LOS ANGELES COMMUNITY COLLEGE DISTRICT
PROPOSITION A BOND CONSTRUCTION PROGRAM

Statement of Expenditures of Bond Proceeds
and Unaudited Supplementary Schedule

Year ended June 30, 2012

(With Independent Auditors’ Reports Thereon)
Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Proposition A Bond Construction
Program Statement of Expenditures of Bond Proceeds
Performed in Accordance with Government Auditing Standards

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the Proposition A Bond Construction Program statement of expenditures of bond
proceeds of the Los Angeles Community College District (the District) for the year ended June 30, 2012,
and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with
auditing standards generally accepted in the United States of America and the standards applicable to
audits contained in Government Auditing Standards issued by the Comptroller General of the United
States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over
financial reporting. In planning and performing our audit, we considered the District's internal control over
financial reporting as a basis for designing our auditing procedures for the purpose of expressing our
opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of
the District's internal control over financial reporting. Accordingly, we do not express an opinion on the
effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the
preceding paragraph and was not designed to identify all deficiencies in internal control over financial
reporting that might be significant deficiencies or material weaknesses and therefore, there can be no
assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.
However, as discussed below, we identified certain deficiencies in internal control over financial reporting
that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or
combination of deficiencies, in internal control over financial reporting, such that there is a reasonable
possibility that a material misstatement of the entity's financial statements will not be prevented, or
detected and corrected on a timely basis. We consider the following deficiencies in the District's internal
control over financial reporting to be a material weakness.

Bond Program Expenditures

The District's bond program (measures A, AA, and J) is currently the largest non-operating financial
activity being undertaken by the District, with total expenditures expected to exceed $6 billion, and
currently representing over $550 million in annual expenditures. We performed testwork over the
expenditures made with the use of bond proceeds for the year ended June 30, 2012, using a sample of 942 items and representing $271.7 million in expenditures for the combined measures. The District engages a service provider to manage, process and account for the bond proceeds. The District separately records in its financial statements the expenditures processed by its service provider, and other entries as required by U.S. Generally Accepted Accounting Policies (GAAP). The following findings address the controls and process activities at both the service provider and the District.

Criteria

Given the size and magnitude of the bond program, management of the District should have adequate controls in place over bond expenditures such that they are recorded regularly and accurately, and no less than monthly, in the financial statements of the District and the individual bond expenditure reports, and be subject to an independent review.

Observations and Recommendations

The service provider accounts for expenditures on a cash basis. As a result, expenditures are frequently reported in the wrong period. We noted approximately $2.75 million and $14 million, for 2012 and 2011, respectively, of bond expenditures that were not recorded in the financial statements of the District or the individual bond reports in the proper period. While there may be system limitations, the service provider, along with the District, should develop and enforce control processes that would ensure all expenditures are reported timely and accurately in the financial statements of the District and the separate bond expenditure reports.

Amounts expended and provided to the District by the service provider are reported in the financial records of the District as expended. During the 2011 audit, we identified control weaknesses in the bond expenditure reconciliations and recommended that the District implement a documented reconciliation process. The District has developed a written monthly reconciliation process that was implemented in 2012. However, we believe the process needs to be enhanced as reconciliations between amounts recorded by the service provider and amounts recorded by the District are not prepared properly, and do not identify adjustments that need to be made to the financial statements of the District or the separate bond expenditure reports. Additionally, we did not identify a process whereby an individual, separate from the preparer of such information, performs a formal monthly and documented review of the reconciliation or an evaluation that the amounts are reported completely, accurately, or timely. As a result, other accounting entries required under GAAP, including the allocation of program management fees, are not properly recorded throughout the year, causing undue inefficiencies and inaccuracies in the preparation of the financial records of the District.

We recommend that there be a District employee dedicated to accounting for the expenditures of bond funds and that these types of control activities occur monthly and are properly reconciled to amounts provided by the service provider. Additionally, we recommend that the controls and processes in place to reconcile bond expenditures in the financial statements of the District to those provided by the service provider be available, such that other District employees would have sufficient information to perform this function during periods of employee transition.

Cause

The procedures in place for the recording and review of bond expenditures in the financial statements of the District or the separate bond expenditure reports require enhancement to include a proper reconciliation and review process. The service provider recording expenditures on a cash basis without a strong trail of contemporaneously prepared documentation for non-routine transactions, coupled with a lack of timely
coordination and reconciliation of amounts expended between the District and the service provider contribute to the issues noted.

Views of Responsible Officials

All financial statements are currently reported on accrual basis and comply with U.S. Generally Accepted Accounting Policies (GAAP). The amount of $2.75 million for 2012 of bond expenditures has been recorded in the current financial statements of the District and the individual bond expenditure reports. Management agrees that certain amounts were not recorded in the proper period due to the nature of estimating the accrued amounts by campus project management staff and other vendors on the program. Further improvements will be implemented to include additional training to campus project management staff and other vendors on the program and an increase in oversight by BuildLACCD.

The District will continue to work on the implementation of its newly developed monthly reconciliation process and provide additional training to enhance the process to ensure reconciliations are prepared timely and properly and that any adjustments that need to be made to the financial statements are made. We will also add a procedure to the process that will more clearly identify that an individual, separate from the preparer of such reconciliations, performs a formal monthly and documented review of the reconciliation as required in the written procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition A Bond Construction Program statement of expenditures on bond proceeds is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District’s response to the findings identified in our audit is described above. However, we did not audit the District’s response, and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 19, 2012