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July 10, 2018

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Ms. Rosa Royce
Chief Compliance and College Budget Officer
MT. San Antonio Community College District
1100 North Grand Avenue
Walnut, CA 91789

**Subject: Report on Fiscal Oversight for Fiscally Independent School Districts for
Fiscal Year Ending July 1, 2016 to June 30, 2017**

Dear Ms. Royce:

Pursuant to Education Code Section 85237.5 the County Superintendent shall provide for a periodic review of the districts' financial transactions and internal controls.

Education Code Section 85237.5 (a) states that at any time during a fiscal year, the county superintendent may audit the expenditures and internal controls of community college districts that he or she determines to be fiscally accountable. The County Superintendent shall report his or her findings to the governing board of the districts. Education Code Section 85237.5 (b) states that the governing board shall, no later than 15 days after receipt of the report made under this section; notify the county superintendent of schools of its proposed actions on his or her recommendation. Upon review of the governing board report, the county superintendent, at his or her discretion, may revoke the authority for the district to be fiscally accountable pursuant to section 85266. Education Code Section 85266.5 (m) states that if at any time the county superintendent of schools determines that the accounting controls of the district have become inadequate, he or she may recommend to the Board of Governors that the approval be revoked, to be effective on the first day of the next following fiscal year.

The fiscal oversight review for fiscal year July 1, 2016 to June 30, 2017, for Mt. San Antonio Community College District (MT. SAC) was initiated by the Division of School Financial Services (SFS) of the Los Angeles County Office of Education (LACOE) on April 18, 2018. The monitoring and fiscal oversight review was conducted to examine the adequacy of the district's internal control procedures and to verify that the district satisfactorily meets the following four accounting control standards required for fiscal independence.

Standard 1: Adequate Fund Balance: The district has avoided deficit balances in its governmental funds and has maintained a prudent reserve in its unrestricted general fund over the preceding five fiscal years.

Standard 2: Statute and Governing Board: The district makes only lawful and appropriate expenditures in carrying out the programs authorized by statute and by the governing board.

Standard 3: Adequate Internal Controls: The staffs of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments are adequate in numbers and skill level to conduct administrative programs independent of detailed review by the county office of education and to provide an internal audit function that assures adequate internal control.

Standard 4: Legality and Propriety of Transactions: The staffs of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments exercise independent judgment to assure the legality and propriety of transactions.

The fiscal oversight review was conducted in accordance with the fiscal oversight procedures and internal control questionnaire prepared by SFS and in accordance with the fiscal independence questionnaire developed by the California Community Colleges, Systems Office. Our review was for limited purposes described in this objective and was not designed to identify all deficiencies in internal controls and deficiencies in the adherence to the above Board of Governors standard that might result in material weaknesses in the overall operations of MT. SAC as a fiscally independent school district.

Based on the documents and information provided, it is LACOE's opinion that MT. SAC has adequate internal control procedures in place and materially complied with all four required accounting control standards prescribed by the Board of Governors. LACOE also noted that the district has materially complied with the Fiscal Independence Plan. The attachment contains our objectives, scope and methodology, results of our review, and recommendations.

We appreciate the assistance and cooperation received from all personnel of MT. SAC who participated to complete this review.

Sincerely,



Patricia Smith, Executive Director
Business and Finance

PS:lt
Attachment

cc: Michael Gregoryk, Vice President, Administrative Services, Mt. SAC
Stephen Garcia, Interim Associate Vice President, Fiscal Services, Mt. SAC
Shelly Zahrt-Egbert, Director of Accounting, Fiscal Services, Mt. SAC
Teresa Patterson, Director of Purchasing, Fiscal Services, Mt. SAC
Richard Lee, Director of Payroll, Fiscal Services, Mt. SAC
Candi Clark, Chief Financial Officer, Business Services, LACOE
Ophie Vengco, Financial Operations Consultant, LACOE

**Los Angeles County Office of Education
Division of School Financial Services
Fiscal Oversight Report Fiscally Independent School Districts
Mt. San Antonio Community College District
July 1, 2016 to June 30, 2017**

Background

Mt. San Antonio College is a public Community College committed to providing quality education to help students in achieving their educational goals in an environment of academic excellence. It is classified as a Public Educational Institution under Internal Revenue Code Section 115. The governing authority consists of elected officials, who together constitute the Board of Trustees. The District's elected officials have the ability to exercise oversight responsibility that includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters. As stated in the audited financial report as of June 30, 2017, the District is the largest, single-campus community college district in the state and proudly celebrates over 69 years of educational excellence.

Pursuant to Education Code section 85266 effective July 1, 2009 the Los Angeles County Office of Education (LACOE) granted Mt. SAC Fiscal Accountability status. As part of the process the integrity and security of the Banner Finance and Human Resources/Payroll systems were validated by a team of external auditors. The auditors also validated that the District had a system of adequate internal controls, processes and procedures. As a result of Fiscal Accountability status, the District has independently performed all banking, cash management, and cash reconciliation functions directly with the Los Angeles County Treasurer. In addition, the District assumed oversight for the internal audit function for the issuance of payroll and commercial warrants.

Pursuant to Education Code Section 85266.5, Fiscal Independence is granted effective July 1, 2012 upon the approval of the Board of Governors of the California Community College Systems. The Board of Governors concurs in the recommendation of the Los Angeles County Superintendent of

Schools and the County Auditor/Controller and approves fiscal independence status for Mt. San Antonio Community College on November 7, 2011 to be effective July1, 2012. As a result of Fiscal Independence status, the District assumed majority of the responsibilities previously performed by the County Office of Education for fiscal, budget, human resources/payroll, and financial management systems processing. The Los Angeles County Office of Education still retains high level oversight of the district, ensure that the District complies with the approved Fiscal Independence Plan and the accounting controls of the district are adequate.

Education Code Section 85266.5 (m) states that if at any time the County Superintendent of Schools determines that the accounting controls of the district have become inadequate, he or she may recommend to the board of governors that the approval be revoked, to be effective on the first day of the next following fiscal year. Pursuant to Education Code section 85237.5 (a) at any time during a fiscal year, the County Superintendent may audit the expenditures and internal controls of community college districts he or she determines to be fiscally accountable. The county superintendent shall report his or her findings and recommendations to the governing board of the districts.

Objectives:

The objective of the review is to verify the District complies with the requirements of Ed Code sections 85237.5, 85266.5 (m) and 85237.5 and to determine the effectiveness and efficiency of the financial management and accounting controls. The financial records, audited financial report as of June 30, 2017, internal control procedures, and responses to series of internal control and fiscal independent review questionnaires were reviewed with the following objectives:

1. To verify the adequacy of the internal controls put in place for fiscal independence.
2. To verify any changes or weaknesses in the district internal controls as it appears in the audit report.
3. To verify the district complies with approved fiscal independence plan.
4. To verify the district's adherence to the four (4) accounting standards.

Scope and Methodology:

- A. Review of June 30, 2017 audit report issued by the district's Independent Certified Public Accountant to verify auditor's report related to the four accounting control standards such as:
- Adequate fund balance,
 - Statute of governing board,
 - Adequate internal controls and
 - Legality and propriety of transactions.
- B. Review of Organizational Chart- Ensure that there are no incompatible functions to mitigate process risks associated with functional business areas and the district has adequate staff in numbers and skill level to conduct administrative programs independent of detailed review by LACOE.
- C. Review of Fidelity Bond – The Disbursing Officer authorized by the Board to issue warrants pursuant to Education Code section 85266 would execute an official bond in an amount fixed by the Board.
- D. Review of District's responses to the Fiscal Independent Review Questionnaire developed by the California Community Colleges System Office – To verify the District's adherence to the four accounting control standards.
- E. Review of District's responses to the Internal Control Questionnaire developed by the Los Angeles County Office of Education – To verify the adequacy of the District's Accounting and Administrative controls over District's operation.
- F. Review of District's cash reconciliation between L.A. County eCAPS financial system and LACOE's PSFS system including payroll and vendor warrants bank reconciliations for the months ending June 30, 2017, September 30, 2017, and December 31, 2017 – Ensure the reconciliation of the District's records (general ledger account) against the Los Angeles County Auditor-Controller account (eCAPS cash account) is performed to address the following:
- Timely Reconciliation

- Mathematical Accuracy
- Timely Adjustment of Reconciling Items
- Management Review of Reconciliation

The annual fiscal monitoring review was conducted by the Reconciliation & Review Unit of the division of School Financial Services of LACOE to evaluate the district's ability to continue to issue warrants directly on the county treasury without approval and review of the county auditor and county superintendent of schools, to ensure the district has adequate accounting and administrative controls over the district's operation, and to verify the district consistently met and is in compliance with the four accounting standards. LACOE reviewed the district's audited financial report for the period ending June 30, 2017 issued by Vavrinek, Trine, Day & Co., LLP (VTD), the District's Independent Certified Public Accountant. In addition to the audited financial report the following documents were also reviewed:

1. District responses to the Internal Control Questionnaire developed by School Financial Services, a division of LACOE.
2. District responses to the Fiscal Independence Review questionnaire developed by California Community Colleges, System Office through the consultation process covering the following four accounting standards:
 - a. Standard 1: Adequate Fund Balances – The district has avoided deficit balances in its funds and has maintained a prudent reserve in its unrestricted general fund over the preceding five fiscal years.
 - b. Standard 2: Statute and Governing Board – The district makes only lawful and appropriate expenditures in carrying out the programs authorized by statute and by the governing board.
 - c. Standard 3: Adequate Internal Controls – The staff of the district are adequate in number and skill level to administer administrative programs independent of detailed review by the county office of education and to provide internal audit functions that assure adequate internal controls.
 - d. Standard 4: Legality and Propriety of Transactions – The staff of the district exercise independent judgment to assure the legality and propriety of transactions.

3. March 2017 Organizational Chart
4. February 2018 Organizational Chart
5. Evidence of coverage for the District Disbursement Officer
6. District's Trial Balance as of June 30, 2017, September 30, 2017, and December 31, 2017.
7. Cash Reconciliations as of June 30, 2017, September 30 2017, and as of December 31, 2017.
8. List of Outstanding Commercial and Payroll Warrants to verify that the District reversed all stale dated warrants after six (6) months from the date the warrants were issued as of the following dates:
 - September 30, 2016
 - December 31, 2016
 - March 31, 2017
 - June 30, 2017

Results of the Review:

1. Review of District Audited Financial Report as of June 30, 2017 issued by the District's Independent Certified Public Accountant.

Independent Auditor's report on financial statements: As stated on page 2 of the audit report, the audit was conducted 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, and the 2016-17 Contracted District Audit Manual, issued by the California Community Colleges Chancellor's Office. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of materials misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

Page 15 of the audit report states that the total cash balance of the District as of June 30, 2017 had a net increase of \$52.2M. Breakdown and details of the increase are as follows:

- General Fund cash was increased by \$10M primarily as a result of property tax revenues received for the ERAF and Redevelopment.
- An increase of \$1.3M in the Capital Outlay and Bond Interest Redemption funds.
- A net increase of \$40.9M in the Bond construction Fund— (\$89.8M less \$48.9M = \$40.9M)

The cash of the District was also increased by \$89.8M as a result of the receipt of Measure RR Bond Anticipation Notes in April 2017 and was decreased by \$48.9M for payments made for the following:

- Business and computer technology building
- Athletics complex phase 2
- Central plant chilled water project
- Temporary space portable building 40
- Portable building 16E
- Portable athletic buildings
- Language lab expansion in building 66

Capital assets of the District had a net increase of \$42.3M with total additions of \$64.5M related to equipment purchases, site and site improvement, capitalized interest and construction in progress. The District recognized depreciation expense of \$13.2M during 2016-17.

Page 17 of the audit report states that the purpose of the Statement of Revenues, Expenses, and Change in Net Positions 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 and/or losses earned or incurred by the District. The statement presents the District's result of operations. Below is the summary of the result of the operations:

- The total operating revenues for 2017 is \$20.2M an increase of \$0.7M compared to year 2016 with total operating revenues of \$19.5M.
- The total operating expenses for 2017 is \$293.5M an increase of \$ 12.4M compared to year 2016 with total operating expenses of \$281.1M
- The District has operating loss of \$273.4M in year 2017, an increase of \$11.8M compared to year 2016 with a total operating loss of \$261.6M
- The total District expenses exceeded total revenues by \$21.8M for year ended June 30, 2017.
- The net change in Net Position of the District for year 2017 is negative \$21.7M an increase of \$17.1M compared to year 2016 with a total net change of \$4.6M.

Reasons for large increase in total net change are as follows:

The District experienced decline in student enrollment during the fiscal year 2016-17. The net increase in operating expenses of \$12.4M is mainly due to ongoing 1% salary increase, increase in the annual health and welfare allocations for all employee groups, new positions approved through the colleges' new resources allocation process, increase in CalSTRS and CalPERS employer contributions, increase in pension obligations as established by GASB 68 and increase in depreciation expense as new buildings are completed depreciation expense is recognized.

Page 23 of the audit report states that as of June 30, 2017, the District's overall financial position is strong due to prior year's prudent fiscal management which resulted in a healthy balance of \$43.9 M in the Unrestricted General Fund. The following factors may affect the future of the District:

- Economy: With the governor's 2017-18 budget the District plans to increase course offering for fiscal year 2017-18. However, as the economy continues to improve, historically, community colleges tend to experience a decline in enrollment. Community colleges throughout the State will have significant growth challenges.

- **Costs in Employer Contributions:** The economic position of the District is closely tied to the State of California. A significant concern that may affect the District in the future is the escalating costs increases in employer contributions due to state's adopted STRS and PERS funding plan, where rates will increase every year through 2020-21.
- **Subsequent Events:** Effective July 1, 2017 faculty and management employee group will receive a 2% salary and health and welfare increase, the confidential employee group will receive a 2.19% salary increase, and the CSEA employee group will receive 2.22% salary increase.

Custodial Credit Risk – Deposits: Page 48 of the audit report states that “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, 2017, the District’s bank balance of \$281,553 was fully secured or collateralized with securities, held by the pledging financial institutions trust department in the District’s name. In this case the District is in compliance with the requirement of the California Government Code requiring that a financial institution secure deposits made by the State or local government units by pledging securities in an undivided collateral pool by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agency. The audit report did not state whether the market value of the pledged securities held by the pledging institution was equal to 110% of the total amount deposited by the District.

Recommendation:

LACOE recommends that although the District is currently in compliance with the requirement of the California Government Code, it will be for the benefit of the District for internal control purposes to have written policies and procedures for custodial risks. The written procedure will be an easy access reference on how to protect the District’s deposits of this type and to ensure compliance on the requirements of the California laws and

government codes. This will be very helpful especially when there is a change of employee responsible in monitoring this type of deposit.

Litigation: Page 72 of the audit report states that “The District is involved in various litigation arising from the normal course of the business. In the opinion of the management and legal counsel, the disposition of all litigation pending is not expected to have material adverse effect on the overall financial position of the District at June 30, 2017. Per LACOE’s reviewer telephone discussion with VTD auditor on May 2, 2018 majority of the litigation are related to the construction project. Payment and settlement of these litigations will be funded from Bond Construction Funds (Fund 42) and from the Capital Outlay Funds (Fund 41) and therefore payments and settlement of these litigations will have no effect on the unrestricted fund balance and unrestricted expenditures. The balance of these fund accounts are used in the calculation of the actual percentage (%) of the District’s reserve for the year under review. The fund balance is also used to determine if the District is meeting the guidelines recommended by the Chancellor’s office that the District should have a minimum prudent ending fund balance of 5% of unrestricted expenditures and the Board Policy of 10% unrestricted ending fund balance.

Reconciliation of Annual Financial & Budget Report (CCFS-311) with Fund Financial Statements: No adjustment reported by the external auditor as stated on page 91 of the audit report.

Financial Trend and Analysis Report: According to the Financial Trend & Analysis Report of the auditor on page 93 of the audit report, the District’s unrestricted general fund expenditure and fund balance for 2017-18 budget year is projected to be \$206,961,399 and \$21,640,461 respectively, which meets the District’s policy of 10% unrestricted ending fund balance. All percentages are of total unrestricted and restricted expenditures combined. The 2017-2018 presents the budget adopted by the Board of Trustees on September 13, 2017. The budget was for analytical purposes only and has not been subjected to audit. The financial trend and analysis schedule of the combined general funds

discloses the District's financial trends by displaying past year's data along with current year budget information. The financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Audit Findings: The audited financial report for fiscal year 2015-2016 reported a federal awards finding on Special Tests and Provisions-Return to Title 1V. The District failed to return the portion of the return to Title 1V funds within the 45-day requirement. Another finding was on state awards on Section 424 which is the state general apportionment funding system. The District had a miscalculation of hours. The recommendation of the auditors on both findings had been implemented by the District as stated in the audit report for fiscal year 2016-17. There are no findings reported for year 2016-17.

2. **Review of Adopted Budget** – Title 5 of the California Code of Regulations requires that community college districts use budgets to monitor expenditures as part of sound fiscal management. It is also a management tool used to document and monitor the fiscal plan for the District. The District brought the tentative budget to the Board of Trustees for approval in June.

Mt. SAC ended the fiscal year with strong fund balance (reserve) due to the fiscal prudence of the District. Based on the fund balance analysis prepared by the reviewer using information collected from the District's trial balance as of June 30, 2017 the District ended the year 2016-17 with \$2.9M surplus and \$43.9M adjusted unrestricted fund balance. Compared to the 2016-17 adopted budget fund balance of \$20.8M this is an increase of \$23.1M ($43.9 - 20.8 = 23.1$). As stated on page 2 of the District's Adopted Budget report for fiscal year 2017-18 the following were the reasons for the differences:

- Unbudgeted Revenues for \$4.3M comprised of increase in the 2015-16 Growth; Apportionment Prior Year Adjustments for Faculty Hiring, Increase to the Base and Property Taxes in Vehicle License Fees, Statewide Apportionment Deficit that did not materialize; Non-Resident Tuition, Interest, and other Miscellaneous Revenues.
- Unexpended Expenditure Budgets for \$10.10M which is primarily due to unexpended budgets for hourly faculty, vacancies for budgeted classified and management staff

replacements and committed operating expenses that will carry over to the fiscal year 2017-18.

The District's fund balance as of June 30, 2017, along with the revenues approved in the 2017-18 State budget will enable the District to sustain programs and services and to serve their students at a high level in the new fiscal year.

The District has a favorable budget year but also facing some concerns such as shortfall in state revenues because these revenues considerably rely on State income tax collections from capital gains, which is volatile and the District continues to have major increase in operating expenses primarily due to increase in rates on employer's contributions to STRS and PERS pension obligations for the coming years. Given these circumstances, the District said in their 2017-18 adopted budget, the District needs to strategically plan for the challenges ahead. Their collaborative work to improve efficiencies, capture growth, invest funds to reduce operating costs, and use revenue increases wisely must continue in order to maintain District's fiscal health and stability. Mt. SAC established the Section 115 Mt. San Antonio College STRS/PERS irrevocable governmental trust and has deposited \$8M for employer's pension obligations. The District also plan to contribute an additional \$2M in the 2017-18 fiscal year. Mt. SAC has also a plan to cover their OPEB Trust outstanding debt, and the budget includes an ongoing contribution of \$2.5M.

The 2017-18 budget is based on restoring the decline in FTES and achieving 1% growth. The budget provides increases for staffing, operating expenses, and instructional capacity that will enable the District to meet the increasing demand for student enrollment and to earn maximum growth available. The 2017-18 adopted budget also mentioned that included in the District's budget are the following:

- Ongoing unrestricted general fund revenues of \$182.4M which were projected using information provided by the State Chancellor's Office.
- Ongoing unrestricted general fund expenditures estimated to be at \$183.5M leaving a projected ongoing deficit of \$1.1M. However, the prior year actuals show that the District consistently performs better than what is budgeted due to the conservative assumptions and underspending that occurs throughout the year.

- Salaries and annual health and welfare allocation for all employee groups in the amount of \$3.2M increase of 2% is also included in the budget.
- The budget also includes the 10% reserve mandated Board Policy
- The proposed budget also includes a total of \$12.4M between a prior year fund balance and one- time revenue to fund one-time expenditures for the 2017-18 fiscal year.
- The proposed budget also includes one-time expenditures for a total amount of \$12.4M.
- The Revenue-Generated accounts in the Unrestricted General Fund ended with a fund balance of \$7.8M for year 2016-17. This fund balance, along with the 2017-18 estimated revenue of \$3.2M are the source funding for the budgeted expenditures of \$11.1M

2016-2017 Unrestricted General Fund Adopted Budget vs. Actual Budget

Description	<u>16-17 Adopted Budget</u>	<u>16-17 Actual</u>	<u>Variance</u>
Total Revenue	\$180,687,482	\$193,395,698	\$12,708,216
Total Expenditures	<u>200,867,566</u>	<u>190,475,258</u>	<u>10,392,308</u>
2016-17 Ending Bal.	<u>(\$20,180,084)</u>	<u>\$ 2,920,440</u>	<u>\$23,100,524</u>

2017-18 Unrestricted General Fund Revenue and Expenditures Budget Assumption

Total Ongoing Revenue Budget (Fund 11)	\$182,374,487
Total Ongoing Expenditure Budget (Fund 11)	<u>183,476,155</u>
Total Ongoing Budget Surplus (Deficit) Fund 11	<u>(1,101,668)</u>

- Review of District responses to the Internal Control Questionnaire (ICQ) developed by School Financial Services, a division of LACOE** – A series of yes or no questions to help direct the reviewer to areas and activities where there is a risk of human error and internal control weaknesses was provided to the Chief Compliance and College Budget Officer of Mt. SAC. The responses received from Mt. SAC to the internal control questionnaires were all “Yes” except on question # 5; question # 22 and question # 58. Question # 5 is about changes in the authorized check signers. The District did not have any changes in authorized check signers for year 2016-17. Question # 22 is about changes

to the approved procedures for the processing of warrants issued to the employees and/or vendors since the last review. The District response indicated that there were no changes in the procedures. Question # 58 is about changes made to the approved procedures for the processing of warrants issued to employees since the last review. The response of the District was “No”. There was no change made to the approved procedures of processing warrants since the last review. ICQ #15 is about any amendment or changes on the Fidelity bond issued since the last review. There was a change per response provided by the District. An Associate Vice President was hired in March 2017 and was added to the coverage. The District has been consistent in the implementation of their approved policies and procedures since they applied and was approved for fiscal independence status.

4. District responses to the Fiscal Independence Review questionnaire developed by the California Community Colleges covering the following four accounting standards:

A series of questions developed by the California Community College covering the following four accounting standards was provided to the District.

- a. **Review of Accounting Control Standard 1: Adequate Fund Balance** – A cash balance analysis worksheet was prepared by the reviewer using the information from the district’s trial balance as of June 30, 2017, September 30, 2017 and December 31, 2017. The cash reconciliation between the records of the district and the county auditor-controller’s office for the same period were reviewed. The cash reconciliations were done in a timely manner and reconciling items were booked and adjusted accordingly. There was no mathematical error found. The reconciliations were all signed & dated by both the preparer and the reviewer. The audited financial report of the district as of June 30, 2017 was also reviewed. The auditor’s report showed that the district had a negative change in net position of \$44.2M for the fiscal year ending June 30, 2017. The district has maintained fund balances in its unrestricted general fund at 23.03% which is 18.03% above the minimum 5% of unrestricted expenditures established by the California Community College Systems Office and 13.03% above the Board approved 10% of ending unrestricted fund balance.

Per analysis of the ending fund balance prepared by the reviewer using the data extracted from the District's Trial Balance as of June 30, 2017, the District's overall financial position shows that the Unrestricted Fund Balance resulted in a healthy balance of \$43.9 million. Including all types of funds from fund # 11 to fund # 79 the ending fund balance of the District resulted to a positive balance of \$175.8 M as of June 30, 2017 compared to the ending fund balance as of June 30, 2016 in the amount of \$134.03M. This is an increase in fund balance in the amount of \$41.7M in fiscal year 2017. Per explanation of the Chief Compliance and College Budget Officer, of Mt. SAC the increase in fund balance was due to the funds received by Mt. SAC in the amount of \$30.7M for the issuance of Bond Anticipation Notes in April 2017.

The District has a healthy fund balance reserve as of June 30, 2017. The result of their prior years' performance shows the district has a strong and stable financial position and had consistently complied with their financial plan in the past. Based on the results of the district's operations as of June 30, 2017 the District had materially implemented the principles of sound fiscal management set forth in CCR Section 58311. As a result of the District's operation for fiscal year 2017 and the decrease in the ending fund balance on the 2017-18 budget adopted by the Board of Trustees on September 13, 2017, LACOE would like to recommend the District to continue its conservative approach to maintain a healthy fund balance, to continue to implement the principles of sound fiscal management set forth in CCR Section 58311. LACOE also recommends the District to continue to examine their adopted budget to determine that the District is consistent with a financial plan that will enable the District to continuously meet its financial obligations not only during the current year but also to satisfy its multiyear financial commitment. With regards to the District's concerns on some of the financial challenges in the 2017-18 fiscal year, the District said in their 2017-18 adopted budget - "The District needs to strategically plan for the challenges ahead. Their collaborative work to improve efficiencies, capture growth, invest funds to reduce operating costs, and

use revenue increases wisely must continue in order to maintain District's fiscal health and stability."

- b. **Review of Accounting Control Standard 2: Statute and Governing Board** – To verify the district complies with accounting control standard 2, LACOE reviewed the district's audited financial report as of June 30, 2017. The fiscal independence review questionnaire developed by the California Community Colleges on Statute and Governing Board was also provided to the district. The responses to the questionnaire indicated that the District has consistently met the requirements of accounting control standard 2. The audit report as of June 30, 2017 indicated that the type of audit report issued on financial reporting and the report issued on compliance for both federal and state awards are unmodified. There are no audit findings for the fiscal year under review.

The District's copy of the Board adopted conflict of interest policy including a copy of policy prohibiting the sale of District's property to Board members and employees per Government Code Section 1090 was provided to LACOE during the 2015-16 fiscal monitoring review. The District had also provided a copy of their policies & procedures on disposal of personal property, business & fiscal affairs on property management, and Board of Trustees conflict of interest code during the 2015-16 review. Per discussion with the Chief Compliance Officer and College Budget Officer there are no changes in the internal control procedures of the District. The District's responses to the 2017 Fiscal Independence Questionnaire indicated that these policies are in place and are implemented. Based on the documents, information, and responses to the questionnaires provided, it is LACOE's opinion that Mt. SAC has materially complied with accounting control standard 2.

- c. **Review of Accounting Control Standard 3: Adequate Internal Controls** – To verify the adequacy of the district's internal control, LACOE asked the district to

provide responses to the internal control questionnaires developed by the division of School Financial Services. LACOE reviewed the district's organizational chart as of 3/29/2017 and as of 2/20/2018 to verify if the district has adequate number of staff and skill level to conduct administrative programs independent of detailed review by LACOE and to provide an internal audit function that ensures adequate internal control. There were some changes in personnel in the Fiscal Resources and in the Accounting department of the Division of Fiscal Services during the year under review. The Fiscal Resources department filled the Director's position that was vacant as of 3/29/17. The organizational chart shows that Fiscal Resources has 11 employees and currently have one vacancy, the same as prior year. The Accounting department has currently eight (8) employees with one vacancy compared to year 2015-16 when they have nine (9) employees with one (1) vacancy. There are no changes in other department of the Division of Fiscal Services. The 2016-17 organizational chart that was reviewed indicated that the district has adequate number of staff and skill level to conduct administrative programs independent of detailed review by LACOE. Based on the documentation provided the actual job responsibilities of several employees in the fiscal, accounting and payroll departments appear that no employee is performing incompatible duties that cannot be adequately segregated.

The District does not have Internal Audit Department and according to the Chief Compliance and College Budget Officer the District has all audit functions in place as required in the Fiscal Independence Plan. The Fiscal Services managers are continuously evaluating and improving the internal controls. The District's audit firm also evaluates the internal control procedures as part of the annual audit. For legality and propriety of expenditures the District follows LACOE's Accounts Payable Guide. Mt. SAC also seeks legal counsel when necessary and aligns with federal, state and local regulations. The Banner System is designed to segregate responsibilities at the department level and the Fiscal Services office. Expenditures are approved by the department management and submitted to Fiscal Services for

final review and approval. The Banner System is also designed to ensure and verify there is sufficient approved budget prior to expenditure approval. LACOE reviewed the District's 2016-17 audit report to check for any deficiencies in internal control in the report. LACOE asked the district to provide answers to the questions on internal controls listed on the fiscal independence review questionnaire prepared by the California Community Colleges. The responses of the district to LACOE's internal control questionnaire and to the fiscal independence questionnaire indicated that the district has adequate internal control procedures in place and are implemented. The District had two audit findings reported in the June 30, 2016 audit report that were identified by the auditors as significant deficiencies in internal control over compliance but the auditors considered the findings not material weaknesses. Per audit report as of June 30, 2017 the District had implemented the auditor's recommendations. No audit findings were reported in the audit report issued as of June 30, 2017. Overall, it is LACOE's opinion that the district has materially complied with accounting control standard 3. Based on the scope of the review performed by LACOE and based on the documentations and information provided by the District, LACOE did not identify deficiencies that are considered to be material weaknesses in internal control. LACOE recommends the District to review and update their written internal control policies and procedures on a regular basis or as needed. Written policies and procedures must be provided and discussed to the employees to ensure compliance.

- d. **Review of Accounting Control Standard 4: Legality and Propriety of Transactions** – LACOE reviewed the district's responses to the internal control procedures questionnaire. The district was also required to provide responses to the fiscal independence review questionnaire prepared by the California Community Colleges. The results of the 2017 audit review per report from the District's external auditor and responses to the questionnaire received from the district indicated that the district consistently met and exercised independent judgment to assure the legality and propriety of transactions. Responses to the

questionnaire indicated that the warrants issued by the District are audited by someone other than the person responsible for warrant payments to ensure sufficient oversight to support the legality of the issuance of the warrants. The custodian of the inventory is independent of the purchasing and receiving departments. The management information system department is independent of all operating units it serves. The purchasing regulations and procedures of the District indicated that the District's employees shall not be financially interested in any contract for goods or services and all purchasing transactions are in accordance with governing codes, regulations, education, government and public contract codes as well as board policy. Adequate safeguards have been established by the District to maintain the independence and integrity of the accounting function. The district does not have an internal audit department, however, the management of the District ensures that controls are implemented and legality and propriety of transactions are reviewed and monitored. Per response provided by the District to the annual checklist and internal control questionnaire, the independent auditors of the District evaluate the internal control procedures on an annual basis. Per information provided by the Chief Compliance and College Budget Officer in the 2015-16 fiscal monitoring review, the Banner Financial Accounting System of the District is designed and developed to segregate duties, to consult legal counsel, to check with auditors, implement written procedures, construction bids and public law. The Chief Compliance and College Budget Officer confirmed that the above process and implementation of controls are still valid and are in place during fiscal year 2016-17. Based on the documents, information and responses to the questionnaire provided by the district it is LACOE's opinion that the district materially complied with Accounting Control Standard 4.

- 5. Review of Evidence of Coverage for District Disbursement Officer** – A copy of evidence of coverage for the Associate Vice President of Fiscal Services and for the Chief Compliance and Budget Officer were provided by the District for period July 1, 2016 to July 1, 2017. The carrier is Alliance of Schools for Cooperative Insurance Programs

(ASCIP) and the amount of coverage is up to limit of \$5,000,000 for employee dishonesty. The policy is effective July 1, 2016 and will expire on July 1, 2017. A copy of the policy from July 1, 2017 to July 1, 2018 was also provided. The evidence of coverage issued on behalf of the Associate Vice President of Fiscal Services for fiscal year 2016-2017 was dated 4/12/2017 and the evidence of coverage issued on behalf of the Chief Compliance and College Budget Officer for fiscal year 2017-2018 was dated 11/29/2017. To verify if there was any lapse of coverage for fiscal year 2016-2017 and for fiscal year 2017-2018 for the disbursement officers of the District a telephone discussion with ASCIP was made by the reviewer. An email requesting an explanation of the different dates in the policy and proof of timely renewal including telephone conversation with the Chief Compliance and College Budget Officer was also performed by the reviewer. Per explanation of the Chief Compliance and College Budget Officer the policy for the Disbursement Officers was part of the General Liability Insurance Policy of the Districts and the policy is renewed timely every year. The date on the evidence of coverage is the date when ASCIP issued and the date when the District requested for a copy of the evidence of coverage. The date is not necessarily the date the policy was renewed or the policy was issued. Proof of renewal and a copy of the policy of the general liability was requested and provided by Mt. SAC. Based on the explanations and supporting documents provided by the District LACOE believes the District is in compliance with ED Code section 85266.

6. **Review of District's Trial Balance** – The district's trial balance as of June 30, 2017 was reviewed and based on the information stated in the trial balance a fund balance analysis worksheet was prepared. The reviewer did not note any abnormalities in the transactions posted in the trial balance except for large fund balance increase for year 2016-17. The balance of net increase of the fund balance (Revenue-Expenditures fund 11 to fund 79) went up from \$11M to \$41.7M as of June 30, 2017. An increase of \$30.7M or 2.795%. The increase is due to the funds received by the District for the issuance of Bond Anticipation Notes in April 2017.
7. **Review of Districts Cash Reconciliation** – The cash reconciliation of the district between the Banner System and the eCAPS System fund # QGA as of June 30, 2017, September 30, 2017 and as of December 31, 2017 were reviewed. The reconciliation shows that most

of the reconciling items are timing differences which includes deposit in transit, current month's un-recorded vendor and payroll warrants and current month's adjustments that are normally booked and or adjusted the following month. The reviewer checked the aging of the outstanding warrants and there were no warrants that were over five (5) months old. This means that any unpaid warrants over six months old are closely monitored by the District and they are either voided or replaced. Based on the information provided by the District in the cash reconciliation it is LACOE's opinion that the district performs timely reconciliation, reconciling items are timely adjusted and booked, the mathematical accuracy was also verified, and there was also a management review of reconciliation. Reconciliation for the three (3) months' periods reviewed were signed, dated, and approved by the Director of Accounting and also were signed and dated by the preparer.