

To the Audit Committee and Board of Trustees  
Solano Community College District  
Fairfield, California

We are pleased to present this letter related to the conduct of the audit of the financial statements of Solano Community College District (the "District") as of and for the year ended June 30, 2008. This report is intended to inform the Audit Committee and Board of Trustees of Solano Community College District about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities.

The following summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Solano Community College District's financial reporting process.

#### **The Auditor's Responsibility Under Generally Accepted Auditing Standards**

Our audit of the financial statements of Solano Community College District for the year ended June 30, 2008 was conducted in accordance with auditing standards generally accepted in the United States of America and *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, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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 financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In accordance with *Governmental Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the District's internal control or compliance with laws and regulations.

#### **Adoption of, or Change in, Accounting Policies**

The Audit Committee, Board of Trustees and management have the ultimate responsibility for the appropriateness of the accounting policies used by the District. Significant accounting policies are included in Note 1 to the financial statements. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

### **Adoption of, or Change in, Accounting Policies (Continued)**

The following financial accounting standard has been issued but was not required to be adopted for the year ended June 30, 2008:

#### *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB No. 45). GASB No. 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. GASB No. 45 generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. GASB No.45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. GASB No. 45 is effective in three phases based on a government's total annual revenues. The largest employers would be required to implement the requirements of Statement 45 for periods beginning after December 15, 2006. Medium-sized employers have one additional year to implement the standards, and the smallest employers have two additional years. Earlier implementation is encouraged. The District is currently assessing the potential effect of GASB No. 45 on its net assets, change in net assets and cash flows.

### **Significant or Unusual Transactions**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### **Alternative Treatments Discussed with Management**

We did not discuss with management any alternative treatments within accounting principles generally accepted in the United States of America for accounting policies and practices related to material items during the current audit period.

### **Accounting Estimates and Management Judgments**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include the apportionment revenue and related receivable and deferred revenue. You may wish to monitor throughout the year the process used to compute and record these accounting estimates.

### **Financial Statement Disclosures**

In our meeting with you, we discussed with you the following items as they relate to the neutrality, consistency, and clarity of the disclosures in the financial statements:

- Summary of significant accounting policies.

### **Significant Audit Adjustments**

There were five audit adjustments made to the original trial balance presented to us to begin our audit. These adjustments were reviewed with management and management agreed to record these adjustments in the District accounting records. These adjustments are summarized in the accompanying schedule.

### **Uncorrected Misstatements**

We noted one uncorrected misstatement, that was determined by management to be immaterial to the financial statements taken as a whole, that was not made to the financial statements relating to the bookstore inventory. This uncorrected misstatement is summarized in the accompanying schedule.

### **Other Information in Documents Containing Audited Financial Statements**

We are not aware of any documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited financial statements of the District.

### **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

### **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

**Difficulties Encountered in Performing the Audit**

We encountered several delays in completing the audit due to certain accounts not being updated and accrual entries required by Governmental Accounting Standards Board Statement Nos. 34 and 35 not being posted in a timely manner.

**Material Written Communications Between Management and Our Firm**

Enclosed you will find copies of all material written communications between our firm and the management of Solano Community College District.

\* \* \* \* \*

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Solano Community College District.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees and management and is not intended to be and should not be used by anyone other than the specified parties.

*Perry-Smith LLP*

Sacramento, California  
May 15, 2009

**SOLANO COMMUNITY COLLEGE DISTRICT**  
**SUMMARIZED SCHEDULE OF SIGNIFICANT AUDIT ADJUSTMENTS**  
**JUNE 30, 2008**

<u>Description</u>	<u>Effect – Increase (Decrease)</u>				
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Revenue</u>	<u>Expenses</u>
- Understatement of accrued payroll benefits in the General Fund		\$ 265,900	\$ (265,900)		\$ 265,900
- Understatement of dividends receivable in the General Fund	\$ 438,279		438,279	\$ 438,279	
- Overstatement of sales revenue in the Bookstore Fund	84,619	358,537	(273,918)	(273,918)	
- Understatement of Cash in County Treasury in the General Fund	360,808		360,808		(360,808)
- Overstatement of apportionment revenue in current and prior years		1,808,627	(1,965,055)	156,428	
<b>Total Effect</b>	<b>\$ 883,706</b>	<b>\$ 2,433,064</b>	<b>\$(1,705,786)</b>	<b>\$ 320,789</b>	<b>\$ (94,908)</b>

**SOLANO COMMUNITY COLLEGE DISTRICT**  
**SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS**  
**JUNE 30, 2008**

<u>Description</u>	<u>Effect – Increase (Decrease)</u>				
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Current Year Misstatements</u>					
- Understatement of inventory in Bookstore	\$ 39,272		\$ 39,272		\$ (39,272)
<b>Total Effect</b>	<b>\$ 39,272</b>	<b>\$ -</b>	<b>\$ 39,272</b>	<b>\$ -</b>	<b>\$ (39,272)</b>

To the Audit Committee  
Solano Community College District  
Fairfield, California

In planning and performing our audit of the financial statements of Solano Community College District (the "District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Solano Community College District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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 numbered 4 through 10 in Attachment I to be significant deficiencies in internal control.

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. We believe that the deficiencies numbered 1 through 3 in Attachment I to constitute material weaknesses.

We have also noted other matters, which are opportunities for strengthening internal controls of the District and are numbered 11 through 13 in Attachment I.

This communication is intended solely for the information and use of management, the Audit Committee and Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

*Perry-Smith LLP*

Sacramento, California  
February 3, 2009

**SOLANO COMMUNITY COLLEGE DISTRICT**  
**SUMMARIZED SCHEDULE OF POTENTIAL ADJUSTMENTS**

**JUNE 30, 2008**

<u>Description</u>	<u>Effect – Increase (Decrease)</u>				
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Current Year Misstatements</u>					
- Understatement of inventory in the Bookstore	\$ 39,272		\$ 39,272		\$ (39,272)
<b>Total Effect</b>	<u>\$ 39,272</u>	<u>\$ -</u>	<u>\$ 39,272</u>	<u>\$ -</u>	<u>\$ (39,272)</u>



SOLANO COMMUNITY COLLEGE DISTRICT

MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

JUNE 30, 2008

MATERIAL WEAKNESSES

1. ACH Transfers

ACH transfers from the District's clearing account to the County Treasury are not performed timely. An ACH transfer from the clearing account to the County Treasury was made on January 14, 2008, approximately two months after funds had been deposited in the clearing account. The timing of this transaction led to the accumulation of \$135,306 in the clearing account. Further, registration fees from September 2007 through April 2008 were not cleared to the County Treasury until June 16, 2008, totaling \$2,706,422.

The District should complete ACH transfers to the County Treasury promptly after each deposit is posted to the clearing account.

2. Capital Assets

The District is unable to provide a listing of all capital assets owned as of June 30, 2008. The District does not have a process to track and maintain an inventory of capital assets. Currently, there is no established method for Purchasing to alert Fiscal Services when new capital assets are acquired.

The District should implement procedures requiring communications with Fiscal Services regarding the purchase of capital assets. Further, Fiscal Services should implement procedures to maintain a listing of all capital assets owned by the District. The District should develop procedures to routinely monitor and substantiate the existence of recorded capital assets.

3. Financial Reporting

The District did not prepare the GASB 35 conversion journal entries. Further, the District was unable to provide full-accrual financial statements prior to the start of the audit.

The District should seek training opportunities to ensure personnel have the requisite expertise to complete the District's financial reporting responsibilities.

## SOLANO COMMUNITY COLLEGE DISTRICT

## MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

(Continued)

JUNE 30, 2008

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL4. Bank Reconciliations

The District was unable to provide reconciliations for Cash in County Treasury or bank clearing accounts. The beginning cash balances for the 2007 – 2008 fiscal year could not be reconciled to the County Treasury balance.

The District should implement procedures to ensure all bank and County Treasury accounts are reconciled to the general ledger on a monthly basis. To ensure proper segregation of duties, all reconciliations should be signed and dated by both the preparer and reviewer.

5. Cash Receipts – Bookstore

Segregation of duties at the Bookstore is inadequate regarding cash receipts. The head cashier creates the cash count sheets, the Daily Sales Recap, and inputs the total sales for the day into a spreadsheet. Fiscal Services uses this information to post activity to the general ledger.

Cash at the Bookstore is not counted in dual custody.

The Bookstore sales report summary is not reconciled to the Accounting Clerk's report summary. The Online Sales Daily Sales Recaps are not totaled with the Bookstore Daily Sales Recap by Fiscal Services. Further, these reports are not reconciled to the spreadsheet created by the Bookstore combining the two recap reports. The spreadsheet is used to post general ledger entries by Fiscal Services. However, Fiscal Services is not aware what information is totaled on the spreadsheet.

The District should implement procedures to ensure proper segregation of duties at the Bookstore. Further, procedures requiring reconciliation of the Bookstore Daily Sales Recap and Online Daily Sales Recap to the reconciliation prepared by the Bookstore should be implemented. Fiscal Services employees must receive training on the Bookstore's cash receipts process. The District should ensure there are clear lines of communication between the two departments and job responsibilities are clearly communicated to the employees.

6. Journal Entries

Several journal entries were both approved and entered into the general ledger by the same person. Further, journal entries are not posted to the general ledger in a timely manner. An admission fee journal entry which related to a bank deposit on January 23, 2009 was posted to the general ledger on April 4, 2009.

The District should implement appropriate procedures to ensure all transactions are promptly posted to the general ledger. Further, journal entries should be reviewed and approved by an individual independent of the posting of the journal entry.

SOLANO COMMUNITY COLLEGE DISTRICT

MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

(Continued)

JUNE 30, 2008

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (Continued)

7. Accounts Payable

Unpaid invoices from Bookstore operations were not recorded in accounts payable totals. As a result of this omission, accounts payable for the Bookstore fund was understated by \$62,789.

The District should include procedures in the year-end closing process to ensure all open payables and purchases orders are considered and properly included in accounts payable at year-end.

8. Cash Receipts – District Office

The District did not retain supporting documentation for cash receipts collected at the District Office. The District was not able to provide support for a deposit permit totaling \$135,306. The deposit should have included support for 18 items; however, only two items were located to support the deposit.

Further, detailed in the Cashier's Summary, one deposit for \$160.63 was not found in the general ledger.

The District should implement procedures to ensure all supporting documentation is maintained. General ledger transactions should be reviewed and deposit totals should be reconciled to bank statements and the general ledger to ensure all items have been recorded.

9. Cash Disbursements – Bookstore

There is no indication of review of vendor payments related to Bookstore transactions. The Vendor Payment Sheet used to indicate proper management authorization, support for receipt of goods, and review for the appropriateness of budget codes and mathematical accuracy, is not being signed.

District personnel should initial documents after review and approval of the transaction as evidence that key controls are in place, and operating effectively.

## SOLANO COMMUNITY COLLEGE DISTRICT

## MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

(Continued)  
JUNE 30, 2008

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (Continued)10. Uses of Matriculation Funds

The District charged expenditures to the Matriculation Program which are not activities claimable against the Program. The District charged the following unallowable expenditures:

- The District charged \$13,687 in consulting costs related to the preparation of the District's CCFS-320.
- The District transferred non-credit related expenditures to credit classification in order to meet State match requirements.

The extrapolated fiscal impact of the finding is \$201,845. The District should review all matriculation related expenditures to ensure they meet one of the ten allowable classifications and are properly classified as credit or non-credit.

11. Cash Disbursements – District Office

There was no evidence of review of the invoice, purchase order or receiving report documents, before posting the payment into the Banner system.

The District should implement appropriate procedures to ensure all documents are matched and reviewed before the payment is recorded or completed.

STATE COMPLIANCE12. Concurrent Enrollment of K-12 Students in Community College Credit Courses

The District received apportionment for special part-time and full-time students enrolled in physical education courses in excess of the maximum allowable. The District is limited to 5 percent apportionment generated by special students enrolled in physical education. The District claimed 11.1 FTES in excess of the maximum allowable per Education Code Section 76002(a)(4).

The District should actively monitor the maximum allowable FTES generated from special admittance students enrolled in physical education classes. Further, the District should revise and revise the Annual CCFS-320 Report of Attendance.

SOLANO COMMUNITY COLLEGE DISTRICT

MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

(Continued)

JUNE 30, 2008

FEDERAL COMPLIANCE

13. Student Financial Aid – Federal Work Study

The District did not allocate any of its Federal Work Study allocation toward students employed in the community service activities. The District should have allocated at least \$16,800 to community services activities supported by Federal Work Study.

The District should monitor their allocation to students employed in community service activities in order to meet Federal requirements.