



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

In planning and performing our audit of the financial statements of the governmental activities of Cabrillo Community College District as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Cabrillo 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Company's internal control in our report dated March 2, 2011. This letter does not affect our report dated March 2, 2011, on the financial statements of Cabrillo Community College District.

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 will begin the development of a comprehensive asset management system encompassing software solutions as well as the creation of inter-departmental process and procedures. Implementation date is currently unknown and may have to be postponed to future years due to limited resources (i.e. funding resources, competing priorities) as well as vacant key positions (Director of Purchasing).

Accounts Payable – Debit Balances

Debit balances in accounts payable exist and appear to be related to the District accruing a payable for the district share of COBRA health insurance excluding the former employee share, whereas the cash payment that is recorded as a payment of the accounts payable includes both District and the employee share.



To the Finance Committee of the
Cabrillo Community College District

We have audited the financial statements of the business-type activities of Cabrillo Community College District for the year ended June 30, 2010, and have issued our report thereon dated March 2, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 6, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cabrillo Community College District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 2, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, Governing Board, and management of Cabrillo Community College District and is not intended to be and should not be used by anyone other than these specified parties.

Vavonek, Trine, Day & Co LLP

Pleasanton, California
March 2, 2011

CABRILLO COMMUNITY COLLEGE DISTRICT

SUMMARY OF UNADJUSTED DIFFERENCES FOR THE YEAR ENDED JUNE 30, 2010

| Entity-Wide | | | | | | |
|--|---|------|------------------------------|-------------------|---------------|-----------------|
| Description of Audit Difference | Cause | | Financial Statements Effects | | | |
| | | | Total Assets | Total Liabilities | Fund Balance | Net Income/Loss |
| County Cash | Districts typically do not record the difference between Fair Market Value and Cost for County Cash funds. This is a difference on \$49M of County Cash between GAAP and industry practice. | I102 | \$ 56,388 | | \$ 56,388 | \$ 56,388 |
| Accrued vacation | Bookstore personnel accrued vacation not recorded | M204 | - | (25,264) | (25,264) | (25,264) |
| Accrued interest | Liability recorded in prior year for TRANS interest not paid | M102 | - | 30,464 | 30,464 | 30,464 |
| Accounts Payable | Debit balances in health insurance accounts payable | M102 | - | 347,562 | - | (347,562) |
| Accounts Payable | Long term portion of vacation accrual is recorded in general fund but should be excluded from governmental funds | M204 | | 1,032,701 | 1,032,701 | 138,274 |
| Total | | | \$ 56,388 | \$ 1,385,463 | \$ 1,037,901 | \$ (147,700) |
| Financial Statement Caption Totals | | | \$ 301,204,131 | \$ 210,282,208 | \$ 90,921,923 | \$ 4,532,856 |
| Net Audit Differences as % of F/S Captions | | | 0.02% | 0.66% | 1.14% | -3.26% |

Recommendation

We recommend that the District review the process for paying COBRA health insurance payments, receiving reimbursements from former employees, and verifying that payments received are appropriately applied. In addition, if it is determined the debit balances are appropriate due to expected tax credits then we recommend the item be reclassified to receivables from government agencies at the end of each fiscal year.

District Response

The District will develop a comprehensive process (which will incorporate the auditor’s recommendations) for tracking and paying the employer and employee share of COBRA health insurance payments. The new process will be implemented in FY 2010-11.

Accounts Payable – Interest

We noted that there is \$30,743 recorded as accrued interest related to a TRANS issued and repaid in past years.

Recommendation

As the amount has remained accrued as a liability for several years and has not been paid, we recommend the District determine if the amount should remain as a liability or be written off.

District Response

The accrued interest liability was identified during the FY 2007-08. Additional research will be conducted in FY 2010-11 to determine if the liability continues to exist and whether or not the liability should be written off at that time.

Bookstore

We noted an increase in bookstore inventory shrinkage from approximately \$20,000 in 08/09 to \$58,000 in 09/10. We understand that the bookstore moved locations during the 08/09 fiscal year and the packing and moving of locations may have contributed to the increase in unlocated items. However, we also noted that the new location allows book and other stock to be more accessible to those in the store. The improved accessibility may improve visibility of items and knowledge of what is available, however it may also result in an increase in thefts.

Recommendation

We recommend the District review the configuration of the new bookstore and the accessibility of higher cost items and determine if adequate safeguarding measures exist to reasonably limit the opportunity for items to be removed from the store without paying for them.

District Response

The District has implemented this recommendation.

Long Term Assets and Liabilities

Long term receivables and liabilities should not be recognized in governmental funds, such as the general fund. We noted that approximately \$1 million of accrued vacation, which is a long term liability unless it is funded was included in the governmental general fund liabilities.

Recommendation

We recommend that the District change its accounting procedures to follow generally accepted accounting standards and exclude long term receivables and payables from the governmental funds. The exception to this standard is for compensated absences or banked leave that have actually become due and payable as of the end of the fiscal year because of relevant events, such as employee resignations and retirements or is funded by having cash set aside for the future payments of such liabilities. Long term liabilities, such as unfunded accrued vacation, should continue to be accrued in enterprise funds and in the long term entity-wide accounts, but should not be accrued in governmental funds such as the general fund.

District Response

In FY 2010-11, the District will move its accrued vacation liability out of its general unrestricted fund into a newly established, long term entity-wide account.

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 while the daily parking pass machines maintain a record of passes sold, parking meters do not produce a record of the amounts collected. In addition, while the daily parking pass machines do typically produce receipts they often jam and the receipt data is lost. Lack of collection documentation, such as a printout from the parking meters, or lost daily parking pass machine records exposes all parking meter receipt collections and parking pass machine collections on days jams occur, 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 has developed procedures regarding the collection of parking meter receipts and we encourage the segregation of duties wherever possible to have two individuals collect the funds whenever possible. 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

Budget constraints continue to limit the District's ability to fully implement solutions for this item. However, progress has been made with the purchase of five new parking meter machines, effective December 2010. Additionally, the District will continue to work towards fully replacing all parking meters with credit and debit machines.

SUMMARY OF PRIOR YEAR COMMENTS

PARKING METER COLLECTIONS

Comment

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District Response

The District is still investigating a feasible solution to this recommendation. Budget reductions have limited the District's ability to replace old parking meters with new meters that provide the option of printing sales reports. Limit staffing is also a factor in establishing a better segregation of duties.

Status

Partially implemented – see current year comments.

This communication is intended solely for the information and use of management, 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.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
March 2, 2011