Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

I have examined the financial statements of the various funds and account groups of the Santa Barbara Community College District for the fiscal year ended June 30, 1980 and have issued my report thereon dated December 2, 1980. As a part of my examination, I made a study and evaluation of the District's system of internal accounting control to the extent that I considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

My examination of the financial statements was made in accordance with generally accepted auditing standards, but would not necessarily disclose all weaknesses in the system because it was based on selective tests of the accounting records and other related data. However, such study and evaluation disclosed several conditions which I believe to be material weaknesses for which corrective action by the District may be practicable in the circumstances. I have discussed these deficiencies and recommendations for their improvement in detail with Mr. Hanson and Mr. Pickering, both during the course of my examination, and subsequent to the issuance of my report and have been assured by them that corrective action has been or will be taken. The purpose of this letter is to summarize my findings and outline the suggested changes. In addition, I would like to conclude my report with some recommendations for improving the District's accounting system. These suggestions are not the result of material weaknesses in internal control, but would, in my opinion, increase the efficiency and utility of the system.

As of the date of my examination of the records of the Student Finance Office, a number of weaknesses were found in the internal control procedures then in effect. These included the failure to deposit cash receipts daily and the lack of daily reconciliations of cash receipts with bank deposits. It was found that cash disbursements were not supported by proper documentation, such as invoices and purchase orders in a significant number of instances. Other deficiencies noted include inadequate separation of duties and an accounting system unequal to the growing volume of transactions being handled in recent years.
These matters were promptly brought to the attention of Mr. Pickering and some corrective measures were implemented prior to the issuance of my audit report. However, there remain some weaknesses in security for which I believe corrective action should be taken. In particular, daily deposits of cash receipts are not yet being made and consideration should be given to daily armored car service. Furthermore, the physical location of the Student Finance Office makes it quite vulnerable. Consideration should be given to changes in the cashier window and entry to the office from the rear restricted to prevent access by unauthorized persons.

The question of inadequate separation of duties may not be easily resolved. I do, however, suggest that bank deposits prepared by the Student Finance Office be checked against cash register tapes and daily cash reports by District Accounting Office personnel. This procedure would be similar to that used for the Cafeteria and would provide a somewhat higher degree of control than now exists.

The present bookkeeping system in use at the Student Finance Office is no longer adequate to cope with the number of accounts or the volume of transactions. Consideration should be given to a more sophisticated system either manual or automated. Properly designed, such a system could improve internal control and efficiency.

In connection with my examination of the records of the Cafeteria it was found that no copy of the June 30, 1980 inventory was available. The actual counting process was observed by me and no exceptions were noted. However, the inventory sheets with prices and extensions were apparently lost subsequent to the physical count. I was, as a result, unable to verify the inventory amount shown on the Cafeteria Balance Sheet. This figure appears reasonable in light of previous years. Nevertheless, I suggest, in future, that the Accounting Office keep a copy of the inventory.

At the present time the Cafeteria does its own billings and receives collections for outside services. The responsibility for cash collections, other than daily sales, should be transferred to the Accounting Office. Billings prepared by the Cafeteria should be sent to the Accounting Office where they can be recorded on the books and mailed. With regard to daily sales, it is recommended that space be provided for the preparer's signature and that of a supervisor.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in my examination of the financial statements, and this report of such conditions does not modify my report dated December 2, 1980, on such financial statements.

I believe that serious considerations should be given to modifying or replacing the present system of District accounting. This system, being at present comprised of a hybrid of manual and automated procedures, is not adequate from the standpoint of operational efficiency nor does it readily provide the type of accounting information required by the District both for its own internal purposes and for external financial reporting. However, I would like to emphasize that these shortcomings are not the fault of District accounting personnel who have done an excellent job of working with the present accounting system and who have assisted me to the fullest extent in performing my audit work.
It is beyond the scope of this report to make detailed recommendations regarding a new accounting system, but I would like to suggest a few general guidelines.

First, the new accounting system should be fully automated. Whether this is done using the present computer system, or a new installation is not of overriding importance. What is important is that all accounting, not just expenditures, be done on the computer. This will reduce or eliminate the need for manual summaries of accounting data presently required to prepare financial statements.

Second, such a computerized accounting system should be under the control of District accounting personnel. This will help insure that the system is designed to meet the needs of the District and that future changes can be made promptly as they become necessary.

Finally, once such a system has been installed, due consideration should be given to a greater degree of fiscal independence for the District. This step should be weighed carefully against the checks and balances of the present system to determine if the possible benefits of increased efficiency more than offset the greater risks involved.

I understand from Mr. Hanson that several alternative systems are being explored and have indicated to him our interest in assisting the District in making a choice.

In conclusion, I would like to again express my appreciation for the cooperation I have received from District personnel in the performance of my audits over the years. I am looking forward to continuing to provide this service for the District in the future.

WILLIAM D. KENDALL
Certified Public Accountant

March 3, 1981
Santa Barbara, California
Santa Barbara Community College District
Business Services

March 19, 1981

RESPONSE TO AUDITOR'S MANAGEMENT LETTER

Internal review of operations is a continuing process of college staff. Modifying procedures to maximize efficiency then is a regular activity of departments which is often supplemented by outside consultants. A third party assists the College by lending more breadth, objectivity and expertise to specific program reviews. In the past we have utilized this approach in several departments.

The independent CPA is in a unique position to review the accounting methods, operations and internal controls of the system to assist the College in improving this function. Therefore, the Business Manager requested the Auditor expand his report to include a review of internal controls and operations, and furnish the District with a "Management letter" citing specific findings and recommendations for areas of improvement. The Auditor completed the report and provided the College with several suggestions which are "... not the result of material weaknesses in internal control, but would in my (his) opinion, increase the efficiency and utility of the system."

The suggestions and recommendations are submitted in his letter of March 3, 1981 which are summarized with a response to each item.

Student Finance Office

1. Prepare a daily cash deposit and reconcile cash receipts daily.

   We concur with this recommendation and have initiated the process.

2. Cash disbursements not supported by proper documentation.

   The original comment by the auditor last September referred to documentation being kept by the department initiating the disbursement rather than in the Student Finance Office where the payment is made. This procedure was corrected on September 12, 1980. Appropriate documentation must accompany every disbursement request.

3. Inadequate separation of duties.

   The auditor recommends that the bank deposits prepared by the Student Finance staff be checked by District accounting staff. We concur and the procedure will be established.
4. Accounting system (single entry) unequal to the growing volume of transactions and accounts.

This comment supports the staff finding. A more sophisticated manual system may only partially and temporarily meet the need. The feasibility of an automated system is being studied.


The possibility of relocating the office or improving security in the present location is being reviewed.

Cafeteria


A copy of the inventory will be kept in the District accounting office as recommended.

2. Outside services and billings should be a function of the accounting office.

We concur and the procedures and forms are being developed.

Recommendations for Improving the District's Accounting System

Mr. Kendall's recommendation that the present District accounting system be modified or replaced supports staff findings. His specific recommendations:

1. Develop a fully automated system.

2. The system should be under the control of District accounting personnel to insure a design that meets District needs and to insure that future changes can be made promptly.

3. Greater fiscal independence should be given due consideration.

Improving the accounting system to a more automated system has been under- way for several months. Commitment of additional resources has been made; however, the full implication of this sweeping a recommendation is not known at this time. Alternatives are being considered with concomitant costs related thereto. A full report with recommendations will be completed and presented to the Board at a later date.

CLH:mr