



February 15, 2013

Board of Trustees
Peralta Community College District
333 8th Street
Oakland, CA 94606

We are pleased to confirm our understanding of the services we are to provide Peralta Community College District (the District) for the year ended June 30, 2013.

We will audit the financial statements of the business-type activities, which collectively comprise the basic financial statements of the District as of and for the year ended June 30, 2013. Accounting standards generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB) provide for certain required supplementary information (RSI) to accompany the District's basic financial statements. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on the RSI. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Schedule of Other Postemployment Benefits (OPEB) Funding Progress and Employer Contributions

Supplementary information other than RSI, such as the Schedule of Expenditures of Federal Awards, and schedules required under the State Chancellor's Office *Contracted District Audit Guide*, such as the Schedule of Expenditures of State Awards and the Schedule of Workload Measures for State General Apportionment, also accompany the District's basic financial statements. We will subject this supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements as a whole.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- Compliance with laws and regulations in accordance with the California State Chancellor's Office *Contracted District Audit Guide*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management, specific legislative or regulatory bodies, Federal awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major programs in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information, as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with the preparation of your financial statements, Schedule of Expenditures of Federal Awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, Schedule of Expenditures of Federal Awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with the preparation of the financial statements and the Schedule of Expenditures of Federal Awards and that you have reviewed and approved the financial statements, Schedule of Expenditures of Federal Awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the business-type activities of the District and the respective changes in financial position, and, where applicable, cash flows in conformity with accounting principles generally accepted in the United States of America; and for Federal award program compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

You are responsible for management decisions and functions. As part of the audit, we will prepare a draft of your financial statements, Schedule of Expenditures of Federal Awards, and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Management is responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the District from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the District involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and corrective action plans. The summary schedule of prior audit findings should be available for our review during the preliminary phase of our audit.

You are responsible for preparation of the Schedule of Expenditures of Federal Awards in conformity with OMB Circular A-133. You agree to include our report on the Schedule of Expenditures of Federal Awards in any document that contains and indicates that we have reported on the Schedule of Expenditures of Federal Awards. You also agree to include the audited financial statements with any presentation of the Schedule of Expenditures of Federal Awards that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the Schedule of Expenditures of Federal Awards in accordance with OMB Circular A-133, (2) that you believe the Schedule of Expenditures of Federal Awards, including its form and content, is fairly presented in accordance with OMB Circular A-133, (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes), and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format for providing that information. With regard to using the auditors' report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major Federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the District's major programs. The purpose of those procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide the agreed-upon number of bound copies, an original, and a print-ready PDF master of our reports to the District and will submit copies of the report to the agencies specified within your distribution list. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of VAVRINEK, TRINE, DAY & CO., LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the State Chancellor's Office, the Federal Oversight Agencies or designee, a Federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of VAVRINEK, TRINE, DAY & CO., LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the District. If we are aware that a Federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Our firm has non-CPA partners. While these individuals are not anticipated to be assigned to your audit engagement, we will properly inform you of any services provided by them. Our non-CPA partners all work in our Rancho Cucamonga Office and provide ancillary consulting services to our governmental clients.

We expect to begin our audit at a mutually agreeable time and to issue our reports no later than December 31, 2013. We will communicate with you throughout the audit any changes in the proposed timelines or issues that will not permit the report to be issued by December 31, 2013. We have provided a proposed audit calendar with essential timelines for the completion of audit requirements, both from our standpoint and from District and College staff standpoint. Our audit plan has been prepared with a total of 1,100 audit hours for the Federal compliance, State compliance, and financial statement components. This estimation of audit hours is based upon our past experience with the District, the number of Federal programs requiring a compliance audit, and the number of comments noted in the prior year's audit report. The State Chancellor's Office has recently released a draft the *Contracted District Audit Guide* for the 2013 fiscal year end. At this time, the changes and additions to the Audit Guide are not anticipated to have a significant impact to the audit timelines and costs of the audit.

Based upon audit requirements known at this time, our estimation for the annual audit fee is \$135,000. This amount remains at the contract level for the 2011-2012 fiscal year with no cost increases. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our fee is inclusive of all sundry costs associated with the audit including travel, processing, and other costs. We will be available to present the results of our audit to the District's Board of Trustees and/or Audit Committee periodically throughout the year. Our invoices for this fee will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Heidi E. White is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review has been issued with no letter of comment and is included with this letter.

We appreciate the opportunity to continue to be of service to Peralta Community College District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



Heidi E. White
of VAVRINEK, TRINE, DAY & CO., LLP

HEW/kks
Enclosures
130039

RESPONSE:

This letter correctly sets forth the understanding of Peralta Community College District.

By: _____

Title: _____

Date: _____

The following individual has been designated to oversee the audit and will have responsibility for the completeness of the information presented for audit:

Name: _____

Title: _____