

**Special Report
Regarding Independent Audit Findings**

Submitted by

**Peralta Community College District
Berkeley City College
College of Alameda
Laney College
Merritt College**



To

**Accrediting Commission for Community and Junior Colleges
Western Association of Schools and Colleges**

April 1, 2010

Elihu Harris, J.D., Chancellor

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Statement on Report Preparation

On November 19, 2009, the Chancellor of the Peralta Community College District, the President of the Peralta Community College Board of Trustees, the President of Laney College, and the President of Merritt College received a letter from the Accrediting Commission for Community and Junior Colleges (ACCJC) requesting a Special Report be filed with the Commission by March 15, 2010. This Special Report is to respond to seven (7) audit findings and issues cited in the June 30, 2008 independent audit report for the Peralta Community College District.

In recognition and acknowledgement of the issues cited in the 2007-08 independent audit and recent concerns cited in the ACCJC's November 19, 2009 letter requesting a Special Report, the Peralta Community College District Board in December, 2009 hired Mr. Thomas E. Henry, CEO/President of the Education and Management Assistance Corporation. Mr. Henry has experience in assisting community colleges with fiscal, accreditation, and leadership/governance issues. Since December, 2009, Mr. Henry has established a Recovery Team consisting of outside fiscal experts, as well as PCCD employees. This Team is focused on the major fiscal and accreditation issues.

In a letter dated January 26, 2010, the Peralta Community College District requested an extension to the March 15, 2010 due date for the Special Report. In a letter dated, February 17, 2010, the Peralta Community College District provided an update to the Commission on resources assembled to assist the district in responding to the audit findings. In a letter dated February 26, 2010, the Commission informed the district that the deadline for filing this Special Report had been extended to April 1, 2010.

On December 7, 2009, the Chancellor, the Vice Chancellor of Finance and Administration, the Vice Chancellor of Educational Services, the Vice Chancellor of General Services, the Assistant Vice Chancellor of Budget and Finance, the Associate Vice Chancellor of Academic Affairs, the Associate Vice Chancellor of Information Technology, the four College Presidents, the four college Accreditation Liaison Officers (the Vice Presidents of Instruction), the four College Business Managers, the District Academic Senate President, the District Academic Senate Vice President, and the District Academic Senate Past President met to discuss a strategy and process for writing a response to the seven (7) issues identified in the November 2009 ACCJC letter.

On January 12, 2010, the Associate Vice Chancellor of Academic Affairs, three College Accreditation Liaison Officers (the Vice Presidents of Instruction), the four College Presidents, the four College Business Officers, the District Academic Senate President, and the District Academic Senate Past President met with the Vice Chancellor of Finance and Administration and the Assistant Vice Chancellor of Budget and Finance to review the status of responding to the ACCJC request for a Special Report and specifically to focus on the request for a response to audit findings 2008-2 and 2008-3. The Vice Chancellor of Finance and Administration, the Assistant Vice Chancellor of Finance, as well as the four College Business Officers, provided essential information to be included in this Special Report.

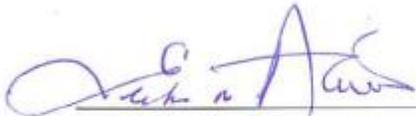
On January 14, 2010, the Associate Vice Chancellor of Academic Affairs, three college business officers, the President of the College of Alameda, the College of Alameda and Merritt College Accreditation Liaison Officers, and the District Academic Senate Past President met with the Assistant Vice Chancellor of Budget and Finance and two CIBER consultants (who have been assigned to assist in resolving audit findings 2008-2 and 2008-3) to continue to obtain the information needed for this Special Report.

On January 19, 2010 the President of the College of Alameda, the President of Merritt College, the four College Business Managers, the Berkeley City College and Merritt College Accreditation Liaison Officers, the District Academic Senate Vice President, and the District Academic Senate Past President met with the Assistant Vice Chancellor of Budget and Finance, the two CIBER programmers assigned to work on the financial accounting modules of the PeopleSoft enterprise management system, and Mr. Thomas E. Henry, President/CEO of the Education Management and Assistance Corporation (EdMAC). At the beginning of the meeting those in attendance reviewed the draft of the Special Report and various comments were made. The remainder of the meeting involved a conversation with Mr. Henry and his role in assisting PCCD in addressing the 2007-2008 independent financial audit findings and assisting with other fiscal stability concerns. It should be noted that the Vice Chancellor of Finance and Administration had been placed on administrative leave. As of March 2, 2010 the district posted for hire the position of Vice Chancellor for Finance. Further, the district has placed the Assistant Vice Chancellor of Budget and Finance on administrative leave and as of March 9, 2010 the Governing Board approved the appointment of the Laney College Business Manager as the Acting Assistant Vice Chancellor for Budget and Finance.

On February 10, 2010, Mr. Thomas E. Henry of EdMAC called a meeting to address the Financial Management System (PeopleSoft) and the audit findings directly related to the functionality of the financial management system. In addition to Mr. Henry, those in attendance included the EdMAC Recovery Team (a FCMAT representative, a representative from the State Chancellor's Office for California Community Colleges, an individual on inter-jurisdictional exchange [IJE, from the Los Rios Community College District], and two accountants), two CIBER consultant programmers, the Chancellor, the Associate Vice Chancellor of Information Technology, the Vice Chancellor of Educational Services, the Associate Vice Chancellor of Academic Affairs, the Vice Chancellor of General Services, the Associate Vice Chancellor of International Affairs, the Accounts Payable Supervisor, the Curriculum and Systems Technology Analyst, the Laney College Business Officer (on loan to the district Office of Finance), and the District Academic Senate Past President. Because this meeting addressed the issues with the PeopleSoft Financial Management System and the audit findings of June 30, 2008, this meeting in part addressed the ACCJC Special Report. The result of the meeting was to establish a Functional Team for each of the financial areas in the PeopleSoft system and to appoint a Functional Lead or Owner for each team. The overarching purpose was to define the work product, set a timeline, and to establish accountability.

Mr. Henry has continued to call team meetings on a weekly basis in order to resolve the audit findings in a timely manner and also to develop a plan to have the PeopleSoft Financial Management System fully functional and to have staff appropriately trained to maintain the system once Mr. Henry and his team leave the Peralta Community College District. It should be noted that a key person on the Recovery Team is the Acting Assistant Vice Chancellor of Budget and Finance. A key action the Acting Assistant Vice Chancellor of Budget and Finance has taken is to meet regularly with the College Business Managers and in so doing to keep them up-to-date, to solicit their input, and to engage them in “fixing” the system and the processes and procedures for using the system.

With the assistance of Mr. Thomas E. Henry, the district’s fiscal adviser, the Peralta Community College District can be assured that the district will respond appropriately and effectively to the independent audit findings and the independent auditor in the end will determine resolution of all audit findings.



Elihu Harris, J.D
Chancellor
Peralta Community College District

Response to the Independent Audit Findings and Issues Identified by ACCJC

ISSUE:

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 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 to 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, Standard IV.B.3.d).

RESPONSE:

In the December 31, 2008 OPEB fund portfolio report, the value of the investments was \$124 million with an unrealized loss of \$26 million. In the September 30, 2009 OPEB fund report, the value of the investments was \$141 million with a \$1.4 million unrealized loss. As of the December 31, 2009 OPEB fund report, the value of the investments was \$146,460,878.

As can be seen, because the former Vice Chancellor of Finance and Administration had maintained a conservative portfolio allocation, the unrealized loss stated in the December 31, 2008 portfolio report did not become an actual loss. As is known, an unrealized loss is a loss which has occurred but has not been realized through a transaction, particularly a stock which has fallen in value but is still being held – a paper loss. It should be noted that the conservative portfolio allocation being used by the Peralta Community College District is more conservative than that used by CalPERS.

Because of the large increase in the stock market from the March lows, the Peralta Community College District (PCCD) rebalanced the portfolio moving money from international and small cap stocks to fixed income (i.e., bonds, T-Bills, US Treasury). There has been no actual loss of funds since the inception of the portfolio investments.

Because of the method of investing the OPEB funds, PCCD to date has realized two payments each of \$6 million which has been used for retiree health care benefits. Another payment of \$6 million will occur in May 2010.

Due to the recent turn in the economy and the fact that the State is no longer providing community colleges with growth and COLA funding, these investments are being re-evaluated.

The visiting teams are encouraged to meet with appropriate district office managers, including the Chancellor, and members of Mr. Thomas E. Henry's Recovery Team in order to receive up-to-date information and data regarding the OPEB portfolio. The visiting team also may choose to meet with the Trustee who chairs the Governing Board's Audit and Finance Committee since this committee has maintained a serious review of the OPEB investments. Neuberger Berman presented a review of the investments as of December 31, 2009 at a February 11, 2010 meeting of the Governing Board's Audit and Finance Committee.

ISSUE:

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 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)**

RESPONSE:

Shortly after the ACCJC site visits in March 2009 of the four colleges in the Peralta Community College District (PCCD) for reaffirmation of accreditation, PCCD requested Vavrinek, Trine, Day, & Co., LLP (VTD), independent financial auditors, to file a report on their assessment of the current status of PCCD's response to the audit findings from the June 30, 2008 independent audit report.

In the special report, "Independent Accountant's Report on Applying Agreed-Upon Procedures" (April 2, 2009), VTD determined that for audit finding 2008-1, "Current Status: **Implemented**: The District Business Office has developed and provided to us a tracking system for all comments and recommendations for the past three years and has implemented a procedure to evaluate and review the status of all recommendations throughout the year. The tracking system includes a 'person responsible' and due date to ensure compliance has been reached." Portions of this original tracking system document as of December 2009 and which are pertinent to this Special Report are available for review. This original tracking system for oversight and monitoring was replaced with a spreadsheet matrix for oversight and monitoring developed by Mr. Henry's Recovery Team. This spreadsheet matrix is available for review.

On August 1, 2009, at the direction of the Board of Trustees, the Chancellor hired a permanent Associate Vice Chancellor of Information Technology. The new Associate Vice Chancellor is skilled in the PeopleSoft enterprise management system. Given that

many of the audit findings are directly related to PeopleSoft functionality, the new Associate Vice Chancellor of Information Technology will be critical in assisting to resolve many of the findings and will be involved in oversight and monitoring the functionality of the internal controls of the PeopleSoft system. The Associate Vice Chancellor of Information Technology is an active member of the Recovery Team.

In addressing the audit findings specific to financial system functionality, PCCD also is using the services of CIBER (skilled in PeopleSoft) and SAFE consultants (financial aid) regarding programming issues. In addition, as previously noted, the Chancellor has hired Mr. Thomas E. Henry, President/CEO of the Education Management and Assistance Corporation (EdMAC), who has assisted Compton, Lassen, and Solano with financial issues. Mr. Henry has been charged with assessing the work of the Office of Finance with a specific focus on the use of the PeopleSoft enterprise management system and to provide recommendations and solutions on how to more effectively use the system in order to effectively manage the finances of the district, to ensure compliance with all regulations, to ensure submission of all reports to external agencies in a timely manner, and to address all issues which would impact fiscal stability. As of February 10, 2010, Mr. Henry has compiled a spreadsheet detailing all areas of finance which need to be addressed with particular reference to the external financial audit, has created a team for each area, and has appointed a Functional Lead to provide accountability. Thus the Recovery Team's spreadsheet matrix provides an up-to-date review of the "oversight and monitoring" of the process for responding to the external audit findings. This spreadsheet matrix is updated weekly at Recovery Team meetings when the various teams report out the status of their work.

The work of the Recovery Team will reinforce this specific audit finding regarding "oversight and monitoring." The Recovery Team is assisting the district with resolution and accountability.

ISSUE:

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)**

RESPONSE:

In 2005, the Peralta Community College District, in an effort to respond to external audit findings, moved from a Legacy system (cash/ revenue based system) to the PeopleSoft enterprise management system (an accrual system). At this time there are five PeopleSoft enterprise management system financial modules which are currently operational. Those modules are as follows: General Ledger, Accounts Payable, Purchasing, Asset Management, and Payroll. There are modules within the Student Administration system of PeopleSoft which interface with the financial modules (i.e., student financials, which went live in April 2008) as well as the Human Resources position control module, which went live in 2008. Since the time of the 2008-2 audit finding, these modules have been upgraded to the 9.0 version.

The PeopleSoft Financial Management System is not currently working as it is supposed to work; it has never been fully configured; and all upgrades and patches have not been added throughout the operation of the system. CIBER consultants are currently working on application of upgrades and patches. The district has concluded that the system is broken and needs serious attention in order for the system to function properly. Mr. Henry, fiscal advisor for the Peralta Community College District, has confirmed that the system is not functioning as designed. The district is committed to addressing the PeopleSoft issues, but has acknowledged that this effort will take time.

Many of the external audit findings for 2006-2007 and 2007-2008 are directly attributable to the PeopleSoft system not functioning appropriately and providing all the necessary data required for total management of district and college finances. While the former Assistant Vice Chancellor of Budget and Finance contended that all financial transactions are entered into the system, those transactions do not feed into the general ledger and subsidiary ledgers and the accuracy of the data has to be validated.

In December 2009, the Peralta Community College District Chancellor, hired Mr. Henry, President/CEO of the Education Management and Assistance Corporation (EdMAC) to assist in addressing the audit findings, all fiscal stability issues, and to provide a method to rectify the problems. Mr. Henry and the Recovery Team are focusing on all audit

exceptions and fiscal issues impacting accreditation. Mr. Henry has teams in place to address all audit findings and specifically “financial and accounting system procedures,” but notes that it will take time to have the PeopleSoft system fully functional.

Further the Peralta Community College District now has three CIBER consultants/programmers to assist in fixing the PeopleSoft system and in responding to the audit findings. One CIBER programmer is working to provide the external auditors with schedules for Fixed Assets and Construction in progress; is working with a second CIBER programmer on student financials; and is working to identify ways to improve the financial system (general ledger, accounts receivable, purchasing, and fixed assets). A second CIBER programmer also is working with the Acting Assistant Vice Chancellor of Budget and Finance, as well as Student System personnel to review, validate, and update (where necessary) the set up and configuration in the Student Financials System. This CIBER programmer also is performing background processes in the Student Financials System in order to migrate the data into the financial system; and is troubleshooting, testing, and providing support where necessary to enable end users to utilize the Student Financial System properly and efficiently. A third CIBER programmer is working with the other two CIBER programmers and Peralta IT staff to assist with technical help in the Financial System and the Student Financials System.

Further, one of the CIBER programmers is reconfiguring item types in the receivables system in order to address the appropriate revenue numbers and deferred revenue. Also, queries are being written to facilitate pulling selected item types for review and any needed action. The process is to ensure that all accounting related to account codes works properly, to conduct appropriate testing, and to feed the data to the general ledger.

As of February 10, 2010, as previously noted, Mr. Henry and his team with key staff from the district office met to establish a Functional Team to address each of the areas in the financial system in order to address the audit findings and to begin to fully configure and fix the system. In addition, a Functional Lead was appointed to ensure accountability for each Functional Team. Further, a key member of Mr. Henry’s team is the Acting Assistant Vice Chancellor of Budget and Finance.

The Acting Assistant Vice Chancellor of Budget and Finance and the four College Business Managers continue to meet regularly so that key finance and business administrators are a part of the process for making sure that all financial transactions are recorded accurately, that those transactions are accurately reported in the financial system, and that the resulting financial reports provide accurate information to the district office units and all college units. One goal is for consistency and continuity in the processes and procedures at the four colleges and the district office. A second goal is to work toward collaboration and team building to create a better working relationship between the district office and the four colleges, as well as among the colleges. It should be noted that the Acting Assistant Vice Chancellor of Budget & Finance and the College Business Managers have reviewed and agreed to the contents of the responses to “2.b 2008-2” and “2.c 2008-3

ISSUE:

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 to provide a report on action taken to determine that accounting transactions are appropriately recording financial, procurement, and payroll transactions. (Standard III.D.2.g)**

RESPONSE:

As noted previously in this report, the Chancellor of the Peralta Community College District with the approval of the Governing Board has hired Mr. Thomas E. Henry as fiscal advisor for the district. Mr. Henry has put together a team which is in the process of evaluating and testing controls in the Student, Human Resource, Payroll, and Fiscal modules of the IT system (PeopleSoft). This team includes staff from each college, the district office, software consultants, and outside fiscal consultants (which includes an inter-jurisdictional exchange from Los Rios, a district which successfully implemented the PeopleSoft system; a specialist from the State Chancellor's Office for California Community Colleges; an analyst from Fiscal Crisis & Management Assistance Team; and two accountants who have assisted Mr. Henry on other teams). In addition to the evaluation and testing of the controls, the teams are going to produce procedure manuals for each division. The procedures will be uniform for the district office and all four college sites, and information will be consistent as it is fed into the fiscal module.

Each College Business Manager recently has been given access to evaluate each payroll prior to the information being fed into the fiscal module. The College Business Managers are working with the Acting Assistant Vice Chancellor of Budget and Finance to establish written procedures regarding payroll review, evaluation, and adjustments. Currently, the Acting Assistant Vice Chancellor of Budget and Finance notifies the College Business Managers monthly as to when to review payroll entries and gives them a deadline by which to make any necessary corrections prior to being posted to the finance ledger. The College Business Managers disseminate the payroll records to college administrators for review of accuracy and request a response by a specific deadline. Corrections which need to be made prior to posting are made by the college business offices. If there are permanent budget coding changes, the College Business Managers notify the district office payroll accountants to make the necessary change.

A response to procurement transactions also is provided in the response to audit finding, "2.e Accounts Payable/Purchasing Functions," which is later in this report. Once the college has entered a purchasing/procurement request, and if there is sufficient budget in the appropriate budget code for the purchasing request, the transaction moves from the college to the district office and is then totally monitored by the district purchasing department.

As noted above, while Mr. Henry's team will address all aspects of this audit finding, his team's initial work has been to focus on financial transactions in all aspects and thus is providing a form of external review.

Mr. Henry has assured the district that his team will assist to make all necessary corrections and changes to the PeopleSoft system to ensure that the PeopleSoft system is fully functional, providing accurate financial information, producing variance reports on a nightly basis, and meeting the needs of the end users. Mr. Henry's Recovery Team will assist the district and colleges in producing all necessary procedures manuals. Mr. Henry's Recovery Team will see that all necessary training will take place, so that at the point in time Mr. Henry's and his consultants leave the district, district employees will be equipped to maintain a fully functional and accurate financial system.

ISSUE:

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)**

RESPONSE:

The Laney College Business Manager (who is now the Acting Assistant Vice Chancellor of Budget and Finance) provided the following information regarding this specific audit finding.

On April 2, 2009, the independent auditor agreed that the resolution had been implemented and stated "the District Business Office has instructed each College campus that all grant revenue (Federal, State, or local) must be forwarded to the District Office for recording within the books and records of the District. The instruction noted that the authority to bind the District through contracts with other agencies rests with Executive Management at the District Office. Through discussion with the College Business Manager, this revenue was again received in 2008-2009, and the funds have been forwarded to the District Office for proper accounting. Continued testing at all College locations will occur within the 2008-2009 audit year."

The Laney College Business and Administrative Manager instructed all Bursars' Office staff not to accept for posting any checks from state or federal entities. This directive was done in writing and posted on the wall in the office. The Business Manager also instructed the Laney College community and all management at Laney College that no checks from state or federal entities were to be deposited in college accounts. All checks

of this nature are to be reported to the District Office. If anyone was uncertain if revenue was of this type, they were to request help from the Laney College Business Manager.

In response to the audit finding that stated that 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 Business Manager worked with programmers to create a report that shows income and expenses for each trust fund. This report is now being used at all campuses and was provided to the external auditors for the 2008-2009 audit.

As to the question regarding Laney College Student Financial Aid, the Laney College Financial Aid Supervisor provided the following information. It should be noted that PCCD is centralizing certain financial aid functions district-wide and as a result the Laney College Financial Aid Supervisor as of 1/26/10 is now also the district Acting Director of Financial Aid. The district office concurs with the following assessment.

Based on the last two independent audits of the Laney College Financial Aid Office, there were no significant findings relating to the processing or reconciliation of financial aid funds. Further, processing verification findings found “zero” errors; no institutional liability; and no refund to the United States Department of Education (USDE) for inaccurate processing reconciliation.

It is true that with reconciliation, the independent external auditors found late submission of COD (Common Origination and Disbursement) Pell data due to the failure of the Regent financial aid system to configure Pell reconciliation transmission requirements within the 30-day time requirement from date of disbursement to date of reconciliation to COD. However, once the Laney College Financial Aid Office returned all financial aid data from the Regent system to the legacy SAFE system, reporting data to COD was restored and in compliance. There was no liability connected to such finding.

In responding to the inquiry regarding Laney Financial Aid processing, it should be noted that Laney College has not had to repay a liability since 1992. That amount of repayment at that time was about \$900.

The Laney College Financial Aid Program has gone through two (2) federal program reviews (1992; 2002), three (3) Educational Fund program reviews (the most recent being 2006), and three (3) CSAC (California Student Aid Commission) program reviews (the most recent being 2003) since 1992. These various program reviews were in addition to the annual independent external audit. All such program reviews determined that the Laney College Financial Aid Program is meeting and exceeding standards.

The Laney College Financial Aid Program has a policy and procedures manual, which is currently being updated. All staff in the Laney College Financial Aid Program adhere to these policies and procedures. The manual outlines critical guidelines such as Satisfactory Academic Progress, determination of eligibility, verification processing, etc.

Staff is trained based on these policies (derived from the Federal Financial Aid Handbook) and procedures are followed uniformly.

Additionally, the Laney College Financial Aid Program, like all college financial aid programs, is mandated to publish an annual Student Financial Aid Handbook in order to advise students of their rights and responsibilities. It should be noted that this is a uniform handbook used throughout the four Peralta colleges. The Laney College Financial Aid Program Supervisor, for many years, has been the editor of this handbook. As noted above, the Laney College Financial Aid Supervisor now is also the district Acting Director of Financial Aid.

Simply put, given the findings of the various external program reviews and the external audits, the Laney College Financial Aid Program has been assessed as being of high standard and no weaknesses have been found or reported. The visiting team is encouraged to meet with the Laney College Financial Aid Program Supervisor/ district Acting Director of Financial Aid to obtain any needed additional information and documentation.

ISSUE:

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.b, IV.B.1.c)**

RESPONSE:

Regarding audit finding 2008-11, the independent auditor, in a report dated April 2, 2009, determined that the recommendation had been implemented and reported "through inquiry observation and testing, we have verified the District's internal control over the accounts payable and direct pay processes. The District's accounts payable technicians verified they will not pay an invoice without a vendor invoice and approved 'Check Request Form.' Additionally, controls set within the PeopleSoft Accounting System will not allow the same individual to both enter a payment and process the payment. An additional control was suggested that the accounts payable supervisor print out a report of Direct Pays on a monthly basis and review supporting documentation on a random basis to ensure the payment is proper."

In resolving this audit finding, the Purchasing Department updated and re-issued Standard Operating Procedures #9, Purchasing Procedures, and Standard Operating Procedures #10, Routing of "Pay-to" Requisitions and Invoices. In addition the Supervisor for Accounts Payable and Enrollment Management (confidential staff member) annually conducts an Accounts Payable Workshop at each of the colleges in order to train "requestors" on accounts payable procedures.

At this time, as the independent auditor noted, no purchases or reimbursements can be routed directly to an accounts payable technician. These items must go directly to purchasing department and a specific buyer in the department. Thus the training and the

revised procedures and PeopleSoft system controls guarantee that purchasing procedures are never circumvented. Also the Supervisor for Accounts Payable and Enrollment Management does print out a report of Direct Pays on a monthly basis and reviews supporting documentation on a random basis to ensure proper payment.

Information regarding an assessment of the internal control structure for critical non-financial transactions with a specific focus on grade reporting and student record data was provided by the district Admissions Officer and the district Curriculum and Systems Technology Analyst. Given the level of involvement both had in setting up the PeopleSoft Student Administration system which went live in April 2008, both are well informed as to the control structure and the ability to prevent student grades and data from unauthorized access or disclosure.

The Peralta Community College District went live with the PeopleSoft Student Administration System (local name: PASSPORT) on April 3, 2008. Functions in the Student Administration System which are specific to student data are: the admissions module (and the use of CCC Apply), the enrollment module, and the grades module.

During the implementation process prior to the April 3, 2008 “go live” date, an extensive review of security in the district Legacy system took place. Many changes were made in the development of the new security system utilizing the more sophisticated functionality of PeopleSoft to ensure access to student information is protected. For example, this review process included setting greater limits on who can even access student data on a “read only basis” to be in compliance with FERPA regulations and to provide greater security of the information.

Simply stated, access to specific modules in the student administration system is granted upon completion and approval of a “Security Access Request Form”. This form must be approved by the user’s first level manager. For example, an instructional division dean must approve specific access for an instructional faculty member. This form is then sent to the district office for review and final approval. That final approval typically is conducted by the Admissions and Records Technology Analyst and the Curriculum and Systems Technology Analyst, who are both skilled in determining the needed level of access by an end user. The determination of the necessary level of access is linked to an established “Profile” or “Role” for functional areas throughout the district. For example, there is a Counseling staff profile, a Counselor profile, an EOPS staff profile, an EOPS Counselor profile, a scheduling staff profile, an instructor profile, an instructional dean profile, etc. The Profiles establish pre-determined and pre-agreed upon levels of access appropriate and necessary to complete the job responsibilities of that profile/role. The role specification is within the PeopleSoft security segment of the system, includes permission lists, shows who has been granted specific permissions, and shows the various levels of permission and access each and every district employee has. If the requested access is not deemed necessary or would violate FERPA regulations, then access is denied. Any question related to accessing student record data or any question regarding access being denied is referred to either the Associate Vice Chancellor for Student Services or the Vice Chancellor of Educational Services for a final determination. Once

security access forms are finally approved at the district level, they are sent to the IT Department for system authorization.

An initial area of student data is collected through the application process and the use of CCC Apply. This data is student driven since the student is required to go online, access CCC Apply, and input all necessary data. At any point in time the student determines that she/he has added incorrect information, the only way to correct that information is to come in person to Admissions and Records, complete on site a corrections form, and provide corroborating documentation to establish that the information is incorrect and should be corrected. For example, students who type fast may in fact enter an incorrect number in their social security number, or in “clicking” too fast may enter the wrong birth year, or type an additional letter into their last name. Students are required to provide a California ID or driver’s license or passport and a social security card when appropriate to justify the change in student data information. The system does not require a student to submit their actual social security number since they are issued a system ID number. However, to obtain financial aid a student must provide her/his social security number, so there are occasions when a student must come in person to A&R to have her/his correct social security number entered into the system. It should be noted that any time a change is made to data in the system, the system records the name of the person making the change, that person’s employee ID, and the date of the transaction.

Another area of student data is the matriculation assessment scores. Per Profile/Role, only the matriculation assessment specialist at each college can access the database to enter those assessment scores which are then available per Profile to counselors to view when working with students to select appropriate classes.

Grade roster and census roster access is granted to instructional faculty per their Profile and the security clearance form. Grade information and census roster information can be posted only during assigned time periods. Only the instructor has access to his/her grade and census rosters for the inputting of data. For example, not even the department chair or the instructional dean has such access.

If a student files a grade dispute, the student and the college must follow the grade dispute policy as outlined in each college catalog. If in the process of the student having filed an academic grievance it is determined that a specific course grade is incorrect, and if all required forms are completed, final approval for a grade change must be signed off by the Associate Vice Chancellor of Student Services and only the district Admissions Officer has access to go into the system to make the change.

Another area of access to student data relates to the Academic Renewal Policy which ultimately provides the option for alleviating substandard grades in terms of calculating the grade point average. As many know, this does not eliminate any information on the transcript of grades, but does allow “clean up” of the grade point average per the policy specifications. Only the four college Admissions and Records Specialists, the district Admissions Officer, and the district Associate Vice Chancellor of Student Services per

Profile/Role have access to make the appropriate transcript notations and process the change in grade point average.

Regarding financial aid student data, this information is not in the PeopleSoft system, but in a separate system, SAFE. The data in the SAFE system is reported directly from the FAFSA. Per profile, financial aid staff has access to read and access the FAFSA information in order to process student financial aid requests.

To repeat, the issues of security and security clearance received much attention in the implementation of the PeopleSoft Student Administration System. Many changes were made when reviewing the access that was granted in the Legacy system. Security clearance is more restricted, is in keeping with FERPA regulations, and is focused on providing access to information based on the need to know in order to perform a specific job within the district.

If the visiting teams should have additional questions or require additional information, team members should meet with the Associate Vice Chancellor for Student Services, the district Admission Officer, and the district office Curriculum and Systems Technology Analyst.

ISSUE:

2.f 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)

RESPONSE:

Finding: Each of the College Bursar's Offices receives monies from students for enrollment fees and other assessments, as well as facilities rental fees and other amounts that are to be forwarded to the District Office on a timely basis. During the independent auditor's testing of activity subsequent to June 30, 2008, the auditor reported that Merritt College had opened two accounts within the Associated Student accounts for deposit of facilities rental fees, as well as other receipts, without forwarding these to the District Business Office. Expenditures through these new accounts also were noted to include a "loan" for a college-wide retreat in the amount of \$25,000.

The audit recommended that the College should review the current guidelines for receipt and use of monies that are General Fund monies to be deposited within District accounts. All activity related to these types of receipts should be reconciled and provided to the District Office on a timely basis. Amounts currently held within the Student Organization funds belonging to the District should be forwarded immediately with a full reconciliation and accounting.

The Student Body Organization Advisor should review the *Budget and Accounting Manual* provided by the State System's Office for the appropriate type of expenditures and activities to be included as part of the Student Body Organization.

The loan from the student fund should be repaid immediately and all supporting documentation for the conference should be forwarded to the District Office.

Action to date: The audit exception referenced two accounts and a "loan" of ASMC (Associated Students of Merritt College) funds. There exists only one Merritt College Trust Account with several sub-accounts for funds from student clubs, groups, projects,

facility rentals, etc. There was no loan, simply an “advance” of funds from the General Expense account to support a faculty-staff college-wide retreat until those could be reimbursed from the two sub-accounts which were in actuality for college events. As of April 1, 2009, both of the sub-accounts in question have been closed from the general ledger of ASMC, and remaining funds returned to District Finance. Since that time, funds collected for events are being forwarded to District Finance on a monthly basis. As of June 2009, this process has been formalized and included in the new Merritt College Bursar’s Office Policies and Procedures Manual [Chapter 6, page 51, #18: *Remit Monthly District Income Collected*].

In accordance with the Recommendation, the Dean of Student Services (rather than the Student Body Organization Advisor) is reviewing the State Budget and Accounting Manual preparatory to providing training to staff.

The visiting team is encouraged to meet with the Merritt College administration if additional information is desired or if there are additional questions.

GOVERNING BOARD REVIEW

The Special Report was agendized as an action item for the March 23, 2010 meeting of the Governing Board. The Governing Board voted to accept/approve the Special Report to be submitted to ACCJC by April 1, 2010.

Documents/Evidence

- (1) OPEB Investment Report, December 31, 2009; Presented by Neuberger Berman to the Peralta Community College Board Audit and Finance Committee, February 11, 2010.
- (2) “Independent Accountant’s Report on Applying Agreed-Upon Procedures” (VTD Auditors, April 2, 2009).
- (3) Audit Oversight and Tracking System document (used prior to the Recovery Team)
- (4) Analysis of Audit Procedures Performed spreadsheet, compiled by Mr. Thomas E. Henry and the Recovery Team.
- (5) Recovery Team Meeting agendas
- (6) Laney College Memo from the Business Manager to the Bursar’s Office regarding Federal and State Checks.
- (7) Standard Operating Procedures #9, Purchasing Procedures
- (8) Standard Operating Procedures #10, Routing of “Pay-to” Requisitions and Invoices
- (9) Peralta Community College District Security Access Request Form