Compton Community College District

Annual Financial Report

June 30, 2007

COMPTON COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2007

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Compton Community College District
Compton, California

We have audited the accompanying basic financial statements of the Compton Community College District (the District) as of and for the year ended June 30, 2007, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraphs, we conducted 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 5 to the financial statements, the District has not taken a physical inventory of all District-owned capital assets and has not properly safeguarded their existence. Additionally, one building is the subject of possible structural impairment.

Grant award receipts and expenditures and the related accounts receivable and payable were not properly accounted for within the various individual programs. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial activity of the grant revenues and expenditures and related accounts receivable and payable.

Detailed accounting records and supporting data for the Associated Student Body Fund of the District were not maintained and available for our audit. Therefore, we were not able to satisfy ourselves about the amounts at which these balances are recorded within the accompanying financial statements. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial activity of the Associated Student Body Fund.

In our opinion, except for the effects of such adjustments, if any, as may be determined to be necessary when the physical inventory of capital assets is taken, and any adjustments to the grant awards as discussed in the preceding paragraphs, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Compton Community College District as of June 30, 2007, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The accompanying financial statements have been prepared assuming the Compton Community College District will continue as a going concern. As discussed in Note 1 and Note 14 to the financial statements, the District has lost its accreditation and no longer offers educational services directly to students. Additionally, the State of California has provided a $30 million loan against future apportionments to assist with operating requirements during this transition period. Due to the ongoing operational and financial difficulties, substantial doubt has been raised about the District's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As more fully discussed in Note 12 to the financial statements, the District is a party to several Federal Agency audits and litigation claims. The outcome of these audits and claims is not known.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Expenditures of State Awards, which is required by the California State System's Office, *Contracted District Audit Manual,* are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. We were unable to gather sufficient audit evidence related to individual grant and program activity, including revenues and expenditures, and the related accounts receivable and deferred revenue, to enable us to express an opinion on these schedules. Accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 27, 2008

Thomas M. Fallo, Ed.D.
Superintendent/President
El Camino College

Doris P. Givens, Ph.D.
Interim Provost
El Camino/Compton
Community Educational Center

INTRODUCTION

The following discussion and analysis provides a review of the financial position and activities of the Compton Community College District (the District) for the year ended June 30, 2007. This overview has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is undergoing massive systemic changes to both its educational mission and financial operations. On June 30, 2006, the District was notified that its accreditation by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges was being withdrawn. This action, combined with the negative financial condition of the District, initiated the urgency legislation known as Assembly Bill (AB) 318 (Dymally), which was signed by Governor Schwarzenegger on June 30, 2006. AB 318 puts in place several operational parameters unique to the Compton Community College District. The first provides for a $30 million loan to be repaid in annual increments; the second provides for a guaranteed income stream for a four-year period; and the third provides for an outline in which the District can form a strategic partnership with another community college district which will allow the District's school as a center under the auspices of the partner college district's accreditation.

This change in operating methodology is requiring a change in college vision, mission statement, updating the educational master plan, developing centers of educational excellence, implementing program reviews, and rebuilding the entire campus, guided by updated facilities and technology master plans, with funding for the construction of new buildings, the improvement of athletic facilities, the renovation of specifically identified existing facilities, the upgrading and installation of new and improved technology infrastructure, and the acquisition of classroom, maintenance and operational equipment, etc. Additional planning and development of the District's facilities is currently ongoing. The newly constructed and completed Vocational-Technical, Math/Science Buildings, Learning Resource and Child Development Centers are a testament to the changing face of the entire campus.

The Compton Community College District boasts a multi-ethnic student population consisting primarily of African Americans, Latino and/or Mexican Americans, Asian Americans, Pacific Islanders, Anglo Americans, and a small contingent of .4 percent foreign and out-of-state students. The District offers a wide range of instructional offerings addressing cultural awareness and community service activities and events. Annually, major activities and events take place honoring and celebrating the life and achievements of such notables as Dr. Martin Luther King, Jr. and Cesar Chavez to name a few. Major community services and youth activities were conducted and included a viable Kollege for Kids Program, a Summer National Youth Sports Program, the Annual 5-10K Run, National Women's Week, as well as an Annual Cancer Prevention Drive. Workforce related instructional activities include the annual Vocational Employment Workshop coupled with the Cal-Works Program.

Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statement and Management's Discussion and Analysis for Public Colleges and Universities*, which applied new reporting standards to public colleges and universities. The Fiscal Accountability and Standards Committee of the California Community Colleges Chancellor's Office recommended that all California community colleges follow the new standards under the Business Type Activity (BTA) model. Nearly all public colleges and universities nationwide have selected the BTA reporting model. As such, the District is reporting according to these standards following the BTA model for reporting these financial statements.

Financial Highlights

This section is to provide an overview of the District's financial activities. A comparative analysis is included in the Management's Discussion and Analysis using prior year information.

With loss of accreditation, passage of AB 318, and the developing partnership with the El Camino College District, the financial planning for 2006-2007 and 2007-2008 has been one of a recovery and maintenance mode. Permanent staffing has been reduced, budgeting guidelines have been introduced with appropriate controls to live within the confines provides by AB 318, and the judicious use of loan proceeds to correct structural deficits and to pay certain extraordinary costs related to Compton Community College District's current operating circumstances. The District's present operating goals are focused on the following planning parameters.

They include:

Effective recruitment
Improving student registration processes
Timely production of class schedules
Compliance with the 50% Law
Implementing one stop services for students
Training - staff development
Improving student orientation
Student retention planning
Academic planning
Improving telephone systems
Improving telephone registration
Web registration
Interdisciplinary/Linked-Learning System
Maintenance - sanitary condition
Additional reserves/Contingency

The Budget and Planning Committee, along with the El Camino Community College District, was utilized to develop the 2007-2008 Final Budget, integrating financial resources towards meeting the above college goals and priorities.

Selected Highlights

During 2006-2007, total full-time equivalent student (FTES) enrollment was 2,695, that is, for both credit and non-credit courses. Credit and non-credit FTES, in addition to other workload measures, are the basis for determining the District's total General Purpose Revenue. This total revenue calculation ultimately consists of three major revenue sources: State General Purpose Apportionment, Local Property Taxes, and Student Enrollment Fees. Under the legislation AB 318, Compton Community College District is to be funded for the 2005-2006 year at 6,436 FTES, for 2006-2007 at 5,742 FTES, for 2007-2008 at 5,148 FTES, and for 2008-2009 at 4,505 FTES. These major revenues accrue in the General Fund (unrestricted) Budget which consists of approximately $37.4 million of total revenue. In addition, during the 2006-2007 year, the District drew down $7.8 million of the $30 million loan provided in AB 318. Other funding sources are provided via categorically funded programs which contain restricted programs and expenditure guidelines. The funds are designated for specific expenses/allocations which require both interim and annual/final reports be provided to the appropriate funding agency.

On November 5, 2002, the voters of the Compton Community College District approved a $100 million Bond Measure to construct new buildings, renovate and improve upon existing facilities, and to purchase much needed equipment, as well as technology upgrades. The funds are paid solely by the taxpayers of the District. There is no obligation to the General Fund (Unrestricted) Budget. This funding source allowed the District to retire outstanding Certificates of Participation and lease obligations of the District and to commence planning for additional construction projects. The retired Certificates of Participation had initially funded partial technology upgrades, equipment acquisition, and the construction of a thermal-energy system housed in the newly-constructed Vocational-Technical Building. A Bond Oversight Committee has been formed consisting of members of the community to oversee the use of the bond proceeds.

Financial Statement Presentation and Basis of Accounting

The District's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Additional information regarding these financial statements is provided on the following pages.

The financial statements noted above are prepared in accordance with GASB Statements No. 34 and 35 which provide an entity-wide perspective. Therefore, the financial data presented in these financial statements is a combined total of all District governmental funds including Student Financial Aid Programs.

Also, in accordance with GASB Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year, and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. In the case of Compton Community College, the financial condition of the college has improved primarily because of the availability of general obligation bond proceeds to make capital improvements, resolve deferred maintenance issues, and make much needed repairs. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The net assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities. The final category is unrestricted net assets that are available to the District for any lawful purpose as the District may determine.

A summarized comparison of the Statement of Net Assets is presented below:

Table 1

(Amounts in thousands)

	2007	2006	Change
ASSETS			
Current Assets			
Cash and investments	$ 16,680	$ 12,461	$ 4,219
Accounts receivable	4,129	4,331	(202)
Other current assets	1,029	911	118
Total Current Assets	21,838	17,703	4,135
Capital Assets (net)	72,437	68,859	3,578
Total Assets	$ 94,275	$ 86,562	$ 7,713
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	$ 13,112	$ 14,813	$ (1,701)
Matured notes payable	132	-	132
Amounts held in trust for others	252	40	212
Current portion of long-term obligations	993	775	218
Total Current Liabilities	14,489	15,628	(1,139)
Long-Term Obligations	49,745	41,476	8,269
Total Liabilities	64,234	57,104	7,130
NET ASSETS			
Invested in capital assets	33,070	37,117	(4,047)
Restricted	5,403	1,837	3,566
Unrestricted	(8,432)	(9,496)	1,064
Total Net Assets	30,041	29,458	583
Total Liabilities and Net Assets	$ 94,275	$ 86,562	$ 7,713

Except for funds held by trustees, remaining District cash balances are held in the Los Angeles County Treasury. The Statement of Cash Flows contained within these financial statements provides detail regarding the sources and uses of cash and the net change in cash during the fiscal year 2006-2007.

The majority of the accounts receivable balance is from Federal and State sources for grants and entitlement programs. The components of accounts receivable are primarily intergovernmental sources and are described more fully in the footnotes of the report.

Current liabilities of $14.5 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2007. Current liabilities include $13.1 million in accounts payable, $1.1 million for the portion of long-term obligations payable within one year, and $252,000 for amounts due to or on behalf of employees for wages and benefits.

Long-term obligations include $47.2 million owed on bonds and notes payable, and $2.5 million in other liabilities, including compensated absences, early retirement incentives, and claims liabilities.

Total net assets either are restricted as to the purposes they can be used for or are invested in capital assets (land, buildings, equipment, etc.). Consequently, unrestricted net assets showed a deficit at the end of 2007. This deficit does not mean that the District does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets on a previous page are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District, the operating and non-operating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this statement presents the District's results of operations.

Generally, operating revenues are earned by providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided. For example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

A summarized comparison of the Statement of Revenues, Expenses, and Changes in Net Assets is presented below:

Table 2

(Amounts in thousands)

	2007	2006	Change
Operating Revenues			
Tuition and fees	$ 247	$ 512	$ (265)
Grants, contracts, and other operating revenues	6,944	8,447	(1,503)
Total Operating Revenues	7,191	8,959	(1,768)
Operating Expenses			
Salaries and benefits	23,725	29,908	(6,183)
Supplies and maintenance	11,801	15,851	(4,050)
Depreciation	2,996	2,148	848
Total Operating Expenses	38,522	47,907	(9,385)
Loss on Operations	(31,331)	(38,948)	7,617
Nonoperating Revenues			
State apportionments	23,918	24,737	(819)
Property taxes	6,367	3,758	2,609
State revenues	457	1,329	(872)
Net interest expense	(986)	(131)	(855)
Other nonoperating revenues	2,157	5,042	(2,885)
Total Nonoperating Revenue	31,913	34,735	(2,822)
Net Increase in Net Assets	$ 582	$ (4,213)	$ 4,795

Tuition and fees are generated by the residents, non-residents, and foreign students attending the Compton Community College District, including fees for parking, community services classes, and other related fees.

Non-capital grants and contracts are primarily those received from Federal and State sources and used to augment and strengthen instructional programs and offerings.

Operating expenses totaled $38.5 million of which over 62 percent is related to personnel costs. The balance of operating expenses is for supplies, student financial aid, other services, capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense.

Local property taxes are received through the Auditor-Controller's Office for Los Angeles County. The amount received for property taxes is deducted from the total State General Apportionment, an amount calculated by the State Chancellor's Office for each of California's community colleges. The District experienced an increase in local property taxes, but due to a greater allocation of ERAF in the current year to cities and counties, the District's total property tax revenue declined.

State apportionments are for capital outlay, scheduled maintenance, hazardous substance funding, library and instructional equipment, Partnership for Excellence, and Part-Time Faculty Compensation allocations received via the Chancellor's Office. Such funding, the majority of it specifically designated, is considered restricted. The Compton Community College has been fortunate to secure this much needed infusion of cash to alleviate some of the problems associated with old buildings, equipment, etc. Scheduled maintenance funded by the State normally requires a 50 percent match. There are, however, provisions to waive this requirement if a district can demonstrate a dire financial situation with ending balances below the three (3) percent threshold.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash provided by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Table 3

(Amounts in thousands)

	2007	2006	Change
Cash Provided by (Used in)			
Operating activities	$ (29,760)	$ (36,205)	$ 6,445
Noncapital financing activities	41,394	31,051	10,343
Capital financing activities	(6,409)	(8,704)	2,295
Investing activities	(1,006)	97	(1,103)
Net Increase (Decrease) in Cash	4,219	(13,761)	17,980
Cash, Beginning of Year	12,461	26,222	(13,761)
Cash, End of Year	$ 16,680	$ 12,461	$ 4,219

- Cash receipts from operating activities are from student tuition and from Federal, State, and local grants. Use of cash is payments to employees, vendors, and students related to the instructional program.

- State apportionment received based on the workload measures generated by the District accounts for 79 percent of non-capital financing. Cash received from property taxes accounts for 15 percent of the cash generated in this section.

- The primary use included in capital and related financing activities is the purchase of capital assets (land, building improvements, and equipment).

- In contrast to prior year, the reduction in the cash balance position of the District for 2005-2006 results primarily from using bond fund proceeds to enhance campus facilities.

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student aid, loans, and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the use of these assets to finance operations is not permitted by law or the education code. The District is responsible for ensuring that the assets reported in these funds are used for their intended and legal purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had $72.4 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2006, our net capital assets were $68.9 million. The District is currently in the middle of a major capital improvement program with construction ongoing throughout the college campuses. These projects are primarily funded through our general obligation bonds. These projects are accounted for within our Construction in Progress account until the project is completed at which time the cost of the buildings and/or improvements will be brought into the depreciable Buildings and Improvement category.

Capital projects are continuing through the 2007-2008 fiscal year and beyond with primary funding through our general obligation bond.

Table 4

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	$ 20,817	$ 4,973	$ 1,022	$ 24,768
Buildings and improvements	51,706	1,022	-	52,728
Equipment and vehicles	7,857	1,601	-	9,458
Subtotal	80,380	7,596	1,022	86,954
Accumulated depreciation	(11,521)	(2,996)	-	(14,517)
	$ 68,859	$ 4,600	$ 1,022	$ 72,437

Obligations

At the end of the 2006-2007 fiscal year, the District had $40.4 million in general obligation bonds outstanding. These bonds are repaid annually in accordance with the obligation requirements through an increase in the assessed property taxes on property within the Compton Community College District boundaries.

In addition to the above obligations, the District is obligated to employees of the District for vacation and load banking benefits and lease purchase agreements for equipment.

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Bonds and notes payable	$ 41,233	$ 7,897	$ 1,008	$ 48,122
Other liabilities	3,340	1,205	1,928	2,617
Total Long-Term Obligations	$ 44,573	$ 9,102	$ 2,936	$ 50,739
Amount due within one year				$ 993

Economic Factors that May Affect the Future

The economic position of the District is closely tied to that of the State of California. Reductions in State appropriations to community colleges in general, and specifically to Compton Community College District, will have a direct negative impact on our programs and our ability to serve the student body. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise.

The District's FTES decreased by 38 percent over the past year. Total actual FTES decreased from 4,314 to 2,695. The District was funded at the 5,742 FTES level for 2006-2007 with the passage of AB 318. The District will be funded at the 5,148 and 4,505 FTES levels for fiscal year 2007-2008 and 2008-2009, respectively.

In addition, in response to recommendations for improvements resulting from the Financial Crisis Management Team (FCMAT) review in October 2004 and the Accreditation Commission for Community and Junior Colleges, Special Visit Team Report, July 20-21, 2004, the District, under the direction of the Special Trustee assigned by the State Chancellor's Office, has implemented procedures and practices to ensure fiscal management and stability of the college, personnel practices, and college governance.

The declining fiscal condition of the District is being addressed. The State of California requires the District to maintain adequate reserves. The 2007-2008 General Fund budget and subsequent budget years will include a one percent reserve increase for each year, until the State requirement of five percent is achieved. Also, the District is now engaged in strong enrollment managing planning. The improved budget and cash management practices together with an emphasis on increasing enrollment are positive improvements intended to result in fiscal viability and stability for the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Compton Community College District.

COMPTON COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS	
Current Assets	
Cash and cash equivalents	$ 126,974
Investments	16,553,474
Accounts receivable	4,128,867
Prepaid expenses	9,773
Unamortized issuance costs	857,917
Other current assets	160,761
Total Current Assets	21,837,766
Noncurrent Assets	
Nondepreciable capital assets	24,767,371
Depreciable capital assets, net of depreciation	47,669,545
Total Noncurrent Assets	72,436,916
TOTAL ASSETS	94,274,682
LIABILITIES	
Current Liabilities	
Accounts payable and other accrued liabilities	9,049,485
Interest payable, restricted	925,119
Deferred revenue	3,137,234
Matured notes payable	131,600
Amounts held in trust on behalf of others	251,670
Bonds and notes payable - current portion	905,000
Other long-term liabilities - current portion	88,203
Total Current Liabilities	14,488,311
Noncurrent Liabilities	
Bonds and notes payable - noncurrent portion	47,216,820
Other long-term liabilities - noncurrent portion	2,528,750
Total Noncurrent Liabilities	49,745,570
TOTAL LIABILITIES	64,233,881
NET ASSETS	
Invested in capital assets, net of related debt	33,069,813
Restricted for:	
Debt service	1,132,155
Capital projects	4,271,216
Unrestricted	(8,432,383)
TOTAL NET ASSETS	$ 30,040,801

The accompanying notes are an integral part of these financial statements.

COMPTON COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Student Tuition and Fees	$ 1,077,988
Less: Scholarship discount and allowance	(831,008)
Net tuition and fees	246,980
Grants and Contracts, noncapital:	
Federal	1,863,152
State	4,980,841
Internal Service Sales and Charges	100,000
TOTAL OPERATING REVENUES	7,190,973
OPERATING EXPENSES	
Salaries	18,390,052
Employee benefits	5,334,606
Supplies, materials, and other operating expenses and services	10,691,950
Equipment, maintenance, and repairs	1,108,990
Depreciation	2,996,131
TOTAL OPERATING EXPENSES	38,521,729
OPERATING LOSS	(31,330,756)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	23,918,379
Local property taxes	6,366,630
State taxes and other revenues	456,812
Investment income, net	688,831
Interest expense on capital related debt	(985,871)
Other nonoperating revenue	1,468,394
TOTAL NONOPERATING REVENUES (EXPENSES)	31,913,175
INCREASE IN NET ASSETS	582,419
NET ASSETS, BEGINNING OF YEAR	29,458,382
NET ASSETS, END OF YEAR	$ 30,040,801

The accompanying notes are an integral part of these financial statements.

COMPTON COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 224,158
Noncapital grants and contracts	8,867,416
Payments to vendors for supplies and services	(14,207,460)
Payments to or on behalf of employees	(24,643,708)
Net Cash Flows From Operating Activities	(29,759,594)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	32,890,848
Property taxes	6,366,630
State taxes and other apportionments	456,812
Other nonoperating	1,679,716
Net Cash Flows From Noncapital Financing Activities	41,394,006
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(5,344,101)
State revenue, capital projects	(188,359)
Local revenue, capital projects	(876,581)
Net Cash Flows From Capital Financing Activities	(6,409,041)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	(1,005,958)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,219,413
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,461,035
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 16,680,448

The accompanying notes are an integral part of these financial statements.

COMPTON COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS, Continued
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (31,330,756)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	2,996,131
Changes in Assets and Liabilities:	
Receivables, net	1,010,524
Prepaid items	(117,866)
Accounts payable and accrued liabilities	(2,775,326)
Deferred revenue	1,180,709
Compensated absences	(723,010)
Total Adjustments	1,571,162
Net Cash Flows From Operating Activities	$ (29,759,594)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 126,974
Cash in county treasury	16,553,474
Total Cash and Cash Equivalents	$ 16,680,448
NON CASH TRANSACTIONS	
On behalf payments for benefits	$ 509,020

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION

Compton Community College District (the District) is located in the city of Compton, Los Angeles County, California. Compton Community College was established in 1927 as a component of the Compton Union High School District. At that time, State law authorized high school and unified school districts to offer post-secondary education through a junior college accredited program. In 1950, voters approved a bond issue separating the college from the high school district, establishing a District Governing Board of Trustees.

Before the loss of its accreditation in August 2006, the college provided post-K-12 educational services to the residents of its service area encompassing 29 square miles. The Chancellor of the Community College System appointed a Special Trustee in spring 2004 as his designee to administer the college.

On June 30, 2006, Assembly Bill (AB) 318 was signed into law. AB 318 provided a State loan of $30 million to the Compton Community College District. The legislation also required the Fiscal Crisis and Management Assistance Team (FCMAT) to conduct a comprehensive assessment of the District in five operational areas and to develop a recovery plan for the District to implement. FCMAT is required to file written status reports at regular intervals on the District's progress in implementing the recovery plan.

The District has worked to provide uninterrupted educational services for the students by partnering with another accredited community college, the El Camino Community College. Under this partnership, instructional services are provided on the Compton campus by the El Camino College Compton Community Educational Center (Compton Center).

Financial Reporting Entity

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determining whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

Based on the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

> The Compton Community College Foundation (the Foundation) is a legally separate, tax exempt, public benefit corporation. The Foundation was not included as a component unit because the economic resources held by the Foundation, in management's opinion, are not significant to the District. Inquires related to financial information, including financial statements, can be made by calling 310-900-1600.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency and intra-fund transactions have been eliminated.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations. Revenue from State apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office Budget and Accounting Manual.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The Business type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
    - Statement of Net Assets
    - Statement of Revenues, Expenses, and Changes in Net Assets
    - Statement of Cash Flows
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on published market prices at year-end. Investments for which there are no quoted market prices are not material.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students. Management has analyzed these accounts and believes all amounts are fully collectible.

Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30.

Unamortized Issuance Costs

Amounts paid for fees and underwriting costs associated with General Obligation Bonds previously issued were capitalized and are amortized to interest expense over the life of the bonds. Issuance costs of $1,029,500 were capitalized and are amortized using the straight-line method. Amortization of $42,896 was recognized during 2006-2007.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed. Routine repairs and maintenance that do not extend the life of the building or equipment are charged as operating expenses in the year the expense is incurred.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Bond Premiums

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the straight line method. See Note 8 for additional information.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Deferred Revenue

Deferred revenue arises when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, State, and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources described in GASB Statement No. 34.

Classification of Expenses - Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the State Teachers and the Public Employees Retirement Systems (STRS and PERS) on behalf of all community colleges in California. Additional information is provided in Note 11.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Interfund Activity

Exchange transactions between funds of the District are reported as revenues and expenses within the Statement of Revenues, Expenses, and Changes in Net Assets. Flows of cash or goods from one fund to another without a requirement for repayment are recognized as interfund transfers within the District's fund financial statements. Amounts owing between funds for both exchange and non-exchange transactions are recorded as interfund receivables and payables within the District's fund financial statements. Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncement

GASB Statement No. 45: In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement establishes standards for the measurement, recognition and display of OPEB expense, expenditures and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports of State and local governmental employers. This statement generally provides for prospective implementation **-** that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District is in the process of determining the impact the implementation of this statement will have on the government-wide statements of net assets and activities. This statement is effective for periods beginning after December 15, 2006, depending upon the size of a governmental entity's financial activity. The District will be implementing the requirements of this standard in the 2008-2009 fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

The District is an involuntary participant in the Los Angeles County investment pool. The pool is managed by the Los Angeles County Treasurer and is not registered as an investment company with the Securities Exchange Commission. Oversight of the pool is the responsibility of the County Treasury Oversight Committee. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the Treasurer follows.

As provided by the Government Code, the cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to the participating funds based upon the funds' average daily deposit balance during the allocation period.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, consist of the following:

Cash and cash equivalents	$ 126,974
Investments	16,553,474
	$ 16,680,448

Cash on hand and in banks	$ 101,974
Cash in revolving	25,000
Investments	16,553,474
Total Deposits and Investments	$ 16,680,448

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool	$ 16,524,762	543

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County pool is not required to be rated, nor has it been rated as of June 30, 2007.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2007, the District's bank balance of $691,423 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

The accounts receivable are as follows:

State categorical aid	$ 680,108
State apportionment	1,488,921
State lottery	188,359
Interest	165,121
Other local sources	1,606,358
Total	$ 4,128,867

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2007, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 2,324,000	$ -	$ -	$ 2,324,000
Construction in progress	18,492,865	4,972,911	1,022,405	22,443,371
Total Capital Assets Not Being Depreciated	20,816,865	4,972,911	1,022,405	24,767,371
Capital Assets Being Depreciated				
Buildings and improvements	48,125,755	757,071	-	48,882,826
Site improvements	3,580,455	265,334	-	3,845,789
Furniture and equipment	7,857,004	1,601,042	-	9,458,046
Total Capital Assets Being Depreciated	59,563,214	2,623,447	-	62,186,661
Total Capital Assets	80,380,079	7,596,358	1,022,405	86,954,032
Less Accumulated Depreciation				
Buildings and improvements	7,163,781	1,200,681	-	8,364,462
Site improvements	504,737	164,586	-	669,323
Furniture and equipment	3,852,467	1,630,864	-	5,483,331
Total Accumulated Depreciation	11,520,985	2,996,131	-	14,517,116
Net Capital Assets	$ 68,859,094	$ 4,600,227	$ 1,022,405	$ 72,436,916

Depreciation expense for the year was $2,996,131.

The Learning Resource Center Building (LRC) is currently unoccupied and has not been placed into service though the construction is substantially complete. The LCR is the subject of possible litigation revolving around structural integrity. The $16,058,732 cost to date has been reported as part of work in progress.

The District has not taken a physical inventory of all District-owned assets as noted in financial statement finding 2007-4.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

Accrued payroll	$ 2,203,960
Construction	3,757,761
Other	3,087,764
Total	$ 9,049,485

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consisted of the following:

Federal categorical aid	$ 499,678
State categorical aid	2,210,378
Student fees	427,178
Total	$ 3,137,234

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2007 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year	Due in More Than One Year
Bonds and Notes Payable						
General obligation bonds	$39,100,000	$ -	$ 775,000	$38,325,000	$905,000	$37,420,000
Bond premium	2,133,201	-	101,581	2,031,620	-	2,031,620
Note payable	-	7,896,800	131,600	7,765,200	-	7,765,200
Total Bonds and Notes Payable	41,233,201	7,896,800	1,008,181	48,121,820	905,000	47,216,820
Other Liabilities						
Compensated absences	2,321,793	-	1,503,980	817,813	-	817,813
Early retirement incentive - STRS	-	312,656	-	312,656	39,082	273,574
Early retirement incentive - PERS	-	196,484	-	196,484	49,121	147,363
Claims liability	1,018,170	695,859	424,029	1,290,000	-	1,290,000
Total Other Liabilities	3,339,963	1,204,999	1,928,009	2,616,953	88,203	2,528,750
Total Long-Term Obligations	$44,573,164	$9,101,799	$2,936,190	$50,738,773	$993,203	$49,745,570

The General obligation bonds are paid from property tax collections and are accounted for by the County Treasurer in the Bond Interest and Redemption Fund. The note payable is an advance apportionment appropriated by the State. Repayment is made from the unrestricted resources of the General Fund. Compensated absences and early retirement incentives are paid from the resources of the fund from which the employee liability was created. The claims liability is paid through a transfer from the General Fund to the self-insurance fund.

Description of Debt

General obligation bonds were approved by a local election in November 2002. The total amount approved by the voters was $100,000,000. At June 30, 2007, $41,000,000 had been issued and $38,325,000 was outstanding. Interest rates on the bonds range from 3.0 to 4.0 percent.

Debt Maturity

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Redeemed	Bonds Outstanding June 30, 2007
1/14/2004	7/1/2028	3.0-4.0%	$ 41,000,000	$ 39,100,000	$ 775,000	$ 38,325,000

The bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2008	$ 905,000	$ 1,838,925	$ 2,743,925
2009	1,030,000	1,807,013	2,837,013
2010	400,000	1,780,913	2,180,913
2011	490,000	1,768,063	2,258,063
2012	580,000	1,752,013	2,332,013
2013-2017	4,600,000	8,305,056	12,905,056
2018-2022	8,485,000	6,733,093	15,218,093
2023-2027	14,150,000	3,834,743	17,984,743
2028	7,685,000	392,375	8,077,375
Total	$ 38,325,000	$ 28,212,194	$ 66,537,194

Note Payable

Assembly Bill 318 appropriated $30 million to the Board of Governors of the California Community Colleges as an emergency apportionment to finance, among other things, activities described in Article 5 of Chapter 5, Part 46 of the Education Code. The financing does not constitute a borrowing, but is instead an advance apportionment subject to repayment with interest. At June 30, 2007, the District had received $7,896,800 with $7,765,200 outstanding.

Compensated Absences

At June 30, 2007, the liability for compensated absences was $817,813.

Early Retirement Incentives

The District Board has approved two Early Retirement Incentive Programs which are summarized below:

Early Retirement Incentive – STRS

A total of seven employees are participating in the program. The table below summarizes the future obligation:

Fiscal Year	Principal	Interest to Maturity	Total
2008	$ 39,082	$ 15,444	$ 54,526
2009	39,082	12,451	51,533
2010	39,082	10,673	49,755
2011	39,082	8,894	47,976
2012	39,082	7,114	46,196
2013-2015	117,246	10,671	127,917
Total	$ 312,656	$ 65,247	$ 377,903

Early Retirement Incentive – PERS

A total of seven employees are participating in the program. The table below summarizes the future obligation:

Fiscal Year	Principal	Interest to Maturity	Total
2008	$ 49,121	$ 4,757	$ 53,878
2009	98,242	9,514	107,756
2010	49,121	4,757	53,878
Total	$ 196,484	$ 19,028	$ 215,512

NOTE 9 - POSTEMPLOYMENT BENEFITS

The District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirement for employees participating in Public Employees' Retirement System (PERS) is a minimum age of 55 and a minimum ten years of continuous service with the District. Additional age and service criteria may be required. The eligibility requirement for employees participating in State Teachers' Retirement System (STRS) is a minimum age of 60 with five years of service, or age 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from three years to ten years and varies by employee class. The District recognizes expenditures for these post employment health benefits on a pay-as-you-go-basis as premiums are paid. During the 2007 fiscal year, the District provided insurance premium benefits to 78 retired employees with total expenditures of $443,773.

NOTE 10 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year ending June 30, 2007, the District contracted with the Statewide Association of Community Colleges (SWACC) Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District is self-insured for the first $500,000 of each workers' compensation claim. The District also participated in School Alliance for Workers Compensation Excess II Joint Powers Authority to provide excess workers' compensation coverage.

Claims Liability

The District records an estimated liability for workers' compensation claims against the District. Claims liability is based on the ultimate cost of the reported claims including future claim adjustment expense and an estimate for claims incurred, but not reported, based on historical experience. The amount of the liability is based on Bay Actuarial Consultants report dated June 7, 2007. The projected liability for unpaid losses reported in the Statement of Net Assets is $1,290,000 and was calculated using the expected confidence level discounted at three percent. Changes in the reported liability are shown in the following table:

	Workers' Compensation
Liability Balance, July 1, 2005	$ 1,018,170
Claims and changes in estimates	411,937
Claims payments	(411,937)
Liability Balance, June 30, 2006	1,018,170
Claims and changes in estimates	695,859
Claims payments	(424,029)
Liability Balance, June 30, 2007	$ 1,290,000
Assets available to pay claims at June 30, 2007	$ (906,691)

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

STRS

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement System, a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRS, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRS the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were $891,232, $1,103,450, and $1,010,057, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Compton Community College District is part of a "cost-sharing" pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2006-2007 was 9.124 percent of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2007, 2006, and 2005, were $559,581, $753,319, and $759,850, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS which amounted to $509,020 (4.517 percent) of salaries subject to STRS. A contribution to CalPERS was not required for the year ended June 30, 2007. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2007, is not known.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the effect of the disposition of the litigation on the financial statements at June 30, 2007, is not known.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Child Development Center	$ 128,099	2007/2008
Learning Resource Center	626,446	2007/2008
Program Management	563,504	2007/2008
Program Support	31,703	2007/2008
Student Renovation	18,588	2007/2008
	$ 1,368,340	

The projects are funded through a combination of general obligation bonds, certificates of participation, and capital project apportionments from the State Chancellor's Office.

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Statewide Association of Community Colleges (SWACC) and School Alliance for Workers' Compensation Excess II (SAWCX II) Joint Powers Authority. The District pays annual premiums for its property liability, health, and excess workers' compensation coverage. The relationship between the District and each Joint Powers Authority (JPA) is such that they are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2007, the District made payments of $341,540 and $65,594 to SWACC and SAWCX II, respectively.

NOTE 14 - FINANCIAL POSITION

Over the past five years, the District's financial condition, both on a fund level and entity-wide basis, has continued to decline. During the 2006-2007 fiscal year, the educational and programmatic services of the District were transferred to El Camino Community College District due to the loss of accreditation of the District.

The current fiscal and operational deficiencies of the District place doubt on the ability to continue with the current structure.

Management has begun to actively address the operational issues by hiring an internal auditor and a business manager. The fiscal stability issues are being addressed through a $30 million line of credit from the State of California. Management believes these positive changes and more direct monitoring and oversight will allow the District to return to operational and fiscal stability within the next two to five year timeframe.

SUPPLEMENTARY INFORMATION

COMPTON COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2007

The Compton Community College District was established on July 1, 1927, and is comprised of an area of approximately 29 square miles located in Los Angeles County. The Assembly Bill 61 authorized the Board of Governors to suspend the authority of the Board of Trustees of the District effective July 14, 2004. Assembly Bill 318 extended the provisions of Assembly Bill 61 to a period of five years from the effective date of the Bill which is June 30, 2006.

SPECIAL TRUSTEE

Mr. Thomas Henry

BOARD OF TRUSTEES

MEMBER	TERM EXPIRES
Mr. Gerald Burgess	December 2007
Dr. Willie Jones	December 2008
Mrs. Lorraine Cervantes	December 2007

ADMINISTRATION

Dr. Doris P. Givens	Chief Executive Officer/Provost
Vacant	Vice President of Administrative Services/ Associate Superintendent
Dr. Mary Callahan	Administrative Dean, Academic Affairs
Mr. Keith Curry	Dean, Student Services

COMPTON COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION		
Direct Funded:		
Federal Work Study	84.033	$ 29,042
TRIO Cluster:		
Student Support Services	84.042A	428,146
Upward Bound	84.047A	154,757
Upward Bound Math and Science	84.047A	110,972
Passed through the California Community Colleges Chancellor's Office:		
Talent Search	84.044A	18,433
Direct Funded:		
Title V - Compton Drew Cooperative	84.031	195,407
Passed through the California Community Colleges Chancellor's Office:		
Vocational and Applied Technical Education Act		
Title IC	84.048	108,938
Tech Prep	84.353	7,784
Total U.S. Department of Education		1,053,479
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through the California Community Colleges Chancellor's Office:		
Temporary Assistance for Needy Families	93.558	117,243
Direct Funded:		
HRSA - Nursing Education, Practice, and Retention Grant: Career Ladder	93.359	101,294
Total U.S. Department of Health and Human Services		218,537
Total Expenditures of Federal Awards		$ 1,272,016

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Program	Program Entitlements Current Year	 Prior Year	 Total Entitlement
GENERAL FUND			
Board of Financial Assistance Program	$ 308,873	$ -	$ 308,873
CalWORKS	848,481	(293,869)	554,612
CARE	663,958	217,857	881,815
Disabled Students Program Services	275,480	-	275,480
Economic Development	-	33,678	33,678
Enrollment Growth for Associate Degree Nursing Program	251,367	-	251,367
Extended Opportunity Program and Services	1,172,570	109,260	1,281,830
Faculty and Staff Diversity	10,577	6,207	16,784
Foster Youth Mentor Program	66,540	55,528	122,068
General Purpose Trailer Bill	405,681	-	405,681
Matriculation	339,263	68,627	407,890
Plant and Equipment Block Grant	100,000	45,105	145,105
Plant and Equipment One Time Block Grant	244,797	-	244,797
School Repair and Maintenance	100,000	-	100,000
Telecommunication and Technology Infrastructure Program	46,958	32,144	79,102
Total State Programs			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue and Accounts Payable	Total Revenue	Program Expenditures
$ 308,873	$ -	$ 45,739	$ 263,134	$ 263,134
848,480	-	-	848,480	835,927
881,814	-	870,730	11,084	11,084
275,480	-	80,601	194,879	194,879
33,678	-	33,678	-	-
251,367	-	128,361	123,006	123,006
1,281,829	-	207,282	1,074,547	1,074,547
16,784	-	16,784	-	-
-	26,276	-	26,276	26,276
405,681	-	144,567	261,114	261,114
407,890	-	169,285	238,605	238,605
145,105	-	145,105	-	-
244,797	-	244,797	-	-
100,000	-	90,086	9,914	9,914
79,102	-	79,102	-	-
$ 5,280,880	$ 26,276	$ 2,256,117	$ 3,051,039	$ 3,038,486

COMPTON COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT - ANNUAL/ACTUAL ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2007

CATEGORIES	Revised Reported Data	Audit Adjustments	Revised Audited Data
Credit Full-Time Equivalent Student (FTES)			
A. Summer Intersession (Summer 2006 only)			
1. Credit	343	-	343
B. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure			
(a) - Weekly Census Contact Hours	1,776	-	1,776
(b) - Daily Census Contact Hours	385	-	385
2. Actual Hours of Attendance			
(a) - Credit	178	-	178
Subtotal	2,682	-	2,682
Noncredit FTES			
A. Summer Intersession (Summer 2006 only)			
1. Noncredit	5	-	5
B. Primary Terms (Exclusive of Summer Intersession)			
1. Actual Hours of Attendance			
(a) - Noncredit	8	-	8
Subtotal	13	-	13
Total FTES	2,695	-	2,695
Basic Skills Courses			
1. Credit			189
Total Basic Skills FTES			189

See accompanying note to supplementary information.

COMPTON COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	General Unrestricted	General Restricted	Child Development
FUND BALANCE			
Balance, June 30, 2007, (CCFS-311)	$ 3,400,235	$ 1,563,552	$ (405,998)
Increase in:			
Cash in County Treasury	-	-	-
Accounts receivable	-	20,533	-
Accounts payable	(199,230)	(188,865)	(21,008)
Claims liability	-	-	-
Deferred revenue	-	(1,843,210)	-
Fund balance	-	77,606	-
Decrease in:			
Accounts receivable	(186,994)	-	-
Fund balance	(26,608)	-	(67,402)
Ending fund balance of fund not reported on the 311	-	-	-
Balance, June 30, 2007, Fund Financial Statement	$ 2,987,403	$ (370,384)	$ (494,408)

See accompanying note to supplementary information.

Bond Interest and Redemption	Revenue Bond Construction	Self Insurance	Associated Students Trust
$ -	$ 4,000,503	$ (522,686)	$ -
2,057,274	-	-	-
-	-	-	-
-	(833,927)	(112,174)	-
-	-	(271,831)	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	119,671
$ 2,057,274	$ 3,166,576	$ (906,691)	$ 119,671

COMPTON COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance:		
General Funds	$ 2,485,419	
Special Revenue Funds	(494,408)	
Capital Project Funds	4,271,216	
Debt Service Funds	2,057,274	
Internal Service Funds	(906,691)	
Fiduciary Funds	(41,280)	
Total Fund Balance - All District Funds		**$ 7,371,530**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	86,954,032	
Accumulated depreciation is	(14,517,116)	
Net Capital Assets		72,436,916
Certain costs related to the issuance of long-term obligations are recorded as expenditures in the year of issuance in the governmental funds, but are capitalized in the Statement of Net Assets and amortized over the life of the related long-term obligations.		857,917
Amounts held in trust on behalf of others (Trust and Agency Funds)		(251,670)
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(925,119)
Long-term obligations at year end consist of:		
Bonds payable	(38,325,000)	
Premium on bond	(2,031,620)	
Notes payable	(7,765,200)	
Compensated absences	(817,813)	
Early retirement incentive - STRS	(312,656)	
Early retirement incentive - PERS	(196,484)	
Total Long-Term Obligations		(49,448,773)
Total Net Assets		**$ 30,040,801**

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

Schedule of Workload Measures for State General Apportionment - Annual/Actual Attendance

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

Reconciliation of Annual Financial and Budget Report with Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the fund financial statements.

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's fund financial statements, prepared on a modified accrual basis, to the accrual basis required under GASB Statement No. 35.

INDEPENDENT AUDITORS' REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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*

Board of Trustees
Compton Community College District
Compton , California

We have audited the financial statements of Compton Community College District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 27, 2008. In our report, our opinion was qualified because the District has not inventoried its capital assets and because grant awards receipts and expenditures were not properly accounted for. Except as described in the preceding paragraph, we conducted 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,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Compton Community College District's internal control over financial reporting 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 Compton Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Compton Community College 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 combination of control deficiencies, that adversely affects the District'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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-1 through 2007-16 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or 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 District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-10 and items 2007-21 through 2007-23 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Compton Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-21 through 2007-25.

Compton Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Compton Community College District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the Special Trustee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
March 27, 2008

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Compton Community College District
Compton , California

Compliance

We have audited the compliance of Compton Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Compton Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Compton Community College District's management. Our responsibility is to express an opinion on Compton Community College District's compliance based on our audit.

Except as described in the Independent Auditors' Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Compton Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Compton Community College District's compliance with those requirements.

As described in items 2007-21 through 2007-25 in the accompanying schedule of findings and questioned costs, Compton Community College District did not comply with requirements regarding Allowable Costs/Cost Principals, Cash Management, Eligibility, and Earmarking that are applicable to its TRIO Cluster of Programs, including its Student Support Services, Upward Bound, and Talent Search Programs (CFDA #84.042A, 84.044A, and 84.047A). Compliance with such requirements is necessary, in our opinion, for Compton Community College District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Compton Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

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Internal Control Over Compliance

The management of Compton Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Compton Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Compton Community College District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-21 through 2007-25 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-21 through 2007-23 to be material weaknesses.

Compton Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Compton Community College District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Special Trustee, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 27, 2008

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Compton Community College District
Compton , California

We have audited the financial statements of the Compton Community College District (the District) for the year ended June 30, 2007, and have issued our report thereon dated March 27, 2008.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with the audit referred to above, the following State laws and regulations are included within Section 400 of the Chancellor's Office's *California Community Colleges Contracted Audit Manual (CDAM)* for the purpose of testing compliance with the laws and regulations. The Compton Community College District has lost accreditation and, accordingly, did not operate the Educational Center (Compton College) during the fiscal year ended June 30, 2007. The Center is operated by the El Camino Community College District through a memorandum of understanding with Compton Community College District. Accordingly, through mutual agreement with the California Community Colleges Chancellor's Office, certain sections of the Contract District Audit Manual are not applicable to the Compton Community College District because they relate to systems and processes of El Camino Community College District. The applicable sections of which we are issuing an opinion include sections:

Administration

Section 426: Students Actively Enrolled
Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds
Section 433: CalWORKs - Use of State and Federal TANF Funding

Facilities

Section 434: Scheduled Maintenance Program

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Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for findings 2007-26 through 2007-29 as described in the accompanying Schedule of State Award Findings and Questioned Costs, the Compton Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information of the Special Trustee, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 27, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.042A, 84.044A, and 84.047A	TRIO Cluster: Student Support Services, Upward Bound, Upward Bound Math and Science, and Talent Search

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	No
STATE AWARDS	
Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for State programs:	Qualified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2007

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2007-1 District Financial Condition

Criteria or Specific Requirement

Best practices require an entity to establish adequate controls related to budgets and expenditures to ensure the entity will continue as a going concern

Condition

Material Weakness – As noted in the prior years' audit reports (comments 04-13, 05-01 and 06-01) and in the current year Note 14 to the Financial Statements, the District has experienced significant decline in the available reserves of the General Fund, increased deficit spending within the Child Development fund and the Workers' Compensation Self Insurance fund. The State of California has provided a $30 million line of credit to the District of which $7.897 million has been drawn as of June 30, 2007. With this loan, included within the General Fund, the ending balance has returned to a positive position, and the reserve levels are within State guidelines. However, the District has failed to implement sound internal controls policies and budget monitoring processes which may impact the District's return to financial stability on an on-going basis.

Effect

The continued deficit spending and lack of sound budget monitoring procedures within the various funds of the District may have an overall impact on the financial stability of the District in the future.

Recommendation

The District must strictly adhere to the budget approved by the Special Trustee within all funds of the District and institute sound internal control policies and procedures which will provide for adequate oversight and monitoring of the financial activity of the District.

Management Response

The 2006-2007 budget was developed with a positive ending net revenue amount for the General Fund. This practice continues with some one time and/or prior obligations to be charged to the $30 million State authorized line-of-credit (e.g., loan). The Child Development fund is being analyzed to eliminate the operating deficit by the 2008-2009 fiscal year. We are in agreement with the recommendation to adjust the Workers' Compensation Self Insurance fund set-aside deduction and will increase the amount accordingly.

With the implementation of El Camino Community College District's purchasing and payment procedures, budgets for non-salary items are not permitted if the approved budget is not adequate to cover the amount established in a purchase order and/or requisition/invoice. Procedures are in place to formally reprimand any employee that refuses to follow established purchasing procedures. We do not consider this to be a current issue.

2007-2 Internal Control Structure
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Material Weakness – Internal control structure over the budget monitoring, account review and reconciliation, and reporting is lacking the basic components necessary to ensure the timely and accurate review, analysis, and reporting of financial information. There is a lack of oversight and knowledge base of generally accepted accounting principles within the financial accounting offices, as well as a lack of the qualifications, experience, and training of staff to fulfill their assigned functions. The procedures related to recording transactions, preparing journal entries, reconciling accounts, and approving financial information have not been written to serve as a basis for training new staff coming into the financial accounting office. The District is required to complete and file the financial statements on Form CCFS-311 on or before October 15, 2007, and the annual audit report on or before December 31, 2007. The District did meet the filing timeline for the CCFS-311 report; however, the errors and omissions noted during the audit are of such significance that the report does not present the financial activity of the District for the year ended June 30, 2007.

Effect

As a result of the deficiencies in the internal control structure, the District is at risk of misreporting activity and account balances and not identify the misreporting in a timely manner. Audit adjustments within the balance sheet and income statement accounts were necessary to report the financial activity during the year. The information necessary to complete the audited financial statements was not provided and reviewed to ensure the timely filing of the audited financial statements in accordance with the State Chancellor's Office's December 31 due date.

Recommendation

The District must establish and maintain a clear internal control structure with written procedures that provide guidance to staff for the recording, reconciling, analysis, and reporting of financial information. The CCFS-311 should be complete and accurate for filing with the State Chancellor's Office and the June 30, 2007, report should be re-submitted with the corrected information. All reporting timelines to oversight agencies, such as the State Chancellor's Office, must be adhered to so that future funding and operations are not placed in jeopardy.

Management Response

The District will provide written procedures and more training to the incumbent Business Office staff. A clear chain of command for reviewing all accounting work will be established. The Manager of Accounting and the Chief Business Officer will ensure that accounting controls are in place and, through the review of accounting entries and accounting reconciliations, will also ensure timely report preparation occurs.

2007-3 Financial Accounting Software System

Criteria or Specific Requirement

Industry standards and best practices require the use of a financial accounting system that captures all financial transactions for the accounting period and is reconciled to properly report all such transactions.

Condition

Material Weakness – The District utilized two separate financial accounting systems during the year: PeopleSoft and DataTel. The transition to one system for all transactions and the reconciliation of data within each system was not accomplished to ensure the proper posting of journal entries and original accounting entries. Payroll activity was not able to be posted to the DataTel system, and we noted adjusting entries posted to DataTel that were never posted to PeopleSoft. In the final analysis, the PeopleSoft ledger maintained the "Official" accounting records for the District.

Effect

As a result of the inconsistent use and reconciliation of the two financial accounting software systems, significant audit adjustments were required to capture all activity of the District during the year.

Recommendation

The District should determine the most accurate and efficient software system to capture the financial activity during the year and commit to posting, analyzing, and reconciling all transactions within that system. If the decision is to use the DataTel financial accounting software, reconciliations to the PeopleSoft system will continue to be required as the Los Angeles County Office of Education utilizes PeopleSoft for all districts reconciling cash and activity funded through the County Treasury. A clear, concise system of checks and balances and reconciliations should be implemented and communicated to all appropriate staff.

Management Response

The District will be utilizing the DataTel Colleague software product as its primary financial software system. Entries posted by the Los Angeles County Office of Education to their PeopleSoft financial system are currently being downloaded into the DataTel Colleague system. Additional accounting office staff will be hired during the 2007-2008 and 2008-2009 years. The addition of staff will enable the accounting department to reconcile the two financial systems to assure that all transactions are posted to both systems. Staff and managers will be assigned specific funds to reconcile.

2007-4 Capital Asset Accounting

Criteria or Specific Requirement

Industry standards and best practices require a system of internal control over capital assets that will provide for both the safeguarding of all District owned assets and the proper recordkeeping of the valuation and depreciation of those assets.

Condition

Material Weakness – The District has not followed its own internal policy of capitalizing all equipment and construction related purchases over a $5,000 threshold. We noted several items of equipment totaling of $85,000 that had been recorded within the accounting records, but not included in the capital asset listing. A line item for computer equipment within the fixed asset listing totaling $325,000 that, upon further analysis, was not computer equipment, but actually various types of supplies that did not meet the definition of capital equipment. Construction expenses in excess of $1.3 million were not properly capitalized to the current construction in process account. Additionally, an asset noted to have been purchased in the 2000-2001 fiscal year and art work donated to the District continues to not be included in that capital asset listing.

We also noted a physical inventory of the equipment had not been conducted for several years to ensure all items that had been capitalized in past years were in fact still in use by the District.

Effect

As a result of the deficiencies in the internal control structure, net audit adjustments in excess of $1.3 million were required to bring the capital asset balances to the proper year end balance. By not conducting a physical inventory of the equipment, the District is at risk of having lost or stolen equipment and cannot demonstrate the appropriate level of safeguarding of assets required by generally accepted accounting standards.

Recommendation

District staff should perform a thorough review and analysis of the capital assets of the District to ensure that all equipment owned by the District and construction projects, both in process and completed, have been properly included within the financial transactions. A physical inventory of the equipment owned by the District should be conducted and reconciled to the actual equipment listing. Significant discrepancies should be noted and reconciled as soon as possible.

Management Response

The District is in the process of establishing procedures for inventory of capital assets. The District has hired a firm to conduct a fixed asset inventory and establish a beginning confirmed general ledger amount. Capital assets will be entered into the DataTel Colleague Fixed Assets Module. This will enable the generation of fixed asset reports for the financial accounting system and subsequent follow-up inventory counts. The Accounting Manager will be responsible for the preparation of the District's Capital Assets worksheet. This data will be reconciled back to the financial system inventory and general ledger reports.

2007-5 Workers' Compensation Liability
Criteria or Specific Requirement

Industry standards and best practices require the District to obtain an actuarial report of the Claims Liability for Workers' Compensation Fund liability at least every three years.

Condition

Material Weakness – Though the District did obtain an actuarial study of the Claims Liability related to Workers' Compensation in May 2007, no analysis of the impact to the fund and no adjustments to the determined liability were made. Additionally, the District has not set the expense rate for the Workers' Compensation fund at an amount that will properly set aside sufficient amounts to fund the liability leaving the fund in a negative position at June 30, 2007.

Effect

An audit adjustment of approximately $300,000 was proposed and posted to recognize the calculated liability for Workers' Compensation. The Workers' Compensation Fund is currently at a deficit of approximately $900,000. The available financial resources of the District are at risk when the claims liability is not updated and properly accounted for and the expense rate is not properly charged for the transfer to the self-insurance fund.

Recommendation

District management should routinely review the financial status of the self-insurance fund and determine the proper amount necessary to fund the calculated liability for open claims. This actuarial study should be obtained at a minimum every three years and the activity within the fund analyzed to ensure enough monies are set aside to fund the full liability.

Management Response

The District is in agreement with the finding and recommendation.

2007-6 Cash Clearing Account
Criteria or Specific Requirement

Properly functioning internal controls over cash require that deposits of amounts received and the corresponding recording of the revenue be completed in a timely manner.

Condition

Material Weakness – The District maintains a Cash Clearing account with a local financial institution to clear checks and cash received for a variety of payments including student enrollment fees, parking fees, and instructional material fees, as well as other receipts. The account had not been reconciled in any month prior to year end and was carrying a balance in excess of $690,000 representing revenue that had not been properly recognized in the accounting records of the District.

Effect

As a result of the deficiencies in the internal control structure, an audit adjustment of approximately $690,000 was proposed and posted to the District financial records as of June 30, 2007. The District is at risk of not reporting revenue in the correct period if proper procedures are not followed.

Recommendation

The District must establish and maintain a clear internal control structure with written procedures that provide guidance to staff for the recording, reconciling, analysis, and reporting of monies received within the clearing account. Deposits of balances held in the clearing account should be transmitted to the County Treasury at least monthly, and more frequently when significant balances are received, in order to ensure revenue is properly recognized.

Management Response

The District has joined with El Camino Community College District in hiring an Operational Internal Auditor. His first task will be the assessment of determining which procedures are missing or that require updating. Written procedures and delineation of duties will be established for the recording, reconciling, and transfer of funds in the local clearing account. Funds will be transmitted to the Los Angeles County Treasurer's Office once monthly and more frequently in times of peak cash collections. The Director of Fiscal Services and the Director of Accounting will be responsible for assuring that the procedures and schedules are adhered to by staff assigned to participate in this function.

2007-7 Segregation of Duties
Criteria or Specific Requirement

Industry standards, the Education Code, and best practices related to internal controls require segregation of duties between functions so that one individual will not have primary responsibility and control all aspects of a transaction.

Condition

Material Weakness – Segregation of duties within the Bursar's Office has allowed the same individual to collect funds, prepare deposits, reconcile accounts, and determine revenue accounts to be posted to. There was no evident oversight and monitoring by the Compton Fiscal Affairs or Business Office necessary to ensure the monies are properly recorded to the correct account and posted intact and in a timely manner. Written procedures to document the approved processes have not been prepared.

Effect

As noted above, deposits of funds held within the Bursar's Office clearing account have not been transmitted in a timely manner. Without the proper oversight of another individual in the process, funds could be misapplied to revenue accounts, or lost or stolen and not detected in a timely manner. Without written guidelines, the staff may not understand the importance of these controls or the proper timelines for the transactions.

Recommendation

Written policies and procedures over the operations of the Bursar's Office should be prepared and disseminated to staff. The staffing and oversight of the Bursar's Office should be reviewed and revised to include the appropriate level of supervision necessary to ensure proper segregation of duties.

Management Response

Written policies and procedures for segregation of duties within the Bursar's Office will be prepared and discussed with staff. The Director of Fiscal Services and the Accounting Manager will be responsible for timely review of the cash transactions and adherence to procedures.

2007-8 Bank Account Custody and Control
Criteria of Specific Recommendation

Industry standards, Education Code, and best practices require accounts held in the name and Employer Identification Number of the District, and holding and receiving monies of the District, be properly approved by the Board with signatures of current District employees authorized to sign on the account.

Condition

Material Weakness – An account with a financial institution has been opened in the name and Employer Identification number of the District by a former employee. The account was not authorized by the Board or the Special Trustee, and the former employee is the only authorized signature on the account. Current employees have not been able to obtain sufficient information from the financial institution to close the account and transfer the funds to an account authorized by the District.

Effect

Without the proper authorization by the Special Trustee and the Board to open and maintain accounts in the name of the District, funds could be misappropriated and not detected in a timely manner by District employees.

Recommendation

The Special Trustee must contact the financial institution as soon as possible to re-gain control over the bank account, close the account, and re-deposit the funds in an authorized account of the District. All accounts bearing the name of the Compton Community College District must receive proper approval and authorization of the Special Trustee. Controls should be established to limit access to the District's Employer Identification Number so that non-authorized use will be prevented.

Management Response

The Special Trustee will contact the financial institution to establish the District's control over the bank account. The account will be closed and all funds deposited into an authorized account of the District. The authority to open and close bank accounts and signature authority over the various accounts of the District will be presented to the Board of Trustees/Special Trustee.

2007-9 Categorical Program Accounting
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Material Weakness – Categorical program accounting internal controls are either missing or are ineffective at providing for accurate financial reporting. Summarized below are conditions noted:

- Lack of adequate and necessary organizational structure within the Business Office. The structure of the Business Office does not include a dedicated grant accountant with sufficient expertise in grant accounting, laws, and regulations.
- Monitoring of the categorical programs was either not occurring or was ineffective. Program managers were unable to determine the status of their program budgets to effectively utilize categorical funds.
- Program budgets and carryovers were not reconciled to prior year audited results. Many programs were overspent resulting in a required contribution from unrestricted resources of the District.
- Misclassification of expenditures between programs as a result of changes in the account code structure and the migration to the DataTel Accounting system. The review process of the District did not identify this issue during the closing process and resulted in numerous audit adjustments and reclassifications between programs.
- Closing entries related to accounts receivable and deferred revenue were not posted for any program resulting in significant audit adjustments to the revenue accounts.
- Accruals noted during the audit of the 2005-2006 fiscal year were posted to the 2006-2007 period in error. The review process of the District did not identify this issue during the closing process and resulted in numerous audit adjustments and reclassifications between programs.
- Clear and concise file maintenance for the grants and categorical programs has not been implemented. The programs are monitored in a decentralized fashion and reconciliations to the general ledger have not been completed.

Effect

The reporting of the activity within the Schedule of Expenditures of Federal Awards (SEFA) is required under OMB A-133. The above deficiencies resulted in a variety of reclassifications and audit adjustments and ultimately led to the auditors disclaiming an opinion on the fair presentation of the SEFA. The Schedule of Expenditures of State Awards (SESA) is required by the California State Chancellor's Office. The above deficiencies resulted in a variety of reclassifications and audit adjustments.

Recommendation

The District should review the overall organizational structure of the Business Office and how the information necessary for the proper accounting of Federal and State program grant activity is reported. A dedicated accountant should be assigned the function of posting activity to the accounting records and preparing the required report schedules should be provided. Written procedures as to the individual Federal and State grant requirements should be prepared and updated for each grant/award received. A calendar of the reporting timelines for each grant should be established to ensure critical dates are not missed.

Management Response

The District is in agreement with the finding and recommendation. A Chief Business Officer has been hired and will report in February 2008. Position announcements have been released for two accounting technicians that will, upon being filled, be assigned to address the concerns noted by this finding.

2007-10 Accounts Payable Accrual and Reconciliation
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Material Weakness – An important aspect of the year end closing process is the accrual of liabilities related to services of goods received prior to June 30. The condition noted in the prior year audit report as finding 2006-7 was not resolved in the current year. The cut off and analysis of accounts payable at June 30 did not take into account construction projects which had been completed, retention payments for services performed, and other vendor payments for services prior to June 30, 2007. These obligations should have been included as 2006-2007 expenditures.

Effect

The District is at risk of not properly reporting the expenditures within the period the obligation occurs. An audit adjustment of approximately $1.3 million was proposed for unrecorded expenditures noted in our subsequent payment testing.

Recommendation

The District should carefully analyze the organization of the Business Office and provide training to staff on the appropriate cut off procedures for year end accruals. A calendar of the closing process should be developed and monitored. All accounts should be reviewed by the Business Manager prior to the final close to ensure the appropriate accruals have been posted.

Management Response

The District is in agreement with the auditor's finding and recommendation.

2007-11 Revolving Cash Fund
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that is adequately documented. It is advisable that this be accomplished through written policies and procedures reviewed and approved by appropriate levels of management.

Condition

Significant Deficiency – Policies regarding the appropriate use of the District's revolving fund were not made available for review. A formal written policy regarding the revolving fund in both the General Fund and the Self-Insurance fund was not made available for our review. As a result, it was unclear as to what type of activity may pass through the revolving funds and what the proper process is for a disbursement request and approval. Additionally, all expenditures tested were noted to have been above the $50 limit that is expressly written on the District's "*Revolving Fund Request Form*". It is unknown as to whether all of the disbursements made through the revolving fund are allowed expenditures as adequate supporting documentation was not provided for six of eight items tested.

The District's revolving account (petty cash account) is not being reconciled to the imprest balance of $25,000. It appears that the reconciliation was prepared through October 2006 and stopped thereafter. Additionally, it was also noted that the last time the revolving account was replenished was in October 2006.

Effect

Though the activity of the revolving account was not determined to be significant in amount by nature, revolving fund activities provide an opportunity to circumvent established controls over disbursing funds. The lack of supporting documentation warrants mention as an indication of a significant deficiency in the internal control structure.

Recommendation

Written policies should be reviewed and revised as appropriate for management's current intentions for the revolving cash funds. Forms should be updated to match current approved policies, and the policies should be strictly adhered to. Supporting documents for all disbursement should be maintained. The revolving fund should be reimbursed on a monthly basis to its predetermined balance as outlined in the California Community Colleges Budget and Accounting Manual. Monthly reconciliations should be performed to the predetermined amount and all documents retained to provide an adequate audit trail.

Management Response

The District is in agreement with the Auditor's finding and recommendation. The newly hired Operational Internal Auditor will be responsible for establishing appropriate procedures and testing for compliance.

2007-12 Bank Reconciliations
Criteria or Specific Requirement

Industry standards and best practices require development of sound internal controls to provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Significant Deficiency – Routine and timely bank reconciliations were not being performed on any of the District cash accounts. Reconciliations of the June 30, 2007, account balances did not occur until October 2007 with the District's Workers' Compensation account and Perkins Loan account not reconciled at all.

Further, supporting documentation for a wire transfer on August 2006 from the Workers' Compensation account to the Associated Student Body Clubs that could not be satisfactorily explained or supported.

Effect

The completion of routine accounting functions such as the bank account reconciliations do not appear to be given an adequate level of importance. Transactions could be misposted and not be discovered by staff within a reasonable period of time..

Recommendation

Routine business functions should include monthly performance of bank reconciliations. These reconciliations should be reviewed by appropriate levels of management and be readily available for review or audit.

Management Response

The District understands the recommendation and will work with El Camino Community College District staff to help assure that appropriate effort and expertise is directed to resolve this issue.

2007-13 Records Retention and file Maintenance
Criteria or Specific Requirement

Principals for sound fiscal management and criteria adopted by the Board of Governors (CCR Section 58311) notes that each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will…"*implement and maintain effective internal controls*" and "*Each district shall adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met.*"

Condition

Significant Deficiency – Record retention and standards for the adequacy of supporting documentation for transactions of the District do not appear to meet the above criteria. Instances where supporting documents were not provided occurred throughout the course of the audit. Records supporting disbursement transactions were missing, incomplete, or never provided in several areas of transactional testing.

Effect

The lack of documentation for receipts and expenditures of the District funds could result in disallowed costs for categorical programs, mispostings of activity, and inappropriate use of District funds.

Recommendation

The District's record retention policy for the accounting records should include written polices and procedures manuals. All supporting documentation for transactions affecting the financial transactions of the District should be maintained in accordance with the policy and easily accessible for review.

Management Response

The District currently adheres to the El Camino Community College District policies and standards for payment authorization and record retention. We are not aware of any current problems related to this finding or recommendation.

2007-14 General Ledger Reconciliation
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Significant Deficiency – General ledger account balances including due to/from accounts were found to contain beginning balances carried from previous periods. The accounts have not been reconciled, and supporting documents for these beginning balances were not available.

Effect

Balances carried forward from prior year and not reconciled may result in transactions being posted to current year activity – resulting in duplication of activity. Additionally, when account balances are representative of amounts due to or from internal funds of the District, unreported loans may be occurring.

Recommendation

Management analysis of the nature of the transactions reported in the funds of the District must be adequately documented and made available for review and adequately disclosed as necessary to comply with accounting principals. Balances carried forward from prior years should be reviewed and reconciled to ensure all transactions have been properly included in the financial records.

Management Response

The District will make the appropriate general ledger transfers during 2007-2008 fiscal year to clear the outstanding "due-from" and "due-to" accounts. A formal month-end and year-end check list will be prepared to help guide the accounting staff through the appropriate closing activities.

It should be noted that prior to the establishment of the State authorized line-of-credit (July 2006), it was not fiscally possible to make the necessary transfers between funds to address the receivables issues.

2007-15 Accounts Receivable Reconciliations
Criteria or Specific Requirement

Principals for sound fiscal management and criteria adopted by the Board of Governors (CCR Section 58311) notes that each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will…"*implement and maintain effective internal controls*" and "*Each district shall adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met."*

Condition

Significant Deficiency – Accounts receivable accruals were not effectively monitored. Entries were posted in the current year that were posted in error to the wrong fiscal period during the prior year closing. The accruals remained on the books through this year's closing indicating that they are not being effectively monitored or cleared during routine accounting functions.

Effect

The accounting for the accounts receivable and the related revenues may not be posted correctly to the proper year.

Recommendation

Management should analyze the accruals on a regular basis and note any inconsistent or unusual balances. Accruals that do not represent valid claims should be written off. Procedures should be developed to integrate the reconciliation procedures into routine accounting functions.

Management Response

The District is in agreement with the auditor's finding and recommendation. In addition to the establishment of written procedures, monthly reconciliations and additional level of sign-off authorizations will be implemented to help assure that training and sound accounting practices have been implemented.

2007-16 Payroll Clearing Account
Criteria or Specific Requirement

Industry standards and best practices require a system of internal control that will provide reliable, accurate, and timely financial information that has been reviewed and analyzed by management.

Condition

Significant Deficiency – Payroll liability account balances in the General Fund were found to include unnatural debit balances. Review of the accounts determined that the accounts and their relationship to the Warrant Pass Through Fund had not been adequately monitored or effectively reconciled.

Effect

Inadequate monitoring and review may result in a potential impact to the financial condition of the District as the entries necessary to correct the transaction balances could adversely impact the fund balance.

Recommendation

A review and reconciliation of all accounts, including the County Warrant Pass Through Fund, will assist management in ensuring all activity of the District has been properly recorded.

Management Response

Consistent with aforementioned recommendations concerning regular and thorough reconciliation of accounts and funds, this finding will be implemented as prescribed.

2007-17 Personnel File Maintenance

Criteria or Specific Requirement

Principals for sound fiscal management and criteria adopted by the Board of Governors (CCR Section 58311) notes that each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will…"*implement and maintain effective internal controls*" and "*Each district shall adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met*."

Condition

Control Deficiency – The personnel files for faculty do not contain adequate documentation to support how units are calculated. We found that changes in the organization have resulted in inconsistent documentation supporting how the appropriate salary schedule placement was determined.

Effect

Inadequate documentation supporting the evaluation of the numbers of qualifying educational units of academic employees could result in improper salary schedule placement.

Recommendation

Periodic file reviews would improve the ability to identify errors and improve the ability to independently confirm salary schedule placement. Further, utilizing a summary form to document eligible units will improve the ease of review.

Management Response

The District is in agreement with the finding and recommendation.

2007-18 Payroll and Human Resource Account Reconciliation

Criteria or Specific Requirement

Principals for sound fiscal management and criteria adopted by the Board of Governors (CCR Section 58311) notes that each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will…"*implement and maintain effective internal controls*" and "*Each district shall adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met."*

Condition

Control Deficiency – Access to certain screens within the Human Resource System (HRS) was not adequately segregated between the Human Resource and the Payroll Departments. We found the payroll clerk could modify salary schedule placement and had the ability to change their own pay.

Effect

Unrestricted access presents opportunities to circumvent the objective of controls whereby the Human Resource and the Payroll Department functions are segregated and could result in inappropriate changes to restricted data that might go undetected by District internal controls.

Recommendation

The access restrictions throughout the HRS and PeopleSoft system should be evaluated for control weaknesses that should be improved through application controls. The ability to modify salary placement of employees should be restricted to the Human Resource Department. No staff should have access to modify their own salary.

Management Response

The Information Technology Department will review all existing security control levels and revise access in accordance with appropriate functional and supervisory responsibilities. The Internal Auditor will confirm that appropriate segregation of duties has been implemented and are being followed.

2007-19 Vacation Liability Reconciliation
Criteria or Specific Requirement

Principals for sound fiscal management and criteria adopted by the Board of Governors (CCR Section 58311) notes that each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will…"*implement and maintain effective internal controls*" and "*Each district shall adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met.*"

Condition

Control Deficiency – The balance of accrued vacation was significantly reduced from prior year. We were unable to compare employee balances to prior year because the information was not available and was not presented for review.

Effect

Employees may not have been properly compensated for accrued vacation.

Recommendation

Schedules documenting the earned and accrued vacation balance by employee should be maintained. All reductions and additions to the vacation balance should be supported by employee records documenting the actual change in the balance.

Management Response

The District has established a preliminary schedule of outstanding balances that have not been paid or "worked out." A recommendation will be made to the Special Trustee to resolve the financial impact of this long-term accrued payroll issue.

El Camino Community College District is currently working with the Compton Community College District Business Office to implement an employee report system that will allow for the monitoring of leave accumulated and taken. This will also provide a management tool for confirming that time is recorded correctly and that existing Center policies are being followed.

2007-20 Anti-Fraud Program
Criteria or Specific Requirement

Industry standards and best practices require agencies to institute and maintain adequate controls over the accounting and financial statement to prevent and detect fraud within the organization.

Condition

Control Deficiency – In accordance with the auditing standard (SAS 99), the audit is required to assess the organization's anti-fraud program and the procedures in place to prevent and detect fraud. We noted the District had not implemented the recommendation included within the prior year audit report (2006-2). The District is currently undergoing a variety of internal and external assessments of the operations and fiscal conditions.

Effect

The District is currently undergoing a variety of internal and external reviews with the focus on the internal control of the organization and operational procedures. Not instituting the Anti-Fraud Program places the integrity and credibility of the District at risk both within the organization and in the community.

Recommendation

The District should review the recommendation made in the prior year audit report and implement a sufficient program that would demonstrate the ethics and integrity of the District with the "Tone at the Top" communicating the importance of the code of conduct that stresses the prevention of fraudulent activities and the early detection of errors, omissions, and inappropriate activities. The program should consider the use of such mechanisms as an internal auditor, staff training programs, the institution of an anonymous fraud hotline, and other programs to increase the awareness of the requirement for the ethical conduct of business at all levels.

Management Response

The District will assign the newly hired Internal Auditor to implement the recommendation as noted in finding 2007-20.

The following findings represent material weaknesses, significant deficiencies, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2007-21 Program Reporting – Schedule of Expenditures of Federal Awards

Major Program – ***U.S. Department of Education TRIO Cluster: Student Support Services (CFDA 84.042A), Upward Bound (CFDA 84.047A) and Upward Bound Math and Science (CFDA 84.047A), and Talent Search (CFDA 84.044A)***

Criteria or Specific Requirement

Internal Controls

Circular A-133 requires the auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List the individual Federal programs by Federal agency. For Federal program included in a cluster of programs, list individual programs within a cluster of programs.
- Include, for Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Provide the total Federal awards expended for each individual program and the CFDA number or other identifying number when the CFDA information is not available.
- For Federal awards received as a pass-through entity, identify, to the extent practical, the total amount provided to subrecipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of Federal awards expended in the form of non-cash assistance.

Condition

Material Weakness – The SEFA prepared and provided for audit did not contain the CFDA number for awards, pass through numbers when applicable, or pass through amounts in a separate schedule. The preparation of the SEFA was performed without adequate knowledge of the requirements and does not appear to have been subject to sufficient internal review necessary to provide for accurate reporting. Significant adjustments were proposed and accepted by the District to provide the level of reporting included within this report.

Questioned Costs

Unknown.

Effect

A direct result of the errors and omissions noted on the SEFA has resulted in a disclaimer of an opinion of the SEFA in relation to the financial statements of the District. Inaccurate reporting can be interpreted by oversight agency as deficient reporting.

Recommendation

The District should identify one individual with responsibility for the proper accounting and reporting of the Federal grants and awards and the preparation of the SEFA at year end. This individual should be provided training related to the A133-Circular requirements. The District should develop internal review procedures that promote accuracy in reporting and document these procedures in a written procedure manual.

Management Response

The District is in agreement with the auditor's finding and recommendation. As the accounting staff is hired and trained, the assignment of these accounts will be made.

2007-22 Allowable Costs/Cost Principals

Major Program – ***U.S. Department of Education TRIO Cluster: Student Support Services (CFDA 84.042A), Upward Bound (CFDA 84.047A) and Upward Bound Math and Science (CFDA 84.047A), and Talent Search (CFDA 84.044A) Non-Major Program Foster Kinship and Care***

Criteria or Specific Requirement

Internal Control

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance

OMB Circular A-21, Cost Principles for Educational Institutions, Part J, General Provisions for Selected Items of Cost, No. 10, Compensation for Personal Services.

(1)(e) At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges and to indirect cost are reasonable in relation to work performed.

Condition

Material Weakness – The District did not complete the implementation of the prior year findings.

- An acceptable payroll distribution system that includes the documentation of the percentage of time spent working within one or more programs by employees is not in place. Specific criteria require documentation be prepared and maintained during each academic term, and no less frequently than every six months, to support the payroll charges to Federal programs. The District remains out of compliance as described in prior year finding 2006-21. See questioned costs below.

- Internal controls are not adequate to internally identify misclassifications during the routine course of the daily accounting functions. During our review of the Schedule of Expenditures of Federal Awards, the District provided to us salary reclassifications that involved the TRIO grants and CalWORKS grants. While these items were identified by the internal controls of the District, they were not identified until post year end and post closing. Therefore, the District remains out of compliance as described in the prior year finding 2006-24.

- Also, support for five disbursements totaling $78,403 was not provided. One transaction in our sample was not properly authorized by the Dean of Support Services. This exception supports, therefore, that the District remains out of compliance as described in prior year finding 2006-26. See questioned costs below.

Questioned Costs

Payroll charges by program:

• Student Support Services	$387,867
• Upward Bound	$134,563
• Upward Bound Math and Science	$ 16,758
• Talent Search	$ 44,091

Disbursements without support	$ 78,403

Effect

The District is at risk of additional disallowed costs by not maintaining the required documentation related to charges to Federal grants and awards.

Recommendation

The District must immediately implement the required procedures to document and support payroll costs charged to Federal grants and awards. OMB A-21 requires the District to maintain a payroll distribution system that documents the time charged to Federal programs and is updated during each term and no less frequently than every six months. Supporting documentation of the actual time charged to a Federal program must be signed by the employee, as well as the supervisor and must provide for an independent verification of the charges.

The District must also immediately implement a monitoring process whereby someone independent of the program will periodically review and verify the consistency and accuracy of the reporting schedules.

Management Response

The District is in agreement with the auditor's finding and recommendation. The Internal Auditor will be assigned the responsibility for assuring that the District's reporting schedules are timely and accurate.

2007-23 Cash Management

Major Program – ***U.S. Department of Education TRIO Cluster: Student Support Services (CFDA 84.042A), Upward Bound (CFDA 84.047A) and Upward Bound Math and Science (CFDA 84.047A), and Talent Search (CFDA 84.044A)***

Criteria or Specific Requirement

Internal Control

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Condition

Material Weakness – Controls over the process of how the District draws down funds through the e-payments system were found to be deficient. Written procedures have not been prepared to provide guidance on the approval and processing of draw-downs of Federal funds. The oral description of the procedure indicated that each draw would be performed only after a written request was made and signed by the program director. No documentation supporting that this process was followed was provided. The draw-down amount was not supported by expenditures reported on the general ledger, but was instead based on records maintained by the program department. Also, the draw-down that was performed was posted in the subsequent fiscal period instead of being properly accrued in the current fiscal period.

Effect

The District is in jeopardy of over-drawing Federal funds or inappropriately drawing the funds for expenditures not incurred.

Questioned Cost

$16,934 was not supported with current year expenditures.

Recommendation

The District must develop written procedures to document the process for the draw-down of funds through the e-payment system for Federal funds. The authorization of the draw-downs must be documented and included with the supporting documentation to note the expenditures have been appropriately reviewed and are valid.

Management Response

The District is in agreement with the auditor's finding and recommendation. Procedures will be developed and implemented to address this finding.

2007-24 Eligibility

Major Program – ***U.S. Department of Education TRIO Cluster: Student Support Services (CFDA 84.042A), Upward Bound (CFDA 84.047A) and Upward Bound Math and Science (CFDA 84.047A), and Talent Search (CFDA 84.044A)***

Criteria or Specific Requirement

Internal Control

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Condition

Significant Deficiency – For the above noted programs, eligibility is a specific criteria for funding. A checklist is used to document the eligibility review and program director approval. The checklist was not used in the files of the Upward Bound Math and Science program, but was in the regular Upward Bound program, as well as the Student Support Services program. This checklist is a key component of the internal control system to ensure eligibility of individuals receiving services.

Effect

The District is at risk of serving individuals not meeting the specific eligibility criteria required for the program.

Questioned Cost

None.

Recommendation

The checklist currently in place should be implemented and used consistently for all programs requiring the eligibility review. While no instances of non-compliance were noted, the checklist will assist the District in ensuring continued compliance with program guidelines.

Management Response

The District is in agreement with the auditor's finding and recommendation. The Internal Auditor will be assigned the responsibility for assuring that the District is in continued compliance with program guidelines.

2007-25 Procurement, Suspension, and Debarment

Major Program – ***U.S. Department of Education TRIO Cluster: Student Support Services (CFDA 84.042A), Upward Bound (CFDA 84.047A) and Upward Bound Math and Science (CFDA 84.047A), and Talent Search (CFDA 84.044A)***

Criteria or Specific Requirement

Internal Control

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance

Internal Control - *Debarment and Suspension (Executive Orders 12549 and 12689)* - No contract shall be made to parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Non-procurement Programs in accordance with Executive Orders 12549 and 12689, "Debarment and Suspension," as set forth at 24 CFR Part 24. This list contains the names of parties debarred, suspended, or otherwise excluded by agencies and contractors declared ineligible under statutory or regulatory authority other than Executive Order 12549.

Condition

The District contracted with one vendor providing services to the TRIO Cluster that met the requirements for procurement, suspension, and debarment. Proper support, including policies or procedures that address this compliance requirement, were not provided. The District does not have policies or procedures currently in place that addresses the compliance requirement.

Effect

Without procedures in place to monitor vendors, it is possible that the District could contract with a party who has been debarred by the Federal Government. This could result in material non-compliance and jeopardize grant funding.

Questioned Cost

None. The vendor had not been suspended or debarred.

Recommendation

Purchasing policies should incorporate policies that address the compliance requirement. Procedures should include requirements that a certification be obtained from vendors when expenditures will exceed $100,000. For contracts between $25,000 and $100,000, a procedure to document monitoring of the Excluded Parties Listing Service should be established. These procedures must provide documentation retained and readily available to support compliance with the requirements.

Management Response

The District Purchasing Office will include in its written policies the statement that no contract will be made with parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Non-Procurement Programs.

Written procedures will include the requirement that a certification of the above clearance must be obtained from vendors when expenditures will be in excess of $100,000. The written procedures will further state that for all contracts between the amounts of $25,000 and $100,000, the vendor is checked against the GSA's list of excluded parties and a copy of the listing is attached to the contract and also stored in the vendor payment file.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

STUDENTS ACTIVELY ENROLLED

2007-26 Criteria or Specific Requirement

Each district shall claim for apportionment only the attendance of students actively enrolled in a course section as of the census date.

- CCR, Title 5, 58003.1, 58004, 58005, and 58051
- Student Attendance Accounting Manual, California Community Colleges, pages 1.02-1.04

Condition

Significant Deficiency – Currently, the Compton Education Center does not have a procedure in place to monitor and track whether each instructor turned in their attendance rosters.

Effect

The District is at risk of inaccurately reporting the FTES generated by students. As this is a key component of funding, the District is also at risk of inappropriately receiving State funding.

Recommendation

The District should immediately implement procedures to require the proper completion of attendance records by instructors. The reporting of Census Day attendance is an integral part of the internal controls over reporting the FTES to the State Chancellor's Office.

Management Response

The District will assign the responsibility for confirming attendance reporting to the appropriate Center administrator. The Internal Auditor will help assure procedures are followed through compliance testing.

CALWORKS

2007-27 Criteria or Specific Requirement

Internal Controls

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance

Chancellor's Office Program CalWORKS Program Handbook Guidelines 2005

Condition

The year end report filed with the Chancellor's Office for the CalWORKS program did not agree to reports from the PeopleSoft financial activity system. This condition has been noted in prior audit reports and appears to be the result of program managers not reconciling financial activity to the general ledger as maintained by the accounting office.

Compliance

We identified ten transactions that do not appear to meet program requirements. Total questioned cost is $165,126. Further, one of the transactions was for the purchase of prepaid gas cards. The cards are stored in a safe, but are not subject to adequate inventory controls that we believe are necessary to adequately safeguard the cards.

Effect

The District is at risk of losing funding or disallowance of reported charges.

Recommendation

All reports of program activity must be reviewed by the accounting office and reconciled to the general ledger prior to submission to the funding agency.

Management Response

The District is in agreement with the findings and recommendations. Campus control procedures will be implemented and monitored.

ENROLLMENT FEES

2007-28 Criteria or Specific Requirement

Internal Controls

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance

Education Code Section 76300, 76140(k), and 84757
Accounting Advisory 98-02, dated April 13, 1998
Chancellor's Office Legal Opinion O 02-12 "Uncollected Enrollment Fee Revenue"
Budget and Accounting Manual Chapter 3, page 3.36 Local Revenue Account 8874 "Enrollment"

Condition

The District is required to annually report the student enrollment fees earned during the year on the *Community College Financial Statement (CCFS) – 323 Report*. Enrollment fees are one of the components of the apportionment funding and are required to be accurately reported to the State Chancellor's Office. The Enrollment Fee report submitted by the District did not agree with the general ledger at June 30, 2007. Additionally, we noted the District primarily accounts for the enrollment fees on a cash basis as noted in the prior year audit report finding 2006-9. A deferral of fees was implemented during the 2006-2007 year to recognize that students have paid their enrollment for summer and fall terms prior to June 30, 2007; however, the District used an arbitrary date to determine the accrual rather than the actual fees paid by students for the subsequent term.

Effect

The misreporting of enrollment fees could cause the State portion of the apportionment calculation to be in correctly provided to the District.

Recommendation

The District should provide an amended CCFS-323 Report to the State Chancellor's Office with the correct reporting of student enrollment fees for the 2006-2007 fiscal year. A procedure should be implemented immediately that all reports referencing financial data be reviewed by the Director of Accounting prior to submission and the reports be reconciled to the general ledger to ensure their accuracy and completeness. The process for the deferral of enrollment fees received for subsequent academic terms should be reviewed and a system implemented to capture the actual fees rather than the use of an arbitrary cut off.

Management Response

The Compton Education Center will review its current practice of deferring enrollment fees and establish Special Trustee approved procedures accordingly. The CCFS-323 Report will be reviewed and amended if necessary.

MATRICULATION

2007-29 Criteria or Specific Requirement

Internal Controls

An organization establishes internal control processes to provide reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations.

Compliance

Education Code Section 78210-78218
California Code of Regulations Title 5, Section 51024, 55500-55534, and 58106

Condition

The District is required to annually file a report detailing the activities within Matriculation grant. One component of this report is an analysis of monies received and expended within the program. The report filed with the State Chancellor's Office for the 2006-2007 fiscal year did not agree with the financial activity recorded within the District's general ledger.

Effect

The District is at risk of having funding for state grants revoked if reporting is not accurate and complete.

Recommendation

The District should provide an amended Matriculation Report with all accounting information reconciled to the general ledger. A procedure should be implemented immediately that all reports referencing financial data be reviewed by the Director of Accounting prior to submission and the reports be reconciled to the general ledger to ensure their accuracy and completeness.

Management Response

The District is in agreement with the auditor's findings and recommendations.

COMPTON COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

GENERAL FUND RESERVES, CASH FLOW, AND GOING CONCERN

2006-1 Finding

Footnote 16 to financial statements provides information on the financial trends experienced in the General Fund over the last five year as well as information on funds that have negative ending fund balances at June 30, 2006. Specifically, the General Fund has a negative balance of ($5.3 million).

Also affecting the District's ability to continue as a going concern entity is the loss of their accreditation by the Accrediting Commission of Community and Junior College (ACCJC), Western Association of Schools and Colleges. The revocation has had serious consequences in the District's ability to continue to operate; student enrollment has declined dramatically. This is primarily because the District is unable to issue diplomas or offer Federal Student Financial Aid. Therefore, the District is required by AB 318 to partner with another District to provide accredited instructional programs.

Finally, as a result of the fiscal issues surrounding Compton coming to light, various Federal and State agencies have conducted program audits. The District has been cited for various instances of non-compliance and has been notified that amounts are owed to the granting agencies. The total of these amounts range from $6,000 to $1,800,000. The District is in the process of appealing these citings in hopes of reducing and/or eliminating the repayment to any of the granting agencies. At the time this report was issued, these matters had not been resolved. The District has not accrued any amounts as a contingent liability as of June 30, 2006.

Footnote 16 explains how the District will be funded through apportionment for fiscal years 2005-06 to 2008-09. Additionally, the District is receiving $30 million as an advance payment of apportionments subject to repayment with interest. The District must act conservatively and closely monitor expenditures; the District cannot afford to incur deficits in the 2006-07 or subsequent fiscal years.

The District's Cash in the County Treasury decreased approximately $14.0 million to a balance of $12.1 million at June 30, 2006. The amount it owed to other funds, vendors and employees increased over the prior year by $0.5 million at fiscal year end. Of the $12.1 million in cash, $9.98 million and $1.67 million is in the Bond Building Fund and Bond Interest and Redemption Fund, respectively, and cannot be used for on-going expenses. The General Fund's Cash in County balance was just over $674,000 at June 30, 2006. While the Student Financial Aid Fund had a negative cash balance of approximately $777,000.

Recommendation

Prepare both a short-range and long-range plan in detail with various scenarios. This plan should include the impact of negotiations, long term obligations, short term commitments, employee benefit costs, position control and other key factors that impact the budget. It is extremely critical that management closely monitor the 2006-07 financial statements to protect the financial solvency of the District; the negative fund balance must be restored to assure that cash flow remains positive. The need to build the reserves must be emphasized in the negotiation process and in all key budgeting decisions.

Current Status

Not implemented. See current year finding 2007-01.

ANTIFRAUD PROGRAM

2006-2 Finding

In accordance with the auditing standard (SAS 99) related to our consideration of fraud, we were required to assess the organization's anti-fraud program. Although the District has some processes in place, we believe that additional controls and policies would strengthen the District's programs and bring it into alignment with the newly published recommendations issued by the American Institute of Certified Public Accountants, in their document entitled "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud". The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.

Recommendation

The District should consider the following:

1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation, training and management oversight.
2) Integrate ethics into the training program for employees including training on understanding and being aware of red flags related to fraud. This demonstrates the District's commitment to fraud awareness throughout the entity.
3) Incorporate a formal, anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous.
4) Consider adopting and implementing employee recognition programs that are aligned to goals in the organization. This will help in improving morale and rewarding employee efforts. The risk of fraud is reduced in an organization when employee morale is positive.
5) Institute processes from top management that ensure effective processes are in place to involve employees in key decisions. The AICPA has determined that a participatory environment results in a lower potential for fraud.

6) Conduct an analysis of the role management has in developing and implementing the antifraud program. Items to consider include whether the current staff levels adequately meet the objectives of the District, whether the staff is receiving sufficient training, whether the organizational structure provides a sufficient level of authority and oversight of the operations and whether tools are sufficient to enable staff to analyze and utilize computer assisted techniques. In the review of objectives, we believe attention should be given to provide a greater emphasis on risk-assessment in the financial accounting system, including FTES accounting and reporting.

Current Status

Not implemented. See current year finding 2007-20.

CCFS-311 REPORTING

2006-3 Finding

In accordance with the California Code or Regulations, Section 58305(d) a copy of the 2005-06 Annual Financial and Budget Report, CCFS-311, report should be submitted to the Chancellor's Office on or before October 10, 2006. The District did not file its CCPS-311 report until November 28, 2006. Due to the loss of accreditation and a contracted agreement with another district, it appears that the District was uncertain about the filing requirements of this report.

Recommendation

Ensure the CCFS-311 report is submitted on or before required deadlines.

Current Status

Partially implemented. See current year finding 2007-2.

GENERAL ACCOUNTING AND INTERNAL CONTROLS

2006-4 Finding

We noted the following findings related to the District's general accounting practices:

1) Federal and State programs in the Restricted General Fund and the Child Development Fund incurred encroachments by allowing expenditures to exceed the award amount. These expenditures have a negative impact on each fund's ending fund balance. Additionally, the interfund transfers were not made at year end to cover Federal and State program encroachments.
2) Recommended improvements to internal controls over: cash receipts; accounts payable; disbursements; properties; payroll; and electronic data processing were identified and addressed in our interim letter dated June 19, 2006. Based on responses to the internal control questionnaires, internal controls are not in place for suggested controls. Weaknesses in internal controls represent opportunities for misappropriation of District funds.

3) Supporting documentation of purchases made by the District should be maintained according to record retention policies. Our review determined supporting documentation for the following areas of testing were not available for review:

   a. Accounts payable: 3 invoices, totaling $148,343.
   b. Search for unrecorded accounts payable (may or may not include 2005-06 expenditures): 17 invoices, totaling $1,864,365.
   c. Federal compliance testing for Foster Kinship and Care Program: 1 invoice for $7,098. See finding 06-27.
   d. Federal compliance testing for TRIO - Talent Search Program: 7 Invoices, totaling $18,713. See finding 06-27.

Recommendation

Our recommendations to the above items are as follows:

1) Assign someone the responsibility to monitor and maintain grant activities occurring during the fiscal year. Doing so will enable the District to reconcile the Federal and State categorical revenues reported to the actual program expenditures reported in the General Ledger. If an encroachment occurs, transfer an appropriate amount to cover the additional costs incurred by the restricted programs.
2) Review procedures related to: cash receipts; accounts payable; disbursements; properties; payroll; and electronic data processing to determine additional safeguards that should be implemented to strengthen the internal controls.
3) Implement filing and record keeping procedures to ensure supporting documentation is not misplaced or lost.

Current Status

Not implemented. See current year finding 2007-1.

ACCOUNTS RECEIVABLE

2006-5 Finding

Monitoring procedures should be in place for accounts receivable to ensure accrued amounts are received and are proper. Our review identified the following concerns related to accounts receivable:

- The unaudited balance of accounts receivable in the General Fund, restricted and unrestricted, had a negative balance of $204,113. Multiple audit adjustments and reclassifications were identified and the audited accounts receivable has a positive balance of approximately $3.5 million.
- Accruals set up in the previous year are not monitored for receipt.
- Multiple accruals related to 2005-06 were booked backwards, decreasing accounts receivable and revenue.
- Federal and State schedules were not prepared before the year end closing process; therefore, closing entry accruals were not prepared.

Recommendation

Implement monitoring procedures for all accounts receivable accounts.

Current Status

Not implemented. See current year finding 2007-15.

CAPITAL ASSETS

2006-6 Finding

During our testing of the District's capital assets, we noted the following concerns related to the internal controls:

1) The District has not tracked additions and/or deletions. Additions to the fixed asset report for equipment are not reconciled to the total payments charged to the capital outlay accounts. Such a reconciliation would ensure that all additions that qualify under the District's capitalization policy are appropriately included in the fixed assets report.
2) The District has not adequately tracked equipment disposals using the fixed asset listing format and has, therefore, not been able to remove the historical cost of disposed equipment from the fixed assets report.
3) The costs for current construction projects are not tracked in a manner that enables the District to record construction in progress on the Statement of Net Assets.

A consultant was hired by the District to identify additions and construction in process and calculate the current year depreciation.

Recommendation

A conscious effort should be made to properly account for fixed assets, in accordance with the capitalization policy of the District, to ensure the ability to fully comply with the requirements of GASB 34, we have the following recommendations related to the above findings:

1) Implement procedures to ensure that all fixed asset purchases are updated on the fixed asset listing. In addition, procedures should be implemented to reconcile annual additions to the inventory listings.
2) Update the equipment listing regularly by removing the historical cost of the disposed items in order to present an accurate fixed asset valuation.
3) Develop a system to track construction in progress on the various projects. Amounts must be reflected on the District's financial statements.

Current Status

Not implemented. See current year finding 2007-4.

ACCOUNTS PAYABLE

2006-7 Finding

An important aspect of the year end closing process is the accrual of liabilities related to services of goods received prior to June 30th. We found that there were several obligations, predominately related to construction projects that were not properly accrued at year end for services performed prior to June 30, 2006. These obligations should have been included as 2005-06 expenditures in the Building Fund. An audit adjustment of approximately $239,000 was proposed for unrecorded expenditures noted in our subsequent payment testing.

Recommendation

Implement a process to assure that project managers forward information to the Accounts Payable Department to allow for proper cut-off procedures in recognizing expenditures at year end. Project managers should review all existing contracts and work performed as of the end of year to determine the appropriate accruals.

Current Status

Not implemented. See current year findings 2007-10 and 2007-14.

ACCRUED VACATION

2006-8 Finding

We noted the following related to accrued vacation:

1) Accrued vacation should be calculated with correct pay rates. Of the 198 employees with an accrued vacation balance, we traced the pay rate of 30 employees to the June 2006 pay register. Our review identified 9 of the 30 employees reflected the wrong pay rate representing an over accrued error rate of approximately -2.2% or ($51,000).
2) A vacation accrual valued at approximately $345,077 is still reported for individuals no longer employed by the District. Based on inquiry, upon termination, employees were paid their vacation accruals up to the 352 hour maximum, in agreement with District policy. The remaining balances represent vacation accruals in excess of 352 hours.
3) According to District policy, the maximum accruable vacation time for an employee is 44 days or 352 hours unless specifically approved for excess accumulation by the President/Superintendent and Board of Trustees. Applying the 352 hour maximum to the accrued vacation listing, it appears that 50 of 189 employees have accrued vacation time over the maximum, representing an approximate $1.0 million liability, not including benefits. Of this $2.3 million liability, approximately $1.1 million represents the excess liability for Certificated and Classified Management which mayor may not be allowed by District policy. Controls should be in place to cease the continued accrual of vacation once the maximum of 352 hours has been met. Inadequate controls in vacation accruals represent an excess liability.

Recommendation

Our recommendations to the above items are as follows:

1) Implement additional controls to improve the tracking process and update pay rates accordingly to reflect employee rates at June 30th.
2) Consult with legal counsel regarding the remaining balances for terminated employees to verify whether or not the balances are due to terminated employees.
3) Implement processes and procedures to enforce District policy and decrease the District's liability.

Current Status

Partially implemented. See current year finding 2007-19.

ENROLLMENT FEES

2006-9 Finding

According to the Budget and Accounting Manual (BAM), Chapter 3, Local Revenues and Enrollment Fees are defined as follows:

- Revenue from student charges for enrollment fees authorized by Education Code Sections 76300 and 76140(k) and California Code of Regulations Section 58500 et seq. Such fees are recorded as revenue in the current fiscal year if the related courses begin before the close of the spring term.
- Enrollment fee revenue includes the full amount of the fees charged, regardless of whether the fees are collected. Accounts receivable must be established to record the revenue on enrollment fees charged for the spring term or earlier if such fees are not collected by year end. Uncollectible fees are accounted for as an expense of the district and not an abatement of enrollment fee revenue. Subsequent recovery of accounts that have been written-off should be recorded as Other Local Revenue and not enrollment fee revenue.
- Enrollment fees charged for instructional periods after the close of the spring term are recorded as deferred revenue in the current fiscal year.
- The "merchant discount" (credit card service fee) associated with enrollment fees paid by credit card is accounted for as an operating expense of the district and not a reduction of the enrollment fee revenue. Students may be charged an amount equal to the "merchant discount" provided that use of the card is optional and the charge is allowed by the operating regulations of the credit card issuer. Such a charge is separately identified from enrollment fees and accounted for as Other Student Fees and Charges.

Our review determined the following:

- Fees are recognized as revenue in the year received (i.e. cash basis).
- There are no deferred student enrollment fees as of June 30, 2006 for fees collected in fiscal year 2005-06 that will be recognized as revenue in 2006-07.

- Accounts receivable for enrollment fees accrued in 2004-05 were written off in 2005-06. The journal entry properly decreased accounts receivable but incorrectly decreased enrollment fees for 2005-06. A reclassing journal entry was prepared to increase enrollment fees and increase miscellaneous expenditures for $216,602.
- Accounts receivable for enrollment fees accrued in 2004-05, representing cash collections awaiting deposit, were incorrectly reversed twice. As a result, accounts receivable and enrollment fees were decreased by $47,075. An adjusting journal entry was prepared to correct this error.

Errors in revenue recognition appear to be caused by no one being designated to monitor revenues and lack of knowledge of the BAM. Revenues are incorrectly reported on the general ledger. Lack of monitoring procedures represents a weakness in internal controls.

Recommendation

Recognize enrollment fees according to the BAM and implement monitoring procedures.

Current Status

Not implemented. See current year finding 2007-28.

SELF INSURANCE - WORKERS' COMPENSATION NEGATIVE FUND BALANCE

2006-10 Finding

The District is self insured as described in the footnotes to the financial statements for property, liability and workers' compensation. Workers' Compensation is accounted for in a self-insurance fund as allowed by Education Code 17566. This fund is considered a proprietary fund under governmental accounting standards and is accounted for using the accrual basis of accounting, which is similar to private-sector businesses.

As shown in the Footnote 14, the Workers' Compensation Fund is under-funded. The Workers' Compensation Fund ended the 2005-06 fiscal year with a negative ending balance of $575,828. This negative balance is primarily the result of the recognition of the actuarially determined estimated losses, which are obligations that will be incurred over several years. However, the liability is only at a confidence level of 60%; typically, a confidence level of 90% to 100% is used when recording such losses which would result in a higher liability and a more significant negative ending balance. The District has maintained a positive cash position by applying a funding rate that covers only current costs, but it is not sufficient to fully fund the future obligations using the accountability standards prescribed by GASB 10 for self-insurance activities.

Recommendation

The District must develop a plan to fund the self-insurance programs and cover the current deficits. In addition, we recommend that the District report these liabilities in the self-insurance funds within the Districts' financial reporting system to provide visibility of the financial status throughout the year and at year end.

Current Status

Not implemented. See current year findings 2007-1 and 2007-5.

NEGATIVE FUND BALANCES - VARIOUS FUNDS

2006-11 Finding

All funds should maintain a positive fund balance. As detailed in Footnote 14, the following funds had negative ending fund balances at June 30, 2006:

Unrestricted and Restricted General Funds
Workers' Compensation Fund
Child Development Fund
Student Financial Aid Fund

In addition, the budgeted ending fund balance, after considering 2005-06 audit adjustments, for each of these funds for the year ended June 30, 2007 as follows:

Unrestricted and Restricted General Funds	$(2,655,169)
Workers' Compensation Fund	(575,828)
Child Development Fund	(392,849)
Student Financial Aid Fund	(1,004,462)

Additionally, the Bond Building fund ended the current year with a positive fund balance of $7,704,700 unaudited and $9,491,557 audited; however, the fund has budgeted a net decrease to the ending fund balance of $9,359,091 for 2006-07.

Budgets should be prepared and monitored throughout the year to ensure sufficient funding is available to maintain the current level of operations. If it is decided by management that the current level of operations is to remain the same, other sources of support should be sought after.

Recommendation

Prepare and monitor budgets closely. Implement recovery plans to bring deficit balances to positive balances.

Current Status

Not implemented. See current year finding 2007-1.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

ASSOCIATED STUDENTS

2006-12 Finding

Our review of the Associated Students Fund identified the following:

- Bank reconciliations were not properly prepared. It was noted during our review that the reconciliation for the general account did not include cleared checks according to the bank statement. As a result, the amount stated on the General Account is not correct in the amount of $8,970.
- Supporting documentation is not maintained for one of the three bank accounts. Our review was not able to determine the validity of deposits, transfers and disbursements.
- The financial statement closing process lacks integrity. Inquiries regarding variances resulted in numerous trial balance revisions.

The above observations are weaknesses in internal controls and represent opportunities for misappropriations of District assets. Due to the lack of supporting documentation and the numerous trial balance revisions, the accuracy of the financial statements could not be relied upon which resulted in a disclaimer of opinion regarding this fund.

Recommendation

Implement monitoring procedures to ensure the following:

- Bank reconciliations are accurately prepared and reconciled to the general ledger.
- Supporting documentation is maintained.
- Effective year end closing processes are implemented.

Current Status

Not implemented. The books and records of the Associated Student Government accounts were not available for audit which has resulted in a disclaimed opinion on the balances and activity for the year ended June 30, 2007.

STATE COMPLIANCE

STUDENTS ACTIVELY ENROLLED: CENSUS DATE

2006-13 Finding

As of the last day of business preceding census day, any student who has:

- Been identified as a no show, or
- Officially withdrawn from the course, or
- Been dropped from the course shall not be considered actively enrolled in the course pursuant to CCR, Title 5, Section 58003.1 and 58004.

Based on a limited review of first census instructor drop scantrons, it appears that procedures are not in place to ensure scantrons are turned in timely, prior to census date. Without procedures and controls in place, class rosters are not properly cleared before the census date.

Recommendation

Implement procedures to ensure first census drop scantrons are turned in prior to the course census date.

Current Status

Not implemented. See current year finding 2007-26.

CALWORKS

2006-14 Finding

The Year-End Expenditure Report for CalWORKs should be properly prepared and adequately supported. Our review of the CalWORKs' Year-End Expenditure Report determined that the report did not agree with the general ledger. Our review was unable to determine whether the District met the matching requirements.

Recommendation

In the future, prepare the year end expenditure report using data from the general ledger. The District should contact the California Community College Chancellor's Office to determine whether a corrected and amended Year End Expenditure Report is necessary.

Current Status

Not implemented. See current year finding 2007-27.

ENROLLMENT FEES: REPORTING

2006-15 Finding

The annual CCFS-323 report should be prepared with cumulative information and report actual enrollment fees collected. The annual CCFS-323 report was incorrectly prepared reporting the budget for total fees; fees collected during the last three month period were reported with the difference reported as receivables. Errors in reporting appear to be caused by the lack of monitoring procedures over revenues and the misunderstanding of the reporting requirements. Revenues are incorrectly recognized on the general ledger and on the CCFS-323 report which is used for calculating apportionment.

Recommendation

In the future, prepare the annual CCFS-323 report using data for the entire year. In the meanwhile, correct and amend the 2005-06 annual CCFS-323 report.

Current Status

Not implemented. See current year finding 2007-28.

MATRICULATION: REPORTING

2006-16 Finding

The Year-End Expenditure Report for Matriculation should be properly prepared and adequately supported. Our review of the Matriculation Year-End Expenditure Report determined that the report did not agree with the general ledger and the support provided could not be adequately explained. Our review could not determine whether the District met the matching requirements or whether the expenditures claimed were for the following allowable activities:

1) Admissions and records
2) Student exemption features
3) Assessment procedures
4) Orientation
5) Counseling and advisement
6) Assistance in developing a student's educational plan
7) Post enrollment evaluation of each student's progress
8) Referral of students to available support services
9) Referral of students to specialized curriculum offerings
10) Other (With Chancellor's Office written permission)

Recommendation

In the future, prepare the year end expenditure report using data from the general ledger. The District should contact the California Community College Chancellor's Office to determine whether a corrected and amended Year-End Expenditure Report is necessary.

Current Status

Not implemented. See current year finding 2007-29.

MINIMUM CONDITIONS - STANDARDS OF SCHOLARSHIP FOR REPEATING STUDENTS: COURSE REPETITION AND REMEDIAL COURSES

2006-17 Finding

The following deficiencies were noted during the compliance testing of Minimum Conditions "Standards of Scholarship":

1) The District's board approved policy does not include a policy for repetition of courses for student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment.
2) According to the District Policy: Courses may be repeated only once in subsequent semesters even if a substandard grade was received on repetition, unless the student has the prior approval of the Petitions Committee. Our review determined that apportionment was claimed for repeated courses that were taken by students more then once and did not have proper prior approval via petitions; therefore, the District is not in compliance with district or state regulations. Of our sample of 10 students, 5 students had repeated courses more then once without approval and FTES were claimed for apportionment purposes. Courses repeated are not in compliance with the District's adopted regulations. Based on inquiry, it was determined that the Protocol System does not block a student from registering from a class and mitigating monitoring procedures are not in place. Reporting repeat students represents non-compliance and overstatement of FTES. Our review was not able to quantify the overstated FTES.
3) Our review determined that remedial course repetitions are not being monitored to comply with the limitation of 30 semester units (or 45 quarter units) for remedial course work. Of our sample of 10 students, 3 had remedial course repetitions in excess of the 30 unit limit. Based on inquiry, it was determined that the Protocol System does not block a student from registering in more then 30 units of remedial courses and monitoring procedures are not in place. Reporting students who have taken excess remedial courses for apportionment represents non-compliance and overstatement of FTES. Our review was not able to quantify the overstated FTES.

Recommendation

Identify excessive repetitions and file an amended Attendance Apportionment Report (CCFS-320) for fiscal year 2005-06. The District should take the following steps to revise its policy and implement procedures which will address the weaknesses in monitoring course repetitions:

1) The District should review its policy and amend it to address all requirements per Education Code Sections 70901 (b)(6) and 76232 and California Code of Regulations (Title 5) Sections 51000, 51002, 55750-55765 and 58161. In addition, the District should review the number of course repetitions allowed for all courses, particularly for vocational type courses, where students can benefit from multiple repetitions of a course.

2) Establish procedures to monitor course repetitions and either drop students who register for a course beyond the course repetition limit or do not claim the FTES generated.
3) Establish procedures to monitor remedial course repetitions and either prevent students from registering in remedial courses beyond the 30 unit limit or do not claim the FTES generated.

Current Status

This requirement is no longer applicable to Compton Community College District. See Report on State Compliance.

CONCURRENT ENROLLMENT: HIGH SCHOOL PRINCIPAL RECOMMENDATION

2006-18 Finding

Per Education Code Section 48800 (b)(2), District's should have procedure to require K-12 principals(s) to certify they have not recommended for community college attendance more than 5% or the total number of pupils who completed that grade immediately prior to the time of recommendation. The "Attendance Permit Form for High School Students", signed by the principal, does not include such a statement and no other certification is received. Our review determined that certification was not obtained from the high school principals; therefore we are unable to determine if the District is in compliance with this requirement.

Recommendation

Add a statement on the "High School Concurrent Enrollment Fee Waiver" form for the principal to certify they have not recommended for community college attendance more than 5% or the total number of pupils who completed that grade immediately prior to the time of recommendation.

Current Status

This requirement is not applicable to Compton Community College District. See Report on State Compliance.

CONCURRENT ENROLLMENT: OPEN ENROLLMENT

2006-19 Finding

Per Education Code, Section 76002 and CCR sections 51006, 58050, 58051.5, and 58102-58108, courses should be open to the general public as evidenced by a clear and understandable description of the course published in the official catalog, and/or schedule of classes, and/or addenda. Our sample of 8 concurrently enrolled courses identified 2 courses that were not included in the course catalog and/or had evidence that they were offered through electronic media. These courses included:

- ENGL 20 - Spelling and Vocabulary, Section #4808, Fall 2005
- FIRE 100 - James Shem Fire Academy, Section #2601, Fall 2005

Based on inquiry with the Dean of Instruction, there appeared to be some problems with the course schedule during this term. Courses not advertised according to the above requirements represent non-compliance.

Recommendation

Implement documentation procedures to support and verify advertisement of all courses sections that are created after the course schedule has been published in a manner that ensures that they are open to the general public and that does not give the appearance to limit enrollment to a specific clientele.

Current Status

This requirement is no longer applicable to Compton Community College District. See Report on State Compliance.

NON-CREDIT: COURSE SELF ASSESSMENT

2006-20 Finding

Districts were required to submit a completed non-credit course self assessment for courses in effect during the 2003-04 academic year to the California Community College Chancellors Office by April 18, 2005. The District had only one non-credit course (LRNG 200) for the 2003-04 fiscal year; however, the required self assessment was not completed by the above deadline. Based on inquiry, it appears that the Dean of Academic Affairs was not aware of the requirement. According to the Contracted District Audit Manual (CDAM), "If the district did not have a completed self-assessment on file for the sample selected, then report a compliance finding. Subsequently completed self-assessments should still be reviewed for completeness; however, the compliance finding is not mitigated." During our review, the self assessment was completed and reviewed.

Recommendation

Submit the completed noncredit course self assessment for courses offered during the 2003-04 academic year.

Current Status

This requirement is no longer applicable to Compton Community College District. See Report on State Compliance.

FEDERAL COMPLIANCE

FEDERAL PAYROLL DISTRIBUTION

2006-21 Federal Programs

Title V: Strengthening Institutions-Hispanic Serving Institutions
Foster Kinship and Care Program
TRIO Cluster

Federal Catalog Numbers

84.031S, 84.042A, 84.044A, 84.047A and 93.575

Compliance Requirement

B. Allowable Costs/Cost Principals

Finding

The payroll distribution system used to support the salaries and benefits charged to programs for multi-funded and single-funded employees does not meet all of the standards as required by OMB Circular A-21. An acceptable payroll distribution system for professorial and professional staff includes the preparation of reports that reflect an after the fact reporting of the percentage distribution of activity for employees whether from single or multiple funding sources. Reports must reasonably reflect the activities performed by the employee and confirm through signature of the employee or supervisor that the distribution of activity represents a reasonable estimate of the work performed. Reports must be prepared each academic term, but no less frequently than every six months.

Questioned Costs

Includes salaries and benefits for all professorial and professional staff. Questioned costs have not been quantified for single funded employees because we do not believe there is evidence that employees are being charged inappropriately to the above mentioned programs; however, the District should be aware that if a federal audit was to occur, funding could be in jeopardy.

Title V	$201,787
Foster Kinship and Care Program	63,966
TRIO Cluster	760,570

Recommendation

To comply with payroll distribution standards per OMB Circular A-21, the District must implement a payroll distribution system that meets all required standards. The District's system must include at least semi-annually a statement that the work was performed and payroll charges are reasonable in relation to the work performed signed by the employee or the appropriate responsible officiate(s). In addition the system must provide for an independent internal evaluation of the system to ensure integrity of the records and compliance with the above standards.

Current Status

Not implemented. See current year finding 2007-22.

STUDENT FINANCIAL AID - FEDERAL WORK STUDY TIME CARDS

2006-22 Federal Program

Federal Work Study (FWS)

Federal Catalog Number

84.033

Compliance Requirement

N. Special Tests and Provisions

Finding

Time cards should be signed by the student employee. The signature on a FWS time card for one student was inconsistent and did not match the signature on documents in the financial aid file. Based on inquiry, it is assumed that the department might have signed the time card so the employee could be paid.

Questioned Costs

Unable to determine.

Recommendation

Implement controls to ensure time cards are only signed by the student employees.

Current Status

Implemented.

STUDENT FINANCIAL AID - PELL GRANTS DISBURSEMENTS

2006-23 Federal Program

Pell Grants

Federal Catalog Number

84.063

Compliance Requirement

N. Special Tests and Provisions

Finding

Students should be accurately paid based upon their enrollment status. Our testing identified 3 students out of a sample of 26 whom were incorrectly paid. Our review was unable to determine why these errors occurred. It is pertinent to implement controls to ensure students are paid correctly to avoid the risk of unallowable expenses. Students identified as being incorrectly paid in our review were communicated to management in our interim letter dated June 19, 2006.

Questioned Costs

$2,956.

Recommendation

Implement procedure to accurately calculate payments and review all payments before they are distributed. If not already done, properly report overpayments to the NSLDS.

Current Status

The Compton Community College District no longer administers Pell Grant Programs due to the loss of accreditation.

UNALLOWABLE COSTS

2006-24 Federal Program

Title V: Strengthening Institutions-Hispanic Serving Institutions

Federal Catalog Number

84.031S

Compliance Requirement

A. Activities Allowed or Unallowed
B. Allowable Costs/Cost Principals

Finding

Employees should be charged to a federal program only if they are directly involved in the program. Our testing identified an instructor whose salary and benefits were incorrectly charged to Title V. We verified with the program director that this employee has no involvement with this grant. Total salary paid to this employee, between the period of October 2005 and April 2006 was $5,064.

Benefits are estimated (using the following percentages applied to the salary: STRS 8.25%, Medicare 1.45%, Unemployment Insurance 0.45%, Workers' Compensation 2.75%) to be $653. It appears that this employee was improperly charged to the Title V program due to the implementation of a position control system, in which, this employee had the wrong position code. Only employees that participate in activities related to a particular grant should be charged to that grant.

Questioned Costs

$5,717.

Recommendation

Implement monitoring procedures to ensure expenditures charged to programs are appropriate.

Current Status

Not implemented. See current year finding 2007-22.

INTERNAL CONTROLS

2006-25 Federal Programs

Title V: Strengthening Institutions-Hispanic Serving Institutions
Foster Kinship and Care Program
TRIO Talent Search

Federal Catalog Numbers

84.031S, 93.575, and 84.044A

Compliance Requirement

I. Procurement and Suspension and Debarment

Finding

Recommended improvements to internal controls over Federal programs and purchasing were identified and addressed in our interim letter dated December 21, 2006. Based on responses to the internal control questionnaires, internal controls are not in place for suggested controls. Weaknesses in internal controls represent opportunities for misappropriation of Federal funds received by the District.

Questioned Costs

Not applicable.

Recommendation

Review procedures related to Federal programs and purchasing to determine additional safeguards that should be implemented to strengthen the internal controls.

Current Status

Partially implemented. See current year finding 2007-25.

SUPPORTING DOCUMENTATION

2006-26 Federal Programs

Foster Kinship and Care Program
TRIO Talent Search

Federal Catalog Numbers

93.575 and 84.044A

Compliance Requirement

B. Allowable Costs/Cost Principals

Finding

Supporting documentation of purchases made by the District should be maintained according to record retention policies. Supporting documentation was not available for review for compliance testing related to Foster Kinship and Care Program (1 invoice) and TRIO - Talent Search Program (7 invoices).

Questioned Costs

$7,098 and $18,713, respectively.

Recommendation

Implement filing and record keeping procedures to ensure supporting documentation is not misplaced or lost.

Current Status

Not implemented. See current year finding 2007-9.

DRAWDOWNS

2006-27 Federal Programs

Title V: Strengthening Institutions-Hispanic Serving Institutions
TRIO Talent Search

Federal Catalog Numbers

84.031S and 84.044A

Compliance Requirement

C. Cash Management

Finding

Drawdowns documentation for Federal Programs should be adequately supported and available for review. Our review determined the following:

Title V -

- Documentation for drawdowns posted to the general ledger was not available for our review.
- Expenditures did not agree with amounts drawn down.
- Drawdowns do not appear to be drawn on a reimbursement basis. An audit adjustment was made to recognize deferred revenue related to the program.

TRIO Talent Search -

- Documentation for two of the drawdowns posted to the general ledger was not available for our review.
- Drawdown support dated April 7, 2006, for expenditures during the period of March 2006, in the amount of $12,358.06, was not posted to the general ledger.
- Expenditures documented in the drawdown supporting spreadsheets for specific expenditure periods did not agree with expenditures in the general ledger during that period.
- Considering 2004-05 had deferred revenue of $40,851, drawdowns do not appear to be drawn on a reimbursement basis.

Based on the information above we are unable to determine if revenue is correctly stated for TRIO Talent Search. Additionally, without adequate supporting documentation, we are unable to determine if drawdowns were properly done for either program.

Questioned Costs

We are unable to determine the exact questioned costs. Specifics regarding the above observation were communicated to management in our December 21, 2006 interim letter. Revenues and expenditures for the programs were $527,179 and $180,483 respectively. Title V has a deferred revenue of $263,954 and TRIO has an accounts receivable balance of $54,041.

Recommendation

Implement drawdown procedures to include the monitoring of revenue posting to the general ledger and ensure the drawdown of excess funds does not occur. Additionally interest earned on excess drawdowns should be returned to the funding agency.

Current Status

Not implemented. See current year finding 2007-23.

SUBRECIPIENT MONITORING

2006-28 Federal Program

Title V: Strengthening Institutions-Hispanic Serving Institutions

Federal Catalog Number

84.031S

Compliance Requirement

M. Subrecipient Monitoring

Finding

Monitoring controls over subrecipients should include the following:

- Audit reports should be received from subrecipients; the pass-through agency should make timely management decisions on the audit and monitor findings within six months after receipt of the subrecipient's audit report.
- The pass-through agency should monitor the subrecipient to determine if they are taking corrective action on any findings.
- Subrecipient noncompliance should be reflected in the pass-through entity's records.

During our review, it was determined that the District's subrecipient for Title V does not provide the District with a copy of their audit report. The District is not in compliance with subrecipient monitoring requirements as the District is not adequately monitoring their subrecipient and ensuring corrective action is taken on findings, if any. Although the subrecipient's findings were related to a different program, monitoring procedures are not in place.

Questioned Costs

None.

Recommendation

Implement procedures in requesting audit reports from subrecipients and follow up on necessary findings.

Current Status

The Compton Community College District no longer administers subrecipient programs due to the loss of accreditation..

SPECIAL TESTS AND PROVISIONS

2006-29 Federal Programs

Supplemental Education Opportunities Grant (SEOG)
Pell Grant

Federal Catalog Numbers

84.007 and 84.063

Compliance Requirement

N. Special Tests and Provisions

Finding

During our testing for Return to Title IV compliance we noted the following:

- The Return to Title IV records for Fall 2005 could not be located and we were unable to complete the compliance requirements for this semester.
- For the two students tested for Spring 2006, we were unable to determine if the District had returned its portion of the overpayment to the Department of Education.
- For one of the students tested we were unable to determine if the student had repaid the overpayment amount.

Questioned Costs

$1,227 reimbursement for students tested.

Recommendation

Our recommendations for the above items are as follows:

- The District should attempt to locate the missing Return to Title IV records for Fall 2005.
- The District should reimburse any outstanding Return to Title IV (District and student) obligations to the Department of Education.
- The District should also follow up· on any student reimbursements which have not been collected.

Current Status

This requirement is not applicable to Compton Community College District because they no longer have a Federal SEOG Program due to the loss of accreditation.

STUDENT FINANCIAL AID REPORTING

2006-30 Federal Programs

Supplemental Education Opportunities Grant (SEOG)
Federal Work Study

Federal Catalog Numbers

84.007 and 84.033

Compliance Requirement

L. Reporting

Finding

The District is required to submit the Fiscal Operations Report and Application to Participate (FISAP) by October 1 following the end of the award year. The District did comply with this filing requirement but the information contained in the report was inaccurate with regard to Parts IV, V and VI, Section B. As of the audit completion date a revised FISAP had not been completed and the information reported for SEOF, Federal Work Study and Administrative Cost Allowance had not been audited.

Questioned Costs

There are no questioned costs related to this finding.

Recommendation

We recommend the District revise and resubmit the FISAP with accurate data for the sections noted above.

Current Status

The Compton Community College District no longer administers Supplemental Education Opportunities Grants due to the loss of accreditation.

INTERNAL CONTROL PROCEDURES FOR STUDENT AID PAYMENTS

2006-31 Federal Programs

Supplemental Education Opportunities Grant (SEOG)
Pell Grant

Federal Catalog Numbers

84.007 and 84.063

Compliance Requirement

C. Cash Management

Finding

Student aid disbursement information provided by the Student Financial Aid Office was determined to be inaccurate. During the fiscal year numerous student aid disbursements prepared by the Fiscal Services Office based on this information were determined to be incorrect. The invalid payments should have been cancelled and student records and the District's cash account should have been adjusted to reflect the corrections. The cancelled payments were accumulated but no adjustments were made to the cash account. Due to this problem, the District did not request reimbursement for aid disbursed to students for the Spring 2006 semester and a portion of the Fall 2005 semester.

Questioned Costs

Approximately $225,600 of invalid payments were generated.

Recommendation

Student aid disbursement information should be thoroughly checked to verify student's eligibility for aid prior to submitting payment listings to Fiscal Services Office. Any cancelled payments should be corrected in the District's records and the cash account appropriately adjusted at the time payment is determined to be invalid.

Current Status

The Compton Community College District no longer administers Supplemental Education Opportunities Grants due to the loss of accreditation.

EARMARKING

2006-32 Federal Program

TRIO Talent Search

Federal Catalog Number

84.044A

Compliance Requirement

G. Matching, Level of Effort, Earmarking

Finding

Earmarking requirements specify that a minimum or maximum amount, or a percentage of funding, must be used for specified activities. In accordance with 34 CFR sections 643.10 and 643.7, at least two-thirds of the individuals served by a TRIO Talent Search project must be low-income individuals who are potential first-generation college students. Support documentation to verify whether this earmarking requirement was met was not available for our review. Additionally, documentation was not provided to substantiate if the District is providing services to the identified group. Considering the lack of supporting documentation, we are unable to determine if earmarking requirements were met for TRIO Talent Search.

Questioned Costs

$180,482.

Recommendation

Implement procedures to ensure required supporting documentation is readily available for review by outside agencies and audit inquiries are responded to.

Current Status

Implemented.