



March 31, 2008

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 March 31, 2008. In planning and performing our audit of the financial statements of the District for the year ended June 30, 2007, 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:

Payroll/Human Resource Functions

During our review of the payroll/personnel systems, we noted that the Payroll person has access to certain Human Resource functions. Payroll person has access to the United States Regulatory screen to correct the error related to California Pension Member Status and access to NBA Jobs and General Jobs screens to modify the beginning/ending dates and type of employment of a employee.

Recommendation

We recommend the District work with the IT department to set restriction on access to the human resource and payroll screens to where HR and payroll can only view each other's screen for information, but cannot modify the information.

District Response

The director of human resource services is working with the SunGuardHR (Banner) consultant to implement a reporting system that identifies all changes made to the job record, who made the change, and the date and time the change was made. Banner tracks changes by user ID, as each individual is assigned a unique ID for sign on to Banner as a part of system security. Individuals who are authorized to make changes in the job record will be identified and listed. This list will be compared against the report that shows who made which changes in the job record. The report will be generated and reviewed monthly by two individuals, one from the Human Resource Services office and another individual from outside the unit. Any changes in the job record made by individuals who are not on the authorized list will be brought to the immediate attention of the director of human resource services.

Disbursement System

During our review of internal controls for disbursements, we noted that when processing disbursements through Banner system, the system is not set up to reject processing invoice amounts exceeding the original approved purchase order amount.

Recommendation

We recommend that the District work with IT department to set restriction in the Banner system to automatically reject processing any invoices exceed 5% -10% (per district policy) of the original approved purchase order to reduce opportunity for misuse of the account.

District Response

The District will work with the IT Department to set the invoice overage tolerance option in the Banner system for accounts payable personnel.

Clearing Bank Account Reconciliation

During our interim review of the clearing cash account, we noted that the bank reconciliation for the cash clearing account was ten months behind. In addition, some outstanding deposits and checks were not recorded in the Banner general ledger system. We reviewed July 2007 bank reconciliation (the most recent bank reconciliation available) on June 5, 2007 and noted approximately \$73,000 deposit and \$12,000 checks withdrawals were not recorded in the general ledger. Also, there was approximately \$49,000 Deposits in Transit and only \$21,000 was cleared in subsequent month. This contributes to the amounts recorded as unadjusted amount in the general ledger balance.

Recommendation

The bank reconciliation to the District records serve as a key component of internal controls and assists the District in ensuring the accuracy of its financial records. When this process is not performed in a timely manner, the District is not using available checks and balances to assist in ensuring the accuracy of the financial records.

District Response

The District's revised County cash clearing procedures are expected to improve the clearing account reconciliation process.

Las Positas College Associated Student Account

During our review of the Associated Student accounts for Las Positas College, we noted the following:

- Bank deposits were not made timely. College should make deposits at least 2-3 times a week per its established procedures. We reviewed cash collection process for the month of April 07 and noted deposits made exceed average of 16 days.
- Pre-numbered receipts were not used to ensure all monies collected were deposited intact and timely.
- Bank statements have not been reconciled since October 2006.
- Four out of ten disbursements selected for review missing required authorization.

Recommendation

We recommend that the bookkeeper for the Associated Student Body review its policies and procedures to adhere with deposit requirements. In addition, pre-numbered receipt or receipt log should be used for all cash collections to ensure cash collected are deposited intact and timely. Bank statement should be reconciled monthly on a timely manner. All required authorization for disbursements should be obtained prior to check issuance.

District Response

The district response will be provided in a separate letter.

Stale dated checks

As noted in prior year that the revolving and clearing cash accounts, financial aid, 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, or return funds to grantors, or escheat to the state, funds 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 a policy to identify and process stale dated checks on a monthly basis.

Capital Asset Threshold

As noted in prior year 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. Some computer and equipment are over 5-10 years old and have been fully depreciated which still included in the listing.

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 and evaluate equipments that are fully depreciated to determine whether it they are still functioning as intended.

District Response

The District will analyze the fiscal and system impact of increasing the capitalization threshold from \$1,000 to \$5,000. Additionally, the District will adopt a procedure regarding the inventory and evaluation of equipment as recommended.

Benefits Billing Reconciliation

As noted in prior year that 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. In addition, COBRA insurance reimbursement amounts have not been timely reconciled to the insurance billings.

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

Each month after the payroll process is completed, a report is extracted from the Banner system which contains data pertaining to employee benefits. The data is transferred to an Excel spreadsheet. For those employees obligated to pay a portion of their benefit premiums, the spreadsheet notes the amount deducted from the employee's paycheck for his/her portion of the premiums and the amount paid by the district. These amounts are totaled to confirm correct deductions have been made to pay the applicable premium.

An audit of the subscribers using the spreadsheet and vendor billings is conducted to ensure all subscribers are accounted for and to confirm proper payment is being deducted. Subscriber status changes are audited to confirm that any applicable premium changes and premium arrears are made.

This audit is performed to confirm receipt of employee premium deductions. Employees who work 50% or more but less than 100% are obligated to pay a portion of their benefit premiums. Any employee enrolled in the Blue Cross PPO Health Plan, regardless of percent of employment, must pay the portion of the applicable premium that is the difference between the highest HMO and the PPO. These employees are also part of the monthly audit.

Benefit Payments to Retirees

As noted in prior year 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

In April 2008, the manager of benefits and workers' compensation is sending a letter to each retiree who receives health benefits. The correspondence includes a form that requests the retiree confirm enrollment information for the retiree and his/her spouse, if applicable. Data being confirmed include: name, address, phone number, health plan, Medicare A/B/D eligibility, health plan enrollment, and Medicare B premium reimbursement. The retiree is requested to make any corrections to the information provided on the form or to confirm that the information is correct by signing, dating, and returning the form to the Benefits Office. A stamped, self-addressed envelope will be provided to help ensure maximum response rate. Any forms not returned will trigger follow-up action by the Benefits Office until status of the retiree being provided benefits is confirmed.

The form also provides for the retiree to list a contact person other than the retiree and spouse. In addition, the correspondence being sent contains information that reminds the retiree, and spouse, if applicable, of his/her need to advise the district of any changes in enrollment and/or status that would affect the retiree's eligibility for district-provided benefits.

This will be an annual correspondence to retirees.

SUMMARY OF PRIOR YEAR COMMENTS

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.

Current Year Status

Not Implemented. See current year finding.

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.

Current Year Status

Not Implemented, see current year finding.

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.

Current Year Status

Not Implemented. See current year audit report finding 2007-1.

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.

Current Year Status

Not implemented. See current year finding.

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.

Current Year Status

Not implemented- See current year finding.

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.

Current Year Status

Not implemented. See current year audit report finding 2007-2.

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.

Current Year Status

Implemented.

This letter does not affect our report dated March 31, 2008 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 2007-2008 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, Tiene, Day & Co LLP

Pleasanton, California

March 31, 2008