KPMG Team:  
- Tracy Hensley, Engagement Partner  
- Spencer Endicott, Engagement Senior Manager  

Audit Scope:  
- Audit of the Financial Statements of the Los Angeles Community College District as of and for the year ended June 30, 2013  
- Audit of Bond Construction Program Expenditures of the Los Angeles Community College District for Propositions A, AA and J, for the year ended June 30, 2013  

Deliverables:  
- Financial Statements:  
  - Independent Auditors’ Report on Financial Statements and supplemental schedules  
  - Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards  
- Bond Expenditure Audits:  
  - Independent Auditors’ Reports on Schedules of Bond Expenditures for Propositions A, AA and J  
  - Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards  

Areas of Audit Emphasis:  
- Capital Assets, investments and long-term debt  
- Operating and nonoperating revenues, salaries, benefits and related expenses  
- Existence, accuracy and completeness of Bond Expenditures, and compliance with cost principles  

Auditors’ Responsibilities:  
- Our responsibility is to express an opinion on the District’s financial statements based on our audit. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected requires judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we will not express an opinion on internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.  

Management’s Responsibilities:  
- Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.  

Timing of Audit:  
- Start of fieldwork: August 26, 2013 (Financial Statements); October 14, 2013 (Bond Audits)  
- Meet with Audit Committee: December 2013  
- Expected report issuance: December 2013
Los Angeles Community College District
Status Report for the Finance and Audit Committee
October 9, 2013

Single Audit and State Compliance

- Engagement Team
  - Gilbert Vasquez – Managing Partner
  - Peggy McBride – Engagement Partner - Audit Principal
  - Elmer Pascal – Engagement Senior Manager - Audit Principal
  - Usman Ilyas – Audit Manager
  - Christine Ambos – Audit Supervisor, Single Audit
  - Philip Padua – Audit Supervisor, State Compliance

- Audit Objectives and Scope
  Expression of our auditor’s opinions on:
  - State Compliance in accordance with the Contracted District Audit Manual (CDAM) published by the Chancellor’s Office for California Community Colleges.
  - Federal awards (compliance and internal controls) pursuant to Office of Management and Budget Circular A-133 (the Single Audit Act)
    - Student Financial Assistance Cluster
    - Network for a Healthy California (Department of Agriculture)
    - H-1B Technical Skills Grant (Department of Labor)
    - Improving Student Outcome for Employment (Department of Labor)
    - LEARN (Leading and Energizing African American Students through Research and Knowledge) and Passage Program (Academic and Student Support for Male Students) [Department of Education]
    - Adult Education and Family Literacy (Department of Education)
    - Child Development Programs (Department of Health and Human Services)
    - Americorps (Corporation for National and Community Services)

- Status of the Audits
  - State:
    - Planning activities at the District have been completed and campus visits are ongoing.
    - Expect that the recurring issue relating to missing census rosters will not occur due to the revision of the District policy regarding attendance accounting.
  - Federal:
    - Audit of Student Financial Aid Cluster is substantially completed. Matters relating to eligibility and reporting of overpayment are under review with Southwest and East LA personnel. Resolution of extended procedures will be addressed in final report.
    - Audit of Network for Healthy California – No findings based on preliminary results.
    - Audits of other 6 Federal programs are ongoing.
    - Draft audit reports expected by 11/13/2013 for presentation to the Board on 12/11/2013.
Completed Audits/Investigations pending presentation to Budget and Finance Committee:

- Cash Control Audit
  - I. Los Angeles City College
  - II. East Los Angeles College
  - III. Los Angeles Harbor College
  - IV. Los Angeles Mission College
  - V. Pierce College
  - VI. Los Angeles Southwest College
  - VII. Los Angeles Trade Technical College
  - VIII. Los Angeles Valley College
  - IX. West Los Angeles College

- Foundation Audit
  - X. Pierce College
  - XI. Los Angeles Trade Technical College

- Investigation
  - XII. Los Angeles Mission College Foundation
  - XIII. District Office Accounting Department

Audits/Investigations in progress:

- Cash Control Audit
  - I. Los Angeles Community College District Educational Service Center (District Office)

- Foundation Audit
  - II. Los Angeles City College
  - III. East Los Angeles College
  - IV. Los Angeles Harbor College
  - V. Los Angeles Mission College
  - VI. Los Angeles Southwest College
  - VII. Los Angeles Valley College

- Investigation
  - VIII. Los Angeles City College Special Funded Program
  - IX. Los Angeles City College International Student Department
  - X. Los Angeles Southwest College FTES
  - XI. Pierce College FIPSE Grant
To: Adriana Barrera, Ph.D.  
Chancellor

From: Kathleen Burke  
John McDowell  
Co-chairs DBC

RE: DBC Recommendations on September 18, 2013

On September 18, 2013, the District Budget Committee passed three motions for the following recommendations:

1. Accepted the ECDBC recommendation to revise the current District’s Operating Standards and Measures for Monitoring and Assessment of College Fiscal Condition. The revision will include additional accountability measures as shown and underlined in the attached revised District Financial Accountability Measures (#6, #8, #9, and #10).

This recommendation was developed through consultation with the ECDBC, the Chancellor’s Cabinet, and the DBC in order to meet the ACCJC Standards and to address the District Recommendation #1 from the report of the ACCJC visiting team that evaluated the Los Angeles Valley College last Spring (March 2013).

The motioned was passed with 17 Yes and 2 No.

2. Revised and approved the College Debt Repayment Policy as shown in the attached revised policy.

Over the last five months, through extensive review with the Executive of the District Committee and the District Budget Committee (DBC), on August 14, 2013, the District Budget Committee passed a motion to “limit annual college debt repayment obligation to 3% of the college’s final budget allocation”.

The DBC, on September 18, 2013, has revised and approved the remaining ECDBC proposal as delineated in the attached revised policy. Please note that the revised debt repayment policy will provide one year suspension of the college debt repayment to new presidents and/or interim presidents. The motion was passed with 12 Yes and 7 No.
3. In addition, the DBC passed a motion to allow West Los Angeles College to repay its current debt of $596,118 in three installments of $119,223 in FY 2013-14, $238,447 in FY 2014-15, and $238,448 in FY 2015-16. This is to accommodate the college’s current planning and to avoid any unanticipated reductions from the new debt repayment policy. The motion was passed with one (1) abstention.

These recommendations are forwarded for your consideration.

Cc: Jeanette Gordon

Approved

Adrian D. Barrera

10/3/13
DISTRICT FINANCIAL ACCOUNTABILITY MEASURES  
(DBC Recommendation, September 18, 2013)

Operating Standards and Measures for Monitoring and Assessment of 
College Fiscal Conditions

To ensure sound fiscal management and provide a process to monitor and evaluate the financial health of colleges within the District, the overall assessments of a college’s financial condition will include, but not be limited to, the following operating standards:

1. College’s budget shall be balanced in terms of funds available for appropriation throughout the fiscal year. Should funds available be reduced, corresponding expenditures are expected to also be reduced.

2. College shall be expected to develop its long-term enrollment plan to meet its education mission, and maintain enrollment data on all disciplines and instructional programs. The enrollment data shall include, but not be limited to, FTES, student headcount, teaching faculty productivity by discipline area, average class size, class sections offered, and cost per FTES.

3. College shall be expected to maintain position/assignment control on all personnel assignments, both academic and classified, to ensure that costs do not exceed budget.

4. College shall develop its annual college financial plan and provide to the Chancellor timely college budget and expenditure reports and/or fiscal analyses to assist in monitoring the financial health of the college.

5. At a minimum, the college shall provide to the Chancellor quarterly status reports on expenditures and on the college’s overall fiscal status.

6. Each College President and the Deputy Chancellor shall be responsible to the Chancellor for the management of the college’s and District Office’s total budget. Budget management includes maintaining a balanced budget, as well as the efficient and effective utilization of financial resources.

7. College is required to set aside 1% of its revenue as a college reserve. If a college’s expenditures or projected expenditures exceed its revenue, college shall be required to submit a self-assessment and review to the Chancellor, and to develop a written action plan to satisfactorily address the identified fiscal concerns.
8. If the college ends the year in a deficit greater than 1% of its budget or $500,000, whichever is greater, it is required to:

- Perform self-assessment and review.
- Submit to the Executive Committee of the District Budget Committee a financial plan that addresses the college’s financial health concerns consistent with the measurement criteria as indicated in Attachment 1.
- Participate in a quarterly review as requested by the Executive Committee of the District Budget Committee on the college’s fiscal condition.

9. If a college has experienced three consecutive years of deficits, the college shall be required to submit a detailed recovery plan for achieving fiscal stability. The Chancellor shall evaluate the college’s recovery plan and may recommend to the Board of Trustees that a special emergency response team be appointed to monitor and regulate the enrollment management and fiscal affairs of the college.

10. The Chancellor shall review the college’s fiscal affairs and enrollment management practices as part of the College President’s annual performance evaluation. The Chancellor must report to the Board of Trustees any significant deficiencies and take any corrective measures to resolve the deficiencies up to and including the possible reassignment or non-renewal of the college president’s contract.
ATTACHMENT 1

Measurement Criteria

1. Deficit Spending
   - Is the college deficit spending more than 1% of its revenue budget over multiple years?
   - Is the deficit spending addressed by ending balance, college reserve, or built-in growth revenue?

2. College’s Overall Instructional Measures:
   - Is teaching faculty productivity (FTES/FTEF) greater than or equal to 510?
   - Is average class size greater than or equal to 34?
   - Are costs per FTES by instruction, instructional services, student services, maintenance and operations, and other non-instructional support services greater than or equal to average costs among small or large colleges within the district and statewide average?
   - Are administrative costs per FTES greater than or equal to average costs among small or large colleges within the district and statewide average?

3. Full Time Faculty Hiring Obligation
   - What is the college’s full-time and part-time ratio and obligation (excluding faculty over-base)?

4. College Expenditures and Staffing Trends over the last five years
   - Is percentage of budget allocated to salaries and benefits at or less than district-wide average?
   - Is the college using one-time funds to pay for permanent staff or other ongoing expenses?
   - Is faculty, administration, and classified staffing level comparable with other colleges within the District?
   - How do expenditures by activity (instructional, instructional services, student services, and non-instructional activities) compare to other colleges in the district?
   - How do the release and reassigned FTEF and expenditures such as release times for bargaining unit and department chair non-instructional activities compare to other colleges in the district?
   - How do utilities and other non-salary operating expenditures by activity compare to other colleges in the district?

5. Enrollment Management
   - Does a college have a multi-year plan for enrollment growth and class sections offered? Does a college’s plan address changes in the class offerings and the maintenance of instructional productivity (FTES/FTEF)? Has the enrollment been stable over the last five years?
   - Are academic and classified staffing adjustments consistent with the enrollment decline?
• Does the college continuously analyze its enrollment trends and class offerings?

6. College’s Overall Educational Program Evaluation
• Is a college’s enrollment and fiscal plan consistent with its overall educational program mission?
ATTACHMENT II

Information to be Used to Perform the Assessment:

College’s Self-Assessment and Review
Apportionment Attendance Report
Enrollment Projection
Instructional Measures (FTES/FTEF)
Average Class Size
FTES and Expenditures ranking
College Quarterly Financial Status Report
Monthly Projection and College Financial Plan
Unrestricted General Fund by Activity
College Expenditure Trends over last five years
Full Time Faculty Hiring Obligation
Release Times and Reassigned Times
Other Available Information (Enrollment data, Fiscal Data, Staffing Plan, etc...)

Other Suggested Criteria:

FTES per FTEF by discipline
Percentage of Weekly Faculty Contact Hours (WFCH) taught by full-time and part-time faculty
Cost per FTES for each program and compared with other colleges and districts
Adequate/Proper Reserve Level or Ending Balance
Cost reduction measures to preserve revenues and mitigate further potential deficits

Other Items for Discussion

Deficit repayment schedule
Emergency loans for financial relief
Required actions to curtail and manage spending if certain conditions exist
College Debt Repayment Policy

DBC Recommendation (September 18, 2013)
(ECDBC 4/16/13, 5/14/13, 8/8/13, 9/10/13)
(DBC 8/14/13, 9/18/13)

1. Limit annual college debt repayment obligation to 3% of the college’s final budget allocation;

2. Colleges, that have outstanding debt repayments that exceed 3% of their final budget allocation, shall receive relief from debt repayments under the following conditions:
   • Balanced its budget for at least three consecutive years while meeting FTES obligation;
   • College has submitted a reasonable, multi-year plan for maintaining a balanced budget and meeting its enrollment target for duration of its repayment period;
   • Has paid its annual debt according to its repayment plan;
   • Has paid off 50% or more of its total debt.

If the college continues to maintain a balanced budget in the subsequent years*, the remaining debt repayments shall be waived for the remainder of the repayment period. However, if the college fails to maintain a balanced budget in the subsequent years, the remaining debt repayments shall not be waived.

• One year suspension of the college debt repayment will be given to interim and/or new college presidents to allow them time to plan and address the college fiscal issues.

*Subsequent years are the years in which the college is still obligated to pay back the remaining annual debt installments.