LOS ANGELES COMMUNITY COLLEGE DISTRICT

BOND CONSTRUCTION PROGRAMS:
PROPOSITION A
PROPOSITION AA
MEASURE J

Statements of Expenditures of Bond Proceeds
and Supplementary Schedules

Year ended June 30, 2014
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the Proposition A Bond Construction Program statement of expenditures of bond proceeds (statement of expenditures of bond proceeds) of the Los Angeles Community College District (the District), as of June 30, 2014, and have issued our report thereon dated December 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of expenditures of bond proceeds, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of expenditures of bond proceeds, 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 deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of the District’s statement of expenditures of bond proceeds will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.
Bond Program Expenditures

The District’s bond program includes three separate measures (A, AA, and J). We performed separate audits of the statement of expenditures of bond proceeds for each of these measures, which combined, comprise approximately $274 million in expenditures for the year ended June 30, 2014. We selected a sample of 1,599 expenditures representing $123 million in expenditures for the combined measures. The District engages a service provider to process and account for the expenditures of bond proceeds.

Criteria

Management of the District and the service provider should have appropriate controls in place to ensure that expenditures are reported in the appropriate category, period and bond measure, in accordance with U.S. generally accepted accounting principles.

Observation

At the end of the prior fiscal year, the District’s service provider accrued for certain liabilities in Proposition AA, such as claims and stop notices, based on estimates determined from information available at the time of the accrual. During the current year, those accruals were reversed. However, we noted that while approximately $1,935 million of reversed accruals were recorded in the Proposition AA bond measure, payments of $260k and $1.675 million, were paid from the Proposition A and J measures, respectively. As a result, expenditures were understated in Proposition AA and overstated in Proposition A and J.

Cause

During the year, the service provider accounts for bond proceeds expenditures on a cash basis, and prepares expenditure accruals at year end to the bond measure applicable to the expenditure. In addition, many expenditures are eligible expenditures under all three bond measures. However, there are no documented policies or procedures over expenditure accruals or reversals, and it is a highly manual process. As a result, there was no review process in place to identify and reclassify expenditures when management determined that funds from a different measure than the original accrual be used for the expenditures.

Recommendation

We recommend that there be documented policies and procedures over the expenditure accrual and reversal process. If the expenditure is reported in a different measure than where it was originally accrued, an adjustment should be made to ensure the current year expenditures accurately reflect this information. In addition, an automated accounts payable tool that would allow for more reliable tracking of accruals should be considered.

View of Responsible Officials

Management acknowledges that certain program expenditure accruals were recorded in a Bond measure different than the ultimate payment of such accruals. The cause was the exhaustion of certain College project budgets under Proposition AA funds. Many times settlements and claims are anticipated to be incurred out of one Bond fund and the actual time of settlement such disputes are paid from alternate funding sources due to various reasons.

Management has reconciled and finalized the item in the financial reports and has immediately addressed the issue accordingly. In addition, program management will require the colleges to make the appropriate budget adjustments or budget transfers to ensure that payments will be expended from the same fund accrued when applicable.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statement of expenditures of bond proceeds is free from 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 finding 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2014