



To the Finance Committee, Governing Board, and Management
of Contra Costa Community College District

In planning and performing our audit of the financial statements of the business-type activities and the aggregate discretely presented component units, of Contra Costa Community College District as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Contra Costa Community College District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Contra Costa Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Contra Costa Community College District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Internal control items that we consider to be material weaknesses have been reported in the audit report dated December 18, 2009.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Contra Costa Community College District's internal control to be significant deficiencies:

Disbursement of Funds

Best practices over funds disbursed include internal controls that are to detect and prevent errors and misstatements and to limit the opportunity for misappropriation. As noted in prior year, the following areas have disbursement control processes that could potentially be strengthened:

- The Datatel accounts payable module does not reject duplicate invoices. The system flags a duplicate invoice to notify the user that it is a duplicate invoice, however, the accounts payable clerk and others can override the flag without approval.
- The District policies allow for a 10% deviation from the original Purchase Order amount to be processed without additional approval. However, when we walked some transactions through the system, we noted that the system allowed a 25% deviation without a flag or requirement for additional authorization.

- The District policies require credit card holders to submit credit card statements with original receipts to their manager for approval. The managers then require to review, assign correct account codes, and submit the entire listing to the District Office. We reviewed 25 credit card expenses and noted 4 of them did not have receipts present, but were approved by the managers.

Recommendation

We recommend that the District consider the potential of the design of the system and whether or not any improvements can be made to strengthening the controls over processing of disbursements in the following areas:

- The District business staff should consider consulting with the Information Technology staff to determine if the controls over duplicate invoices are operating as desired, or if there is a report that could be generated periodically listing all overrides processed. The override report could then be reviewed by a supervisor to review for any excessive use of overrides.
- The District business staff should consider consulting with the Information Technology staff to determine if the controls over dollar limit deviations are operating as desired or if there should be some type of report that could be generated on a periodic basis listing all the purchase orders with a deviation exceeding 10% that were processed. The deviation report could then be reviewed by a supervisor to review for any excessive deviations and determine whether additional approval was obtained for those items.
- The District should remind all managers who have credit card expense approval authority that they are responsible for ensuring that proper documentation is provided prior to approving the expenses.

District Response

The District concurs with the recommendations and has made and will continue to make efforts to improving the usage of Datatel through training, working with IT to make systems changes, and to improve internal controls and financial oversight. The District also notes that this is more than a one year process and it will take time to implement a strong culture of internal controls. The District will remind all managers of proper documentation required for credit card usage.

Bookstore Inventory

Best practices over safeguarding district assets and accurately reflecting the assets in the accounting system include internal controls that are designed to monitor the year end physical inventory process in order to detect and prevent errors and misstatements and to limit the opportunity for misappropriation. During our physical inventory observation process, we noted that 7 out of 9 sections selected for verification had discrepancies. 2 sections had discrepancies between \$170 and \$300 and 5 sections had discrepancies between \$5 and \$100.

Recommendation

We understand that the District contracted with outside companies to perform the year end physical inventories. However, we recommend that designated district personnel be on site to monitor the entire inventory process and to ensure the counts are accurate and all items are being accounted for.

District Response

The District concurs with the recommendation and will provide more oversight to the entire inventory process.

Capital Asset Cost Data

We noted that capital outlay expenditures not identified with a particular project number were not analyzed for potential inclusion in construction in process or other capital asset accounts. If a capital outlay expenditure amount did not have a project number assigned, or was inadvertently not recorded, the amounts of those disbursements were reported as expenditures rather than capital assets in the entity-wide financial statements. We do not believe the amounts reported as expense are material to the capital asset balance on the entity-wide financial statements, however, we do note that the data used for preparing the entitywide financial statements is therefore incomplete.

In addition, we noted that one of the funds requiring an audit adjustment as described in Finding 2009-1 is related to the accrual of accounts payable amounts for building fund capital assets. There were three amounts totaling approximately \$3 million that were noted during our audit and not recorded as accounts payable during the year end closing process.

We also noted that the land asset account was not supported by a schedule listing the land parcels owned by the District.

Recommendation

We recommend that all disbursements and accruals reported as capital outlay expenditures, not just those that are assigned a project number, be reviewed when summarizing data for construction in process and capital asset purposes.

In addition, we recommend that facilities work more closely with the business office at the end of the year and assist in identifying all potential significant accounts payable. Any amounts that are not known as a contractor may not have submitted an invoice can be estimated based on a reasonable method that facilities uses when considering the elements of the project such as contract price, estimated amount completed by year end and amounts previously billed.

We also recommend that the District research the land cost included in the financial records and prepare and maintain a schedule of individual parcels supporting that value. The list should include information on location, parcel number, date acquired or donated, and the original cost, or estimate cost/value of the land. This schedule should then be coordinated with the District's risk management program to verify that appropriate insurance or self insurance is maintained on all the land parcels owned by the District.

District Response

The District concurs with the recommendation and has been working to provide more oversight for capital outlay expenditures. The District finance staff will work more closely with facilities to ensure year end accounts payables for capital projects are proactively estimated and identified. The District will also develop a list that includes information on property owned to include parcel numbers, date acquired or donated and the original cost or estimated cost value of all property.

Equipment Inventory

We noted that the District has implemented procedures required for inventorying equipment purchased with Federal funds. However, due to limitations of time and resources the inventory has been limited just to those items charged to Federal funds.

Recommendation

We recommend that the District follow a policy of periodically inventorying all equipment not just that purchased with federal funds in order to update the financial records supporting amounts reported on the entity-wide statement of net assets and to determine if any updates to insurance coverage limits are needed.

District Response

The District concurs with the recommendation and will continue to expand appropriate procedures to inventory all equipment in a routine process.

SUMMARY OF PRIOR YEAR COMMENT

Disbursement of Funds

Best practices over funds disbursed include internal controls that are designed to limit the potential and to detect and prevent errors and misstatements and to limit the opportunity for misappropriation. We noted the following areas where controls over disbursements could potentially be strengthened:

- The Datatel accounts payable module does not reject duplicate invoices. The system flags a duplicate invoice to notify the user that it is a duplicate invoice, however, the accounts payable clerk and others can override the flag without approval.
- The District policies allow for a 10% deviation from the original Purchase Order amount to be processed without additional approval. However, when we walked some transactions through the system, we noted that the system allowed a 25% deviation without a flag or requirement for additional authorization.

Recommendation

We recommend that the District consider the potential of the design of the system and whether or not it can assist in strengthening the controls over processing of disbursements in the following areas:

- The District business staff should consider consulting with the Information Technology staff to determine if the controls over duplicate invoices are operating as desired or if there should be some type of report that could be generated periodically listing all overrides processed. The override report should then be reviewed by a supervisor to look for any excessive use of overrides.
- The District business staff should consider consulting with the Information Technology staff to determine if the controls over dollar limit deviations are operating as desired or if there should be some type of report that could be generated on a periodic basis listing all the purchase orders with a deviation exceeding 10% that were processed. The deviation report should then be reviewed by a supervisor to look for any excessive deviations and determine whether additional approval was obtained for those items.

Current Year Status

Not implemented, see current year comments.

Collection of Funds

Best practices over funds collected on site include internal controls that are designed to limit the potential for misappropriation or errors. We noted that monies received in the mail at the District office were not logged upon receipt and instead were given to the Assistant Controller to temporarily store in the safe. The Assistant Controller then turns in the money to the accounts payable clerk for recording and preparing deposits.

Recommendation

We recommended consideration be giving to having the person who opens the mail numerically list the items received by name, source, amount, and date receive. This would assist the District in reducing the risk of loss or misplacement of checks after the funds have been received.

Current Year Status

Implemented.

Journal Entry Processing

Best practices over processing of transactions include segregation of duties so that an independent review by someone other than the originator occurs on all transactions that may have a material effect on the financial information of the District. We noted that journal entries processed by the director of fiscal services are not consistently reviewed and approved by another individual.

Recommendation

We recommend that all journal entries be reviewed by an individual other than the one preparing the entry and that such review be documented on the journal entry form or through other means.

Current Year Status

Implemented.

Drawdown Procedures

We noted that amounts to be drawn down and collected from Federal financial systems are calculated by one individual and then reviewed and modified as necessary by another individual. The modifications are not effectively communicated back to the individual doing the original calculation and responsible for processing the draw down. These changes are communicated and resolved in the next cycle.

Recommendation

We recommend that the communications of changes or corrections to the drawdowns be coordinated on a more timely basis to allow for the changes to be processed in the current cycle rather than the next cycle.

Current Year Status

Implemented.

This communication is intended solely for the information and use of management, the finance committee, the governing board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Tine, Day & Co LLP

Pleasanton, California
December 18, 2009