



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, 2008, 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be control deficiencies or significant deficiencies.

#### **SALARIES OF CLASSROOM INSTRUCTORS (50% LAW) – Control Deficiency**

##### ***Comment***

During our review of the components that make up the 50% calculation, it came to our attention that the college does not have an effective system in the general ledger to distinguish between equipment replacement and new equipment. The college determines the amount of equipment replacements to include in their calculation by using a ratio of 80% of the total amount of equipment charged to the unrestricted general fund. This amount is then added to the denominator, or right side of the calculation.

***Recommendation***

While we do not believe this estimation of the replacement equipment would have a significant effect on the end result of the 50% law calculation, the method used by the College is not as accurate as it otherwise would be and could either be causing an understatement or an overstatement of the result of the 50% law calculation. The College should consider modifying the chart of accounts to include accounts that would allow for separate general ledger tracking of replacement and new equipment.

***District Response***

The majority of equipment purchases are replacements. The District will create a new object code for equipment replacements and code future equipment purchases as appropriate.

**VACATION LIABILITY – Significant Deficiency**

***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.

***District Response***

The District will begin accruing mandatory benefits on the vacation accruals effective 6/30/09.

## **SUMMARY OF PRIOR YEAR COMMENTS**

### **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.

#### *Status*

Implemented.

### **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.

#### *Status*

Implemented.

### **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.

*Status*

Not implemented, see current year comments

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.

*Status*

Not implemented, see current year comments.

**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 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.

*Status*

Implemented.

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.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
January 28, 2009