Mr. Charles L. Hanson
Business Manager
Santa Barbara Community College District
Santa Barbara, California

We 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, 1981
and have issued our report thereon dated November 4, 1981. As a part of our examina-
tion, we made a study and evaluation of the District's system of internal accounting
control to the extent that we 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.

Our 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 some conditions which
we believe to be material weaknesses for which corrective action by the District may
be practicable in the circumstances. We have discussed these deficiencies and
recommendations for their improvement in detail with Mr. Hanson and Mr. Pickering,
both during the course of our examination, and prior to the issuance of our report
and have been assured by them that corrective action has been or will be taken.

Our findings and recommendations are as follows:

I. Student Finance Office

1. The present purchase order system does not provide adequate
internal control over the expenditure of funds due to the failure
to follow existing procedures for the use of the system. Consider-
ation should be given to either requiring adherence to the current
system or, if this appears impractical, to establishing a new, more
workable set of procedures consistent with good internal control.

2. Further consideration should be given to replacing the present
accounting system with one more suited to the volume of transactions.

3. The practice of cashing checks for staff and faculty should
be discontinued.

II. Cafeteria

1. A system of invoicing should be used to bill customers for
the provision of catering and other outside services. Billings
should be prepared by the Cafeteria and collections made by the
accounting office to provide internal control through a segregation
of duties.
III. Special Projects

1. All special projects should be monitored by a central coordinator to ensure that reports and claims are made on a timely basis and that the expenditures claimed are in agreement with the general accounting records.

IV. Adult Education

1. The records of the Adult Education Division were very poorly kept for the year ended June 30, 1981. The division control accounts did not agree with the total of the balances in the detail accounts. Since one-sided entries were made in these accounts, it was necessary to make small arbitrary entries in the control accounting to balance the books. A balanced trial balance which agrees with the audit report statements has been furnished to Rita Harrington, the current bookkeeper and verbal instructions given to her as to how to properly maintain the books.

We wish to express our appreciation for the cooperation we have received from District personnel in the performance of our audits over the years. We look forward to providing this service for the District in the future.

[Signature]

KENDALL, CROW & COMPANY
Certified Public Accountants
The findings and recommendations included in the December 3, 1981, Management Letter prepared by Kendall, Crow & Company are summarized below with a response to each.

I. Student Finance Office

1. The present purchase order system does not provide adequate internal control over the expenditure of funds -- The auditor's concern is that purchase orders are sometimes prepared after the purchase has been made. He feels that the current system requires purchase order preparation to precede the purchase; and if this is impractical, a new system should be established.

Response: We concur with the idea of the purchase order process; however, we disagree with the absolute implementation within this fund. A purchase order should be prepared in advance as often as possible; however, flexibility is necessary when persons responsible for the accounts are making judgments about various purchases. The purpose of a purchase order is to guarantee payment and that funds are available for that purpose. Since the individual instructor takes on the responsibility of approving the expense, the advance purchase order oftentimes is extra paperwork. The College does not feel there is an expenditure problem, since experience shows that seldom does anyone try to spend funds that are not available in the account. It seems inappropriate to eliminate flexibility and replace it with rigid procedures.

2. Replacement of the current accounting system

Response: We concur and have located an automated system which will be implemented by July 1, 1982, for the new fiscal year.

3. Check cashing

Response: We concur. Check cashing has been discontinued.

II. Cafeteria

1. Invoicing system to bill customers for catering and outside services through the Accounting Office

Response: A system was designed and established for implementation in the Fall term.

III. Special Projects

1. Coordination of accounting for special projects

Response: This weakness in the system was recognized by staff before the audit and corrective steps taken.

IV. Adult Education

1. The records of the Adult Education Division were very poorly kept for the year ended June 30, 1981

Response: The recently hired bookkeeper has implemented the recommended corrective action and is trained to properly man the books.