independent auditor reported that there was an unrealized loss of \$26.4 million or 18.32 percent of the funds placed in a Deferred Compensation Trust fund and invested with CalPERS. The report states that the District borrowed \$153 million in OPEB Bonds to pay for the

accrued liability for OPEB costs of \$106.8 million. The report also states that the District is using the pay-as-you-go basis to report retired employee benefit costs. Finally, the auditors state that: "The decrease in net assets (\$35.1 million) is primarily attributed to the unrealized losses in the Deferred Compensation Trust Fund and the accrual of the retiree health benefits expense as required by GASB Statement No. 45 as the annual required contribution."

The Commission asks the District provide an update on the value of the Deferred Compensation Trust Fund and that the District describe its plans to pay for the growing long-term debt. The District should specifically address whether the reported unrealized losses have been reduced as a result of market improvements since December 31, 2008, or if losses on investments continue to occur and if so, how will the losses impact the long-term debt of the District. (Standard III.D.2.d, Standard IV.B.3.d)

2. The District's Internal Control Structure:

The audit report listed several areas where the District's internal controls are considered to have material weaknesses. In one of the District's/College responses to the audit comments, the District asserts that its internal controls are strong. To resolve the apparent difference in understanding of the condition of the internal control structure used to account for financial transactions and to ensure transaction processing throughout the integrated system is restricted to authorized personnel only, ***the Commission asks the District to provide an update on its actions taken to address the following findings reported in the audit report. (Standard III.D.2, Standard III.D.2.d)***

2.a 2008-1 Oversight and Monitoring. The auditor reports that the District did not implement the recommendations reported in the prior year audit report resulting in a material weakness in oversight and monitoring. The auditor commented that the District remains at risk of noncompliance with standard internal controls, accounting policies, and Federal and State compliance requirements. The District response to the audit comment was that the District has a strong system of internal controls. There is no indication within the audit report that the auditor agrees with the District's assertion. ***The District is to provide the Commission with additional information about actions taken to implement the audit recommendations reported in 2007 that remained in 2008. (Standard III.D.2, Standard III.D.2.d)***

2.b 2008-2 Financial Accounting System Procedures. The audit report includes a finding that indicates the District's financial accounting system did not capture all financial transactions for the accounting period and did not properly report all transactions that occurred in the year. The auditor noted that the ending fund balances were reduced by \$2.6 million as a result of not reporting all transactions. ***The Commission asks the District and each College to provide information about the actions taken to ensure all transactions are recorded and what activities are now occurring to ensure all transactions are reported and that the financial statements provided to the Commission are accurate. (Standard III.D.2, Standard III.D.2.d)***

2.c 2008-3 Information Systems. The auditor commented that the District has not independently evaluated or tested controls, approvals, procedures, and processes that process accounting transactions, procurement transactions, and payment of employees through the payroll processing system. *The Commission asks the District and each College provide a report on action taken to determine that accounting transactions are appropriately recording financial, procurement and payroll transactions. (Standard III.D. 2.g)*

2.d Bursar's Office and Trust Fund Activity Reporting Changes. In audit recommendation 2008-8, the auditor cites a material weakness in the internal controls at Laney College regarding revenue collections. The auditor commented that funds had been received by Laney College and not reported to the District. Also, Laney College had netted revenues and expenditures resulting in the elimination of an audit trail that could have been used to determine the accuracy of the Schedule of Expenditures of Federal Awards. The auditor concluded that an opinion on the completeness and accuracy of the reported expenditures and resultant financial statements of trust accounts could not be made. *The Commission requests Laney College provide an update on changes that have occurred to correct internal control weaknesses and action taken to implement appropriate separation of duties, an accounting system that correctly captures revenues and classifies them as such, and action taken to ensure there is adequate oversight of expenditure decisions and transaction processing. (Standard III.D.2.c, Standard III.D.2.d, Standard III.D.2.e)*

As a result of Laney College's reported weaknesses in the internal control structure related to Federal funds *the Commission requests that Laney College, in cooperation with the District, provide information about its Student Financial Aid processing and specifically whether the weaknesses reportedly occurring in the Bursar's Office also exist in the accounting and reporting of Student Financial Aid. (Standard III.D.2.d)*

2.e Accounts Payable/Purchasing Functions. Audit recommendation 2008-11 identifies that weak internal controls exist in the area of accounts payable and purchasing. The report describes that there is a lack of separation of duties that has resulted in certain individuals having the authority to approve transactions and directly pay a vendor thereby bypassing the checks and balances expected in a procurement cycle.

The Commission asks that the District describe actions implemented to establish the appropriate separation of duties in the procurement cycle to include the cited weakness in the accounts payable process. The lack of separation of duties and generally weak internal control structure reported by the District's auditor raises concerns to the Commission about whether internal control weaknesses exist in other areas specifically in the area of grade reporting and student record access. The Commission asks the District to conduct an assessment of the internal control structure for critical non-financial transactions including grade reporting and student record data to determine if additional changes in the internal control structure may be necessary to ensure information regarding student grade reporting and student records are accurate and protected from unauthorized disclosure. (Standard II.B.3.f, Standard III. D.1.b, Standard III.D.2. g, Standard IV.B.3.d, Standard IV.B.1, IV.B.1.b, IV.B.1.c)

21 Using Associated Student Body Fund to Account for General Fund Revenues.

Audit Finding 2008-18 reports that Merritt College opened two accounts in the Associated Student fund and deposited money collected at the college for facilities rental fees and other monies collected at Merritt College into the two accounts. According to the audit report, the funds should have been reported to the District as general fund revenue. The auditor also commented that a loan was issued from the money deposited in the Associated Student fund to pay for a conference hosted by Merritt College. Of the \$25,000 loaned only \$15,000 was repaid leaving an outstanding balance of \$10,000.

The Commission asks that Merritt College provide an update on action taken to strengthen internal controls over cash collections and reporting. Merritt College should specifically ensure all revenues are properly reported and managed in a way that promotes use of college resources in support of its educational programs. (Standard III.D.2.d, Standard IV.B.2.d: Standard IV.B.3.d)

The Special Report by the District, including the specific Laney and Merritt Colleges responses, is to be submitted no later than March 15, 2010. The report will be followed by a visit of Commission representatives. The Special Report must demonstrate resolution of the audit findings and compliance with applicable Standards. The visit will coincide with the scheduled visits to the four colleges in the Peralta Community College District as outlined in the Commission's Action letters dated June 30, 2009. A copy of the Commission letter to the District, addressing District concerns which affect the colleges, is attached.

On behalf of the Commission, I wish to express continuing interest in the Peralta Community College District's educational quality and students' success. Professional self-regulation is the most effective means of assuring institutional integrity, effectiveness and quality.

Sincerely,

Steve Maradian

C Bill Withrow, President, Board of Trustees
President, Laney College
President, Merritt College ---

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