October 7, 2011

Wise E. Allen, Ph.D., Chancellor
Peralta Community College District
333 East 8th Street
Oakland, CA 94606

Dear Chancellor Allen:

In February 2010, the Peralta Community College District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a review of the district's bond expenditures, assist with bank reconciliations, and assess specific fiscal practices and reporting. Specifically, the study agreement states that FCMAT will perform the following:

1) In accordance with Education Code section 84041 (a) and (c) the Peralta Community College District may request the FCMAT Team pursuant to Education Code section 42127.8, to assist the district to establish and maintain sound financial and budgetary conditions that comply with principles of sound financial management and review the following:

   • Review of payroll/benefits irregularities with attention to tracking absence, vacation, overtime, comp-time and sick leave.

   • Use of assets including inventory procedures, and conflict of interest policies and procedures related to acquisition and disposition of assets.

   • Perform review and analysis of Measure A bond expenditures, reconciliation, accounting requirements consistent with Board policy, bond oversight guidelines and statutory authority.

   • Provide review and analysis of employee/board travel, conferences and use of district issued credit cards consistent with district policy, BAM and statutory authority.

   • Timeliness and accuracy of posting to financial ledger (payroll, AP, AR, site fees, financial aid, site and district transactions, disbursements).

   • Review and analysis of report writing, process and ability to extract financial data from the PeopleSoft financial reporting software.

   • Review and analysis of bond arbitrage and rebate calculation for Measure A and 2000 Series C Bonds.

   • Update on the value of the Deferred Compensation Trust Fund.

   • Review the district's plan or ability to pay for the district's long-term debt financial obligations.

FCMAT
Joel D. Montero, Chief Executive Officer
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Administrative Agent: Christine L. Figler - Office of Kern County Superintendent of Schools
• Review and analysis of selected grants.
• Perform reconciliation of bank accounts in the county treasury.
• Assist with 2009-10 fiscal year reconciliation of bank accounts in the county treasury.

2) In accordance with Education Code section 84041(g) (1) (b) the Peralta Community College district may request the FCMAT Team pursuant to Education Code section 42127.8, to assist the district to facilitate training for members of the district governing board and for any district employees whose responsibilities include addressing fiscal issues. Training services shall emphasize efforts to improve fiscal accountability and to expand the fiscal competency of the trainees and will provide the following:

• Establishment of Business Office desk manuals for the specific areas FCMAT is reviewing for each site to train staff and provide the necessary ongoing documentation necessary to provide functionality and procedural requirements of the business office.

This final report contains the study team's findings and recommendations. FCMAT appreciates the opportunity to be of service and extends thanks to all the staff and administration of the Peralta Community College District for their assistance and cooperation during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer
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Executive Summary

Facilities Bonds

On June 6, 2006, the Peralta Community College District’s electorate approved a $390 million general obligation bond referred to as Measure A, and the district’s governing board established citizens’ oversight committee (COC) as required by law to oversee the expenditure of funds. COC meeting agendas have been informal and indicate that the committee has not met regularly and/or not provided minutes regularly. From the COC’s inception, its members have asked for documents regarding tracking of expenditures and have questioned some expenditures but have received little financial information in response.

Independent audit reports and other financial and expenditure reports were either not provided to the COC as required or were delayed. In other cases, it was unclear what reports and information were provided to the COC.

The district conducted extensive planning for the use of Measure A bond funds, and it expended funds from June 2006 to approximately August 2007. FCMAT received no evidence that reporting of expenditures or budgets for Measure A occurred during that time. Facility master plans were not dated, and expenditures related to this item were not clearly described or tracked. In addition, a reconciliation of the voter-approved project list with the list of actual projects has not been prepared. COC members and past media reports also indicate concern that reporting regarding projects and expenditures is lacking. The district will need to change how it reports to the public by producing master program and expenditure reports that continue through the life of the project.

The district’s department of general services (DGS) has usually prepared reports every six months. However, these reports contain numerous errors in numbers, titles, categories and logic. Some items show a deficit but provide no explanation of how the deficit will be made up. In other cases, balances and expenditures change from one report to the next with no continuity or explanation. The reports neither contain nor refer to any master program budget. These inconsistencies and insufficiencies make it impossible to determine if there is sufficient Measure A funding to complete all voter approved projects.

A review of Measure A bond expenditure transactions revealed a lack documentation; a lack of sufficiently specific invoices and contracts; cases in which work was performed prior to authorization; and vendor invoice and contract rate discrepancies. The district should review its contract language and practices regarding consultants to ensure that expected outcomes are communicated and properly achieved.

The bond projects list meets Proposition 39 requirements, and the bond language regarding allowable expenditures is broad but not unlimited. Some COC members have questioned some types of expenditures. The appropriateness of some technology expenditures under Proposition 39 may require a legal interpretation. The largest expenditures for consultants are in the information technology category, and it is unclear whether expenditures for some of the services provided are appropriate for Measure A bond funds. There are also unusually large and rapid increases in certain Information Technology (IT) consultant expenditures, frequently without sufficient detail or explanation.

In addition, the fact that some of the software programs have not operated correctly since installation may be interpreted as an inappropriate use of bond funds. Other consultant expenditures that may not be allowable include those that are operational in nature rather than facility-related.
EXECUTIVE SUMMARY

Some consultants are former district employees but it is not clear when the change in their employment status occurred. Members of the COC continue to question expenditures in the consultant category.

The district should review its IT commitments and contracts, carefully monitor them, and reallocate any expenditures that are not allowed under Proposition 39.

FCMAT used the services of Government Financial Strategies, Inc. (GFS) to review the issuance of each series of Measure A bond funds. GFS found that the district's issuance costs were approximately in the middle of the range of costs paid by comparison districts, and its interest costs were in the low to middle range of the costs in the comparison districts.

Assessed valuations, however, have decreased as a result of declining real estate values and contrary to the district's prior assumptions. As a result, the tax rate for the district's bonds rose to 84% of the maximum allowable amount as of 2009. This is a concern because the district has issued only 70% of the bonds authorized by Measure A. Some bonds were also issued prematurely. The district should review its bond issuance practices and evaluate its ability to issue the remaining bonds authorized.

There was no evidence that the district monitored bond proceeds for arbitrage rebate liability or provided for the required calculations of arbitrage and rebates. FCMAT's review indicates that the district has incurred no arbitrage liability; however, the district should monitor bond proceeds and calculate this liability every five years as required.

Bonds to Fund Other Post-Employment Benefits (OPEB)
The district issued OPEB bonds in 2005 but experienced financial distress in 2008 as a result of the recession. The district responded by restructuring these bonds to move debt service obligations into the future. However, some of these restructurings created additional liabilities and have very high maximum interest rates. This report provides options for restructuring. The district will need to implement a restructuring that avoids allocating additional resources from its general fund and negotiate a new retiree benefit program that reduces the long-term unfunded liability of its OPEB.

Travel, Entertainment and Other Expenses
A review of travel, entertainment credit card and other expenses revealed expenses that were inappropriate, missing supporting documentation, or lacking proper authorization by the appropriate district personnel.

The district should strengthen its documentation requirements, policies, procedures and oversight of travel, entertainment, credit card and other expenses.

Employee Leave and Absence Tracking
The district lacks an automated system of accounting for employees' leave time. Leave is tracked and monitored manually, which increases the workload and makes data susceptible to errors. FCMAT reviewed a sampling of employee leave records and found that more than 16% of records contained discrepancies, including leave carried over from year to year that exceeded the amount allowed in employee contracts. The district should implement a fully integrated electronic leave reporting system and review leave accrual and carryover amounts.

Fixed Assets
The district logs and tracks its fixed assets manually, but the log does not provide a way to identify assets that have been sold, retired or disposed of. Rather, that type of information is kept in
a separate log. The district should identify these assets, complete the development of a fixed asset manual, and consider integrating its fixed asset data into the PeopleSoft module for fixed assets.

**Cash Reconciliation Technical Assistance and Review**

As of March 2010, reconciliation of the district's financial records with cash balances posted on the Alameda County Office of Education's (county office's) financial system had not been performed for fiscal year 2008-09. Because cash reconciliations are not performed in a timely manner, managers are not aware of the district's cash status, and year-end closing activities are delayed.

The district experienced difficulties when attempting to convert its student financial system into Regent, a subsystem of PeopleSoft, including incorrect amounts and other inconsistencies in warrants being issued. The district ultimately abandoned the conversion.

Additional reconciliation issues and inconsistencies were found in payroll journal entries, interest journal entries and year-end closing.

The district should ensure that student financial aid is posted in a timely manner and reconcile amounts monthly. Journal entries should also be reviewed.

**Project Grants**

FCMAT reviewed a sampling of grant-funded projects and found that financial monitoring and record-keeping for project grants is lacking in a number of areas. FCMAT found cases in which the district assigned a different project code each fiscal year to ongoing programs; inconsistencies in accounting for allowable indirect costs; delays in posting employee salary and benefit costs; a lack of clearing of encumbrances and pre-encumbrances at year end; and difficulties in obtaining revenue object codes when producing financial reports. In addition, revenue and expenditure amounts listed in the district's financial system for project grants frequently differed from those listed as reported in the California Community College Chancellor's Office's (CCCCO's) payment management system (PMS). This report provides recommendations to help the district resolve these issues and improve the accuracy and timeliness of accounting procedures for project grants.