Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

We have audited the financial statements of the business-type activities, the fiduciary activities the aggregate discretely presented component unit and Measure C of Foothill-De Anza Community College District (the District) as of and for the year ended June 30, 2017, and have issued our reports thereon dated November 15, 2017. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements.

As described in Note 18, the District adopted Statement of Governmental Accounting Standards (GASB Statements) No. 84 *Fiduciary Activities* in 2016-17. The OPEB Trust Fund no longer meets the criteria to be considered a fiduciary activity and has been removed from the fiduciary fund financial statements.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were the valuation of property acquired, the useful lives of fixed assets, the net pension obligation, other post-employment health care benefit asset, and assessing the District's exposure to certain litigation matters. We evaluated the key factors and assumptions used to develop the estimates in determining they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the Employee Retirement Plans (Note 8) and Post Employment Healthcare Benefits (Note 9) as they are significant and are actuarial determined.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified one uncorrected misstatement, which was unknown to management, for the overstatement of approximately $1.3 million in capitalized interest for the year ended June 30, 2017. Management has determined that the effect of the uncorrected misstatement is immaterial to the financial statements taken as a whole; the amount is 0.1% of total assets.

Corrected misstatements

We did not identify any corrected misstatements that were detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated November 15, 2017.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. We were informed by management that there were no consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other audit observations

Described herein are issues that arose from the audit that are, in our professional judgment, relevant to your oversight of the financial reporting process.

- To achieve proper segregation between purchasing, accounts payable and cash activities, those who set-up new master vendor files should not also perform any accounting or cash disbursement activities. We recommend the purchasing department set-up new vendors instead of the accounts payable department.

- The accounts payable department handles a high volume of disbursements. A significant number of these disbursements are routine payments to vendors with whom the District has an established relationship and to whom payments are made on a frequent basis. Many of these payments are critical and delivery is time-sensitive in order to meet contractual requirements or to take advantage of discounts. To increase operational and administrative efficiency, and to further strengthen existing internal controls, we recommend that the District establish an electronic payment program and convert vendor payments via wire transfer to an ACH network processing. In establishing an electronic payment program, the District needs to ensure that internal controls over purchase requisition, invoice approval and cash handling are not circumvented.

- We noted in our review of the manual journal entry process, that a specific subset of journal entries are posted to the accounting system without review of supporting documentation. Although many journal entries are properly reviewed, and compensating controls are in place for those journal entries not reviewed, we recommend the District review its journal entry process to ensure that all entries requiring an independent review are verified by the required individuals.

- Foothill College has arrangements commonly referred to as "instructional service agreements" (ISA) with public and private entities. Because instruction offered under an ISA is eligible for apportionment, when claiming apportionment, numerous standards for the conduct of ISA courses apply, such as the instructor must possess a valid credential or meet the minimum qualification required for the assignment and if the instructor is not a paid employee of the District, the District must have a written agreement or contract with each instructor conducting instruction.

    - The documentation supporting minimum qualification for one out of 17 instructors tested was not available at the time of testing. Valid documentation was later provided by the District noting the instructor is qualified. We recommend that the District establish procedures to ensure that pertinent minimum qualification documentation is obtained and properly filed prior to the beginning of the class.

    - The written instructional service agreement for one out of 17 instructors tested did not contain the required signatures of the Vice President of Instruction and the Vice President of Finance and Administration Services. We recommend that the District establish procedures to ensure all instructional service agreements have the required approvals prior to the commencement of instruction.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation of the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the Method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconcile the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 15, 2017.

With respect to the supplementary information, listed in the table of contents, accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 15, 2017.

Restriction on Use
This communication is intended solely for the information and use of the Board of Trustees and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California