



January 28, 2008

The Board of Trustees  
Cabrillo Community College District  
Aptos, California

We have completed our audit of Cabrillo Community College District's (the District) financial records for the year ended June 30, 2007, and have issued our report dated January 28 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 significant deficiencies. 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:

## **CASH RECEIPTS**

### *Comment*

Daily sales reports generated by the Admissions & Records cashier for various fees including transcript fees, fingerprinting fees etc. are the source documents for summarizing the funds received each day. We noted that the Admissions & Records office shreds those daily receipts reports after reconciliation of amount deposited to bank to and the daily cash collection report. The result is that source documents supporting the daily receipts are not available for review by District staff or others should the need arise.

In addition, we noted that the reconciliation process for the District clearing accounts where funds are transferred between the Admissions & Records cashiers office and the College Bank was delayed in two instances.

*Recommendation*

We recommend that the District consider its record retention policies and determine if retaining the Daily receipt report source documents is necessary to support the integrity of the district's cash receipts records. Consideration could be given to retaining the reports in an electronic form if physical space is limited. If the District does not consider retention of the Daily Sales Reports to be necessary, then additional emphasis should be placed on performing timely reconciliations between the Admissions and Records collections and the college bank.

*District Response*

The District is in the process of reviewing and implementing this recommendation.

**CASH CLEARING ACCOUNT BANK RECONCILIATION**

*Comment*

We noted that the February 2007, Cash Clearing Account Reconciliation for the Comerica account did not include documentation of a review by an individual other than the preparer.

*Recommendation*

We recommend that those involved with reviewing these monthly reports be reminded of the importance of review procedures and of noting such review on the reconciliation forms.

*District Response*

The District is in the process of reviewing and implementing this recommendation.

**VACATION LIABILITY**

*Comment*

We noted that the calculation of vacation liability is based upon the hours earned multiplied by the current salary rates. However, the calculation does not appear to incorporate an average benefits cost component.

In addition, GASB 16 changed the recognition of governmental funds expenditures or liabilities for compensated absences to recognize amounts only to the extent that the amounts have come due for payment in each period. Only amounts that have actually become due and payable as of the end of the fiscal year because relevant events have occurred, such as employee resignations and retirements, are to be recognized in the governmental fund liabilities.

*Recommendation*

Future payment of vacation earned will also necessitate payment of payroll taxes and other benefits that are based upon salary rates. Therefore, we recommend that consideration be given to including a benefit rate component in the vacation liability calculation.

We also recommend that the District consider changing its accounting procedures to follow generally accepted accounting standards. This would result in excluding accrued vacation and banked leave from the governmental funds unless they are related to employee resignations that are known at year end. Long term receivables and liabilities, such as accrued vacation, should continue to be accrued in enterprise funds. The amounts of accrued vacation liability were not material to the overall liabilities of the District, and therefore, did not result in a material misstatement of the financial statements.

The District may wish to establish a new fund for internal accounting purposes to track any long term assets and liabilities that will be received by or paid by governmental funds. Other Community College Districts have established a fund, such as fund 99, to record capital assets, long term liabilities and net assets so as not to lose track of these amounts that will be due in the future and to more closely align their accounting with GASB 35.

*District Response*

The District is in the process of reviewing and implementing this recommendation.

## **PARKING METER COLLECTIONS**

*Comment*

General best accounting practices and the District's accounting procedures emphasize the importance of strong internal controls over cash receipts to limit opportunities for errors of fraud to occur. We noted the parking meters do not produce a record of the number and value of permits sold. Lack of sales documentation, such as a printout from the parking permit machines documenting the value of permits issued during the period, exposes the parking receipts collections to a risk of misstatement and prevents the District from verifying that all cash collected was deposited to the appropriate bank accounts intact.

*Recommendation*

We noted that the District is has developed new procedures regarding the collection of parking meter receipts and we encourage the District to continue to work towards implementing those new procedures. The District should determine the feasibility of preparing a parking permit sale report that is independent from the count of the cash collected and reconcile the amounts expected to be collected to the total deposited to the college bank.

*District Response*

The District is in the process of reviewing and implementing this recommendation.

## SUMMARY OF PRIOR YEAR COMMENTS

### CAPITAL ASSETS

#### *Comment*

Sound internal controls emphasize the importance of proper accounting for capital assets. We noted that there is no formal process for reconciling the capital assets additions in the subsidiary ledger to the total capital expenditures recorded on the District's books. Capital assets may be misstated if not all capital expenditures during the year were captured and added to the various depreciable and non-depreciable categories of capital assets.

#### *Recommendation*

The District should consider implementing procedures to separately code and track the capital asset expenditures on the general ledger. This would assist in ensuring that all capital assets that were purchased are captured and added to the capital asset subsidiary ledgers of the District

#### *Status*

Implemented.

### INTEREST REBATES RELATED TO BOND ARBITRAGE

#### *Comment*

The Internal Revenue Service requires Districts to report and pay any arbitrage amounts generated from the proceeds of the sale of the General Obligation Bonds. In order to determine if a District has an arbitrage liability, a calculation involving the timing of the use of the bond funds and the interest earned on the proceeds prior to their use is performed. The calculation is typically performed at least once every three years, and is done to insure that the interest earned on the proceeds of the general obligation bond does exceed allowable limits.

#### *Recommendation*

The District should perform the calculation at least once every three years to determine if any payment is due.

#### *Status*

Implemented

This letter does not affect our report dated January 28, 2008, on the financial statements of the District.

We appreciate the time and assistance the staff of the District Service Center 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 2008-09 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  
January 28, 2008