



April 27, 2007

Chabot Las Positas Community College District
Pleasanton, California

We have completed our audit of Chabot Las Positas Community College District's (the District) financial records for the year ended June 30, 2006, and have issued our report dated April 27, 2007. In planning and performing our audit of the financial statements of the District for the year ended June 30, 2006, we considered the internal control structure of the District in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal controls, errors or fraud may occur and not be detected by such controls.

During our audit, we became aware of certain matters involving the internal control structure and its operation that we consider to be important enough to bring to your attention. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel and have included their responses to the comments as part of this letter. We will be pleased to perform any additional study of these matters, or to assist the District in implementing the recommendations. Our comments are summarized as follows:

Stale dated checks

During our audit, we noted that the revolving cash account, student loan and scholarship accounts and Associated Students accounts, included several stale dated checks that had not cleared and were in excess of one year in age. Upon further inquiry, we noted the district does not have an established policy requiring investigation of stale dated outstanding checks.

Recommendation

We recommend the District consider adopting a policy to review and consider needs to void or re-issue checks that have not cleared the bank and are in excess of a certain age (6 months or one year are the most common ages used in policies)

District Response

The District will develop "best-business practices" solutions for stale-dated checks issued against these accounts based on the nature of the transaction. For instance, scholarship checks outstanding after 6 months will be voided leaving the credit balance on the student account and reimbursement checks issued to employees through revolving funds will be voided without reissuance if not cashed within six months.

Capital Asset Threshold

During our audit we noted that the District has established a capital asset threshold of \$1,000. Each purchase of equipment or improvements to buildings or sites in excess of the established capitalization threshold is treated as an asset of the District in the Entitywide financial statements and depreciated over several years based on its estimated lifetime. During our work with other agencies, we have noted that while many agencies have separate lower thresholds for inventorying items for insurance and other purposes (\$500-\$1,000), most are using \$5,000 for capitalization purposes. Using separate thresholds allows computer and other common equipment purchases to be tracked for inventory and insurance purposes in case of loss but does not require depreciating these types of items over multiple years. We also noted that the District has not performed a physical inventory of equipment since March 2002.

Recommendation

We recommend the District consider the costs and benefits associated with tracking and depreciating the volume of lower dollar items that fall between \$1,000 and \$5,000 and determine if the capitalization level should be raised or should remain at \$1,000. We recommend that the District adopt a schedule for undertaking physical inventories of equipment every few years.

District Response

The District is examining alternatives which allow an increase in the threshold level for capitalization purposes but preserve the ability to track lower-value assets for insurance purposes.

County Cash Clearing Account Reconciliation

We noted that the reconciliation between the County cash records and the Districts records has outstanding differences dating back to June 2005. We reviewed the reconciliation process as of December 2006 and noted that total differences not reconciled related to fiscal year 2005-2006 entries amounted to approximately \$14,000 for June 2005 to March 2006.

Recommendation

The reconciliation between the County and District records serves as a key component of internal controls and assists the District in performing a double check to verify that the District financial records are accurate. When this process is not performed in a timely manner, the District is not using available checks and balances to assist the District in verifying the accuracy of the financial records.

District Response

Business Services staff has been reviewing cash disbursements and collections as posted in Banner, primarily from the payroll and student accounts receivable systems. The District will continue to examine, document and revise procedures for tracking and reconciling cash balances as recorded in Banner and the County. Simultaneously, the existing banking relationships and bank accounts are being reviewed to modernize and improve cash handling operations to enable the timely transfer of cash from District clearing accounts to County deposit where the funds earn interest.

Benefits Billing Reconciliation

We noted the District provides Kaiser or Blue Cross HMO to its employees at no cost to the employee. Blue Cross PPO is also offered to employees and the employees electing that coverage are billed for the amount that exceeds the Blue Cross HMO amount. We noted that there is no reconciliation of the employee names listed on the Blue Cross PPO invoice as compared to the records of payroll deductions to ensure that the District has accurately billed those individuals who should be reimbursing the District.

Recommendation

We recommend that the names on the Blue Cross PPO invoice be listed in a spreadsheet and the amount at which each employee's coverage exceeds the Blue Cross HMO amount be listed. The total from the spreadsheet can then be compared to the payroll deduction report to ensure that the District is reimbursed the appropriate amounts.

District Response

The District is currently implementing two separate, third-party software systems, BenefitsBridge and Crystal Reporting, which should enable a reconciliation of employees listed on health insurance premium invoices to the payroll deductions register. Crystal Reporting will provide for enhanced ad hoc queries of payroll benefits deductions and BenefitBridge will assist with the day-to-day administration of employee benefits, including billing and reporting.

Benefit Payments to Retirees

We noted that the District does not periodically initiate contact with retirees to determine if the individual continues to be eligible to receive retiree benefits.

Recommendation

We recommend that the District establish a policy with timelines for sending a census letter to retirees to determine if the retiree continues to be eligible for the benefits they are receiving and that no circumstances have occurred that would change the amount or payment of the benefit.

District Response

Similar to improving the ability to reconcile health insurance premiums to payroll records, it is anticipated that BenefitBridge, in conjunction with Crystal Reporting, will enhance the District's ability to maintain communications with retirees eligible for benefits and improve record keeping of such.

Bookstore Accounts Receivable

We noted that the June 2006 bookstore accounts receivable listing of outstanding balances includes many immaterial amounts dating back to 2001 and 2002.

Recommendation

We recommend that the bookstore accounts receivable be reviewed to determine collectibility of all stale dated balances and determine if any amounts should be written off or included in an allowance for doubtful accounts.

District Response

The bookstore will review collectibility of stale-dated receivables as recommended and write-off amounts deemed to be uncollectible.

Internal Controls Over Journal Entries

Strong internal controls over accounting systems include review and approval of all transactions by a person other than the one initiating the entries. We reviewed five journal entries prepared throughout the year and noted that one of those entries was not documented as having been reviewed by an individual other than the one initiating

the entry. Upon further inquiry, we believe this to be a systematic issue that occurs with each entry posted by a particular individual. The lack of documentation of a separate review of journal entries results in not ensuring that there is optimum segregation of duties and monitoring being performed on all transactions that affect the general ledger.

Recommendation

We recommend that the District review its procedures on approving journal entries. In particular, the procedures should require that every journal entry be approved by a designated employee other than the one initiating the entry.

District Response

As part of the cross-training of Business Services staff, the different functional areas, e.g., accounts receivable, payroll, accounts payable, are being trained in the general accounting which supports their area. One benefit will be the separation of the journal voucher preparation and entry from the review and approval process.

This letter does not affect our report dated April 27, 2007 on the financial statements of the District.

We appreciate the time and assistance the staff of the District and the College Business Offices have provided during our audit. We will follow up on each of the areas noted above during the early stage of our fieldwork for the 2006-2007 fiscal year.

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

Vavinek, Trine, Day & Co LLP

Pleasanton, California
April 27, 2007