

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

Audit Report

MINIMUM CONDITIONS FOR STATE AID PROGRAM

Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016 as added and/or amended by various legislation, and Title 5, *California Code of Regulations*, sections 53203, et al)

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

June 2017



BETTY T. YEE
California State Controller

June 23, 2017

Molly McClanahan, President
Board of Trustees
North Orange County Community College District
1830 W. Romneya Drive
Anaheim, CA 92801

Dear Ms. McClanahan:

The State Controller's Office audited the costs claimed by North Orange County Community College District for the legislatively mandated Minimum Conditions for State Aid Program (Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016 as added and/or amended by various legislation, and Title 5, *California Code of Regulations*, sections 53203, et al) for the period of July 1, 2001, through June 30, 2012.

The district claimed \$165,007,601 for the mandated program. Our audit found that \$732,358 is allowable and \$164,275,243 is unallowable. The costs are unallowable because the district overstated salaries and benefits; overstated materials and supplies; overstated fixed assets; overstated indirect costs; and understated offsetting revenues. The State paid the district \$21,422,615. The amount paid exceeds allowable costs claimed by \$20,690,257.

This final audit report contains an adjustment to costs claimed by the district. If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on the State Mandates (Commission). Pursuant to Section 1185, subdivision (c), of the Commission's regulations (*California Code of Regulations*, Title 3), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Cheryl A. Marshall, Ed.D., Chancellor
North Orange County Community College District
Fred Williams, Vice Chancellor, Finance and Facilities
North Orange County Community College District
Kashmira Vyas, Interim District Director, Fiscal Affairs
North Orange County Community College District
Mario Rodriguez, Assistant Vice Chancellor
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State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the North Orange County Community College District for the legislatively mandated Minimum Conditions for State Aid Program (Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016 as added and/or amended by various legislation, and Title 5, *California Code of Regulations*, sections 53203, et al) for the period of July 1, 2001, through June 30, 2012.

The district claimed \$165,007,601 for the mandated program. Our audit found that \$732,358 is allowable and \$164,275,243 is unallowable. The costs are unallowable because the district overstated salaries and benefits; overstated materials and supplies; overstated fixed assets; overstated indirect costs; and understated offsetting revenues. The State paid the district \$21,422,615. The amount paid exceeds allowable costs claimed by \$20,690,257.

Background

Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016, and Title 5, *California Code of Regulations*, sections 53203, et al. address the standards for the formation and basic operation of the California Community Colleges.

The sections were added and/or amended by:

- Chapter 973, Statutes of 1988
- Chapter 1188, Statutes of 1991
- Chapter 1198, Statutes of 1991
- Chapter 365, Statutes of 1998
- Chapter 187, Statutes of 2000

On May 26, 2011, the Commission on State Mandates (Commission) adopted a statement of decision finding that the test claim statutes and regulations impose a partially reimbursable state-mandated program upon community college districts within the meaning of article XIII B, section 6 of the California Constitution and Government Code (GC) section 17514. The Commission separated the activities found to be reimbursable into the following seven program areas:

1. Participation in district and college governance
2. Transfer centers in community colleges
3. Vocational education
4. Standards of scholarship
5. Curriculum
6. Degrees and certificates
7. Open courses

The program's parameters and guidelines establish the state mandate and define the reimbursable criteria. The Commission adopted the parameters and guidelines on April 19, 2013. In compliance with GC section 17558, the SCO issues claiming instructions to assist community college districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Minimum Conditions for State Aid Program for the period of July 1, 2001, through June 30, 2012.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we performed the following procedures:

- Reviewed annual claims filed with the SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year to year;
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained the information, and how the information was obtained;
- Assessed whether computer-processed data provided by the district to support claimed costs could be relied upon;
- Traced claimed costs to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities;
- Reviewed all class schedules and college catalogs to ensure that the correct number of pages were claimed for reimbursement under each reimbursable activity; and
- Inquired whether the district realized any offsetting revenues related to mandated costs.

Conclusion

Our audit found instances of noncompliance with the requirements outlined in the Objectives section. These instances are described in the accompanying Schedule (Summary of Program Costs) and in the Findings and Recommendations section of this report.

For the audit period, the North Orange County Community College District claimed \$165,007,601 for costs of the Minimum Conditions for State Aid Program. Our audit found that \$732,358 is allowable and \$164,275,243 is unallowable.

For the fiscal year (FY) 2001-02 claim, the State paid the district \$12,781,182. Our audit found that \$143,980 is allowable. The State will offset \$12,637,202 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2002-03 claim, the State paid the district \$8,640,433. Our audit found that \$135,722 is allowable. The State will offset \$8,504,711 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 through FY 2010-11 claims, the State made no payment to the district. Our audit found that \$419,511 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2011-12 claim, the State paid the district \$1,000. Our audit found that \$33,145 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$32,145, contingent upon available appropriations

Views of Responsible Officials

We issued a draft audit report on May 26, 2017. Cheryl A. Marshall, Ed.D., Chancellor, responded by letter dated June 8, 2017 (Attachment), disagreeing with the audit results. The letter did not explain the disagreement. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of North Orange County Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 23, 2017

Schedule— Summary of Program Costs July 1, 2001, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 83,230	-	\$ (83,230)	Finding 1
Transfer Centers	3,399,733	-	(3,399,733)	Finding 1
Standards of Scholarship	2,717,990	-	(2,717,990)	Finding 1
Curriculum	1,940,140	-	(1,940,140)	Finding 1
Degrees and Certificates	6,287	-	(6,287)	Finding 1
Open Courses	877,158	-	(877,158)	Finding 1
Subtotal, Salaries and benefits	9,024,538	-	(9,024,538)	
Materials and supplies				
Participation in District and College Governance	9,344	-	(9,344)	Finding 2
Transfer Centers	69,711	6,837	(62,874)	Finding 2
Standards of Scholarship	4,856	1,150	(3,706)	Finding 2
Degrees and Certificates	8,124	4,282	(3,842)	Finding 2
Open Courses	166,078	162,108	(3,970)	Finding 2
Subtotal, Materials and supplies	258,113	174,377	(83,736)	
Fixed Assets				
Transfer Centers	69,207	-	(69,207)	Finding 3
Subtotal, Fixed Assets	69,207	-	(69,207)	
Total direct costs	9,351,858	174,377	(9,177,481)	
Indirect costs	3,429,324	-	(3,429,324)	Finding 4
Total direct and indirect costs	12,781,182	174,377	(12,606,805)	
Less offsetting savings/reimbursements	-	(30,397)	(30,397)	Finding 5
Total program costs	<u>\$ 12,781,182</u>	143,980	<u>\$ (12,637,202)</u>	
Less amount paid by the State ³		(12,781,182)		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$(12,637,202)</u></u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 130,738	\$ -	\$ (130,738)	Finding 1
Transfer Centers	3,588,971	-	(3,588,971)	Finding 1
Standards of Scholarship	2,869,591	-	(2,869,591)	Finding 1
Curriculum	2,048,322	-	(2,048,322)	Finding 1
Degrees and Certificates	6,353	-	(6,353)	Finding 1
Open Courses	967,469	-	(967,469)	Finding 1
Subtotal, Salaries and benefits	9,611,444	-	(9,611,444)	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Materials and supplies				
Participation in District and College Governance	5,974	-	(5,974)	Finding 2
Transfer Centers	63,673	6,042	(57,631)	Finding 2
Standards of Scholarship	4,477	1,616	(2,861)	Finding 2
Degrees and Certificates	9,158	5,091	(4,067)	Finding 2
Open Courses	151,457	151,972	515	Finding 2
Subtotal, Materials and supplies	234,739	164,721	(70,018)	
Fixed Assets				
Participation in District and College Governance	216	-	(216)	Finding 3
Transfer Centers	15,970	-	(15,970)	Finding 3
Subtotal, Fixed Assets	16,186	-	(16,186)	
Total direct costs	9,862,369	164,721	(9,697,648)	
Indirect costs	3,748,463	-	(3,748,463)	Finding 4
Total direct and indirect costs	13,610,832	164,721	(13,446,111)	
Less offsetting savings/reimbursements	-	(28,999)	(28,999)	Finding 5
Total program costs	<u>\$ 13,610,832</u>	135,722	<u>\$ (13,475,110)</u>	
Less amount paid by the State ⁴		(8,640,433)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (8,504,711)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 182,789	\$ -	\$ (182,789)	Finding 1
Transfer Centers	3,318,586	-	(3,318,586)	Finding 1
Standards of Scholarship	2,650,791	-	(2,650,791)	Finding 1
Curriculum	1,891,947	-	(1,891,947)	Finding 1
Degrees and Certificates	9,748	-	(9,748)	Finding 1
Open Courses	926,378	-	(926,378)	Finding 1
Subtotal, Salaries and benefits	8,980,239	-	(8,980,239)	
Materials and supplies				
Participation in District and College Governance	7,699	-	(7,699)	Finding 2
Transfer Centers	31,857	2,850	(29,007)	Finding 2
Standards of Scholarship	2,745	1,088	(1,657)	Finding 2
Degrees and Certificates	4,687	3,274	(1,413)	Finding 2
Open Courses	94,136	76,255	(17,881)	Finding 2
Subtotal, Materials and supplies	141,124	83,467	(57,657)	
Fixed Assets				
Transfer Centers	2,024	-	(2,024)	Finding 3
Subtotal, Fixed Assets	2,024	-	(2,024)	
Total direct costs	9,123,387	83,467	(9,039,920)	
Indirect costs	3,502,293	-	(3,502,293)	Finding 4
Total direct and indirect costs	12,625,680	83,467	(12,542,213)	
Less offsetting savings/reimbursements	-	(74,620)	(74,620)	Finding 5
Total program costs	<u>\$ 12,625,680</u>	8,847	<u>\$ (12,616,833)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 8,847</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 246,446	\$ -	\$ (246,446)	Finding 1
Transfer Centers	3,563,141	-	(3,563,141)	Finding 1
Standards of Scholarship	2,841,506	-	(2,841,506)	Finding 1
Curriculum	2,022,833	-	(2,022,833)	Finding 1
Degrees and Certificates	32,728	-	(32,728)	Finding 1
Open Courses	984,324	-	(984,324)	Finding 1
Subtotal, Salaries and benefits	9,690,978	-	(9,690,978)	
Materials and supplies				
Participation in District and College Governance	4,892	-	(4,892)	Finding 2
Transfer Centers	43,960	2,727	(41,233)	Finding 2
Standards of Scholarship	2,365	954	(1,411)	Finding 2
Degrees and Certificates	1,542	3,107	1,565	Finding 2
Open Courses	81,446	78,623	(2,823)	Finding 2
Subtotal, Materials and supplies	134,205	85,411	(48,794)	
Fixed Assets				
Participation in District and College Governance	1,398	-	(1,398)	Finding 3
Transfer Centers	2,687	-	(2,687)	Finding 3
Subtotal, Fixed Assets	4,085	-	(4,085)	
Total direct costs	9,829,268	85,411	(9,743,857)	
Indirect costs	3,779,482	-	(3,779,482)	Finding 4
Total direct and indirect costs	13,608,750	85,411	(13,523,339)	
Less offsetting savings/reimbursements	-	(56,011)	(56,011)	Finding 5
Total program costs	<u>\$ 13,608,750</u>	29,400	<u>\$ (13,579,350)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 29,400</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 281,362	\$ -	\$ (281,362)	Finding 1
Transfer Centers	3,853,110	-	(3,853,110)	Finding 1
Standards of Scholarship	3,071,545	-	(3,071,545)	Finding 1
Curriculum	2,186,601	-	(2,186,601)	Finding 1
Degrees and Certificates	36,864	-	(36,864)	Finding 1
Open Courses	1,085,535	-	(1,085,535)	Finding 1
Subtotal, Salaries and benefits	10,515,017	-	(10,515,017)	
Materials and supplies				
Participation in District and College Governance	10,907	-	(10,907)	Finding 2
Transfer Centers	28,695	2,497	(26,198)	Finding 2
Standards of Scholarship	2,778	1,158	(1,620)	Finding 2
Degrees and Certificates	1,080	3,654	2,574	Finding 2
Open Courses	103,826	102,379	(1,447)	Finding 2
Subtotal, Materials and supplies	147,286	109,688	(37,598)	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006 (continued)</u>				
Fixed Assets				
Transfer Centers	1,760	-	(1,760)	Finding 3
Subtotal, Fixed Assets	1,760	-	(1,760)	
Total direct costs	10,664,063	109,688	(10,554,375)	
Indirect costs	4,100,857	-	(4,100,857)	Finding 4
Total direct and indirect costs	14,764,920	109,688	(14,655,232)	
Less offsetting savings/reimbursements	-	(41,705)	(41,705)	Finding 5
Total program costs	<u>\$ 14,764,920</u>	67,983	<u>\$ (14,696,937)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 67,983</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 302,817	\$ -	\$ (302,817)	Finding 1
Transfer Centers	4,168,260	-	(4,168,260)	Finding 1
Standards of Scholarship	3,318,541	-	(3,318,541)	Finding 1
Curriculum	2,362,717	-	(2,362,717)	Finding 1
Degrees and Certificates	44,251	-	(44,251)	Finding 1
Open Courses	1,227,687	-	(1,227,687)	Finding 1
Subtotal, Salaries and benefits	11,424,273	-	(11,424,273)	
Materials and supplies				
Participation in District and College Governance	9,954	-	(9,954)	Finding 2
Transfer Centers	29,180	2,038	(27,142)	Finding 2
Standards of Scholarship	2,508	1,190	(1,318)	Finding 2
Degrees and Certificates	1,043	4,063	3,020	Finding 2
Open Courses	90,418	82,194	(8,224)	Finding 2
Subtotal, Materials and supplies	133,103	89,485	(43,618)	
Fixed Assets				
Transfer Centers	2,713	-	(2,713)	Finding 3
Subtotal, Fixed Assets	2,713	-	(2,713)	
Total direct costs	11,560,089	89,485	(11,470,604)	
Indirect costs	3,370,161	26,398	(3,343,763)	Finding 4
Total direct and indirect costs	14,930,250	115,883	(14,814,367)	
Less offsetting savings/reimbursements	-	(43,755)	(43,755)	Finding 5
Total program costs	<u>\$ 14,930,250</u>	72,128	<u>\$ (14,858,122)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 72,128</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 308,206	\$ -	\$ (308,206)	Finding 1
Transfer Centers	4,548,139	-	(4,548,139)	Finding 1
Standards of Scholarship	3,624,284	-	(3,624,284)	Finding 1
Curriculum	2,579,474	-	(2,579,474)	Finding 1
Degrees and Certificates	47,090	-	(47,090)	Finding 1
Open Courses	1,368,831	-	(1,368,831)	Finding 1
Subtotal, Salaries and benefits	12,476,024	-	(12,476,024)	
Materials and supplies				
Participation in District and College Governance	10,890	-	(10,890)	Finding 2
Transfer Centers	35,375	3,295	(32,080)	Finding 2
Standards of Scholarship	2,356	1,148	(1,208)	Finding 2
Degrees and Certificates	1,961	5,928	3,967	Finding 2
Open Courses	92,719	93,571	852	Finding 2
Subtotal, Materials and supplies	143,301	103,942	(39,359)	
Fixed Assets				
Transfer Centers	5,229	-	(5,229)	Finding 3
Subtotal, Fixed Assets	5,229	-	(5,229)	
Total direct costs	12,624,554	103,942	(12,520,612)	
Indirect costs	3,680,427	30,663	(3,649,764)	Finding 4
Total direct and indirect costs	16,304,981	134,605	(16,170,376)	
Less offsetting savings/reimbursements	-	(42,914)	(42,914)	Finding 5
Total program costs	<u>\$ 16,304,981</u>	91,691	<u>\$ (16,213,290)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 91,691</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 401,410	\$ -	\$ (401,410)	Finding 1
Transfer Centers	4,558,916	-	(4,558,916)	Finding 1
Standards of Scholarship	3,631,562	-	(3,631,562)	Finding 1
Curriculum	2,584,853	-	(2,584,853)	Finding 1
Degrees and Certificates	48,203	-	(48,203)	Finding 1
Open Courses	1,400,749	-	(1,400,749)	Finding 1
Subtotal, Salaries and benefits	12,625,693	-	(12,625,693)	
Materials and supplies				
Participation in District and College Governance	7,337	-	(7,337)	Finding 2
Transfer Centers	32,972	2,814	(30,158)	Finding 2
Standards of Scholarship	2,421	1,135	(1,286)	Finding 2
Degrees and Certificates	1,290	7,587	6,297	Finding 2
Open Courses	92,430	83,939	(8,491)	Finding 2
Subtotal, Materials and supplies	136,450	95,475	(40,975)	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Fixed Assets				
Transfer Centers	494	-	(494)	Finding 3
Subtotal, Fixed Assets	494	-	(494)	
Total direct costs	12,762,637	95,475	(12,667,162)	
Indirect costs	4,796,501	-	(4,796,501)	Finding 4
Total direct and indirect costs	17,559,138	95,475	(17,463,663)	
Less offsetting savings/reimbursements	-	(44,174)	(44,174)	Finding 5
Total program costs	<u>\$ 17,559,138</u>	51,301	<u>\$ (17,507,837)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 51,301</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 138,886	\$ -	\$ (138,886)	Finding 1
Transfer Centers	4,376,800	-	(4,376,800)	Finding 1
Standards of Scholarship	3,488,198	-	(3,488,198)	Finding 1
Curriculum	2,480,176	-	(2,480,176)	Finding 1
Degrees and Certificates	52,457	-	(52,457)	Finding 1
Open Courses	1,373,350	-	(1,373,350)	Finding 1
Subtotal, Salaries and benefits	11,909,867	-	(11,909,867)	
Materials and supplies				
Participation in District and College Governance	7,028	-	(7,028)	Finding 2
Transfer Centers	25,816	2,972	(22,844)	Finding 2
Standards of Scholarship	2,384	1,155	(1,229)	Finding 2
Degrees and Certificates	1,208	7,508	6,300	Finding 2
Open Courses	83,866	76,625	(7,241)	Finding 2
Subtotal, Materials and supplies	120,302	88,260	(32,042)	
Total direct costs	12,030,169	88,260	(11,941,909)	
Indirect costs	4,582,917	-	(4,582,917)	Finding 4
Total direct and indirect costs	16,613,086	88,260	(16,524,826)	
Less offsetting savings/reimbursements	-	(39,077)	(39,077)	Finding 5
Total program costs	<u>\$ 16,613,086</u>	49,183	<u>\$ (16,563,903)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 49,183</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 236,722	\$ -	\$ (236,722)	Finding 1
Transfer Centers	4,148,738	-	(4,148,738)	Finding 1
Standards of Scholarship	3,304,949	-	(3,304,949)	Finding 1
Curriculum	2,348,724	-	(2,348,724)	Finding 1
Degrees and Certificates	55,218	-	(55,218)	Finding 1
Open Courses	1,325,028	-	(1,325,028)	Finding 1
Subtotal, Salaries and benefits	11,419,379	-	(11,419,379)	
Materials and supplies				
Participation in District and College Governance	9,191	-	(9,191)	Finding 2
Transfer Centers	19,997	2,386	(17,611)	Finding 2
Standards of Scholarship	2,189	1,119	(1,070)	Finding 2
Degrees and Certificates	1,415	7,412	5,997	Finding 2
Open Courses	76,221	71,433	(4,788)	Finding 2
Subtotal, Materials and supplies	109,013	82,350	(26,663)	
Total direct costs	11,528,392	82,350	(11,446,042)	
Indirect costs	4,753,888	-	(4,753,888)	Finding 4
Total direct and indirect costs	16,282,280	82,350	(16,199,930)	
Less offsetting savings/reimbursements	-	(33,372)	(33,372)	Finding 5
Total program costs	<u>\$ 16,282,280</u>	48,978	<u>\$ (16,233,302)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 48,978</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 237,330	\$ -	\$ (237,330)	Finding 1
Transfer Centers	4,016,717	-	(4,016,717)	Finding 1
Standards of Scholarship	3,199,147	-	(3,199,147)	Finding 1
Curriculum	2,273,030	-	(2,273,030)	Finding 1
Degrees and Certificates	55,831	-	(55,831)	Finding 1
Open Courses	1,311,711	-	(1,311,711)	Finding 1
Subtotal, Salaries and benefits	11,093,766	-	(11,093,766)	
Materials and supplies				
Participation in District and College Governance	8,331	-	(8,331)	Finding 2
Transfer Centers	18,184	2,070	(16,114)	Finding 2
Standards of Scholarship	2,067	1,184	(883)	Finding 2
Degrees and Certificates	2,527	6,421	3,894	Finding 2
Open Courses	72,354	62,419	(9,935)	Finding 2
Subtotal, Materials and supplies	103,463	72,094	(31,369)	
Total direct costs	11,197,229	72,094	(11,125,135)	
Indirect costs	4,729,273	-	(4,729,273)	Finding 4
Total direct and indirect costs	15,926,502	72,094	(15,854,408)	
Less offsetting savings/reimbursements	-	(38,949)	(38,949)	Finding 5
Total program costs	<u>\$ 15,926,502</u>	33,145	<u>\$ (15,893,357)</u>	
Less amount paid by the State		(1,000)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 32,145</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Participation in District and College Governance	\$ 2,549,936	\$ -	\$ (2,549,936)	
Transfer Centers	43,541,111	-	(43,541,111)	
Standards of Scholarship	34,718,104	-	(34,718,104)	
Curriculum	24,718,817	-	(24,718,817)	
Degrees and Certificates	395,030	-	(395,030)	
Open Courses	12,848,220	-	(12,848,220)	
Subtotal, Salaries and benefits	118,771,218	-	(118,771,218)	
Materials and supplies				
Participation in District and College Governance	91,547	-	(91,547)	
Transfer Centers	399,420	36,528	(362,892)	
Standards of Scholarship	31,146	12,897	(18,249)	
Degrees and Certificates	34,035	58,327	24,292	
Open Courses	1,104,951	1,041,518	(63,433)	
Subtotal, Materials and supplies	1,661,099	1,149,270	(511,829)	
Fixed Assets				
Participation in District and College Governance	1,614	-	(1,614)	
Transfer Centers	100,084	-	(100,084)	
Subtotal, Fixed Assets	101,698	-	(101,698)	
Total direct costs	120,534,015	1,149,270	(119,384,745)	
Indirect costs	44,473,586	57,061	(44,416,525)	
Total direct and indirect costs	165,007,601	1,206,331	(163,801,270)	
Less offsetting savings/reimbursements	-	(473,973)	(473,973)	
Total program costs	<u>\$ 165,007,601</u>	732,358	<u>\$ (164,275,243)</u>	
Less amount paid by the State		(21,422,615)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (20,690,257)</u>		

¹ See the Findings and Recommendations section.

² Includes only ongoing activities.

³ Payments from funds appropriated under Chapter 10, Statutes of 2015 (Assembly Bill 93) and Chapter 13, Statutes of 2015 (Assembly Bill 104) totaled \$11,223,164 for FY 2001-02. In addition, payments from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill 858) totaled \$1,558,018 for FY 2001-02.

⁴ Payments from funds appropriated under Chapter 10, Statutes of 2015 (Assembly Bill 93) and Chapter 13, Statutes of 2015 (Assembly Bill 104) totaled \$8,640,433 for FY 2002-03.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$118,771,218 in salaries and benefits for the audit period. We found that the entire amount is unallowable. The district claimed costs for six of the seven reimbursable activities: participation in district and college governance, transfer centers, standards of scholarship, curriculum, degrees and certificates, and open courses. The costs are unallowable for the following reasons:

- The district did not provide contemporaneous time documents to support the hours worked.

The district provided an Annual Employee Time Record Sheet to support the staff time spent on publishing the policies, procedures, and regulations in college publications; publishing course descriptions in college publications; and resolving challenges to enrollment limitations made by students. This document identifies the staff time spent (in hours) for each fiscal year of the audit period. The hours reported are estimated. The district did not provide documentation supporting the actual time spent on allowable activities.

In addition, the district provided an Individual Average Time Record: Individual Counselor Time Percentages, to support each counselor's time spent on the reimbursable activities regarding transfer centers, standards of scholarship, curriculum, and open courses. This single document identifies the estimated staff time spent in percentages for each fiscal year of the audit period. These time records did not provide the level of detail needed to determine which reimbursable activities were actually performed, and the actual hours spent on each reimbursable activity. Therefore, these time records are not allowable. The district did not provide documentation supporting the actual time spent on allowable activities.

- For participation in district and college governance, the district claimed costs based on its Annual Financial and Budget report (CCFS-311), EDP 6030 - Academic/Faculty Senate - Salaries and Benefits. However, this does not provide any detail as to who performed the activity, which reimbursable activities were performed, and the hours devoted to each reimbursable activity.
- For transfer centers, the district claimed staff time spent on publishing the transfer core curriculum in college catalogs, which is not a reimbursable activity. Additionally, nearly all of the claimed activities related to the transfer center were specifically excluded from reimbursement by the Commission when developing the program's parameters and guidelines. Such activities included (but were not limited to) identifying, contacting, and providing transfer support services to underrepresented students; ensuring that students receive accurate and up-to-date academic and transfer information through coordinated transfer counseling services; and monitoring the progress of transfer students to the point of transfer.

- For standards of scholarship and degrees and certificates, the district included non-reimbursable staff time spent on publishing the policies, procedures, and regulations, and publishing course descriptions in class schedules.

The following table summarizes the audit adjustment related to salaries and benefits for each fiscal year of the audit period:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 9,024,538	\$ -	\$ (9,024,538)
2002-03	9,611,444	-	(9,611,444)
2003-04	8,980,239	-	(8,980,239)
2004-05	9,690,978	-	(9,690,978)
2005-06	10,515,017	-	(10,515,017)
2006-07	11,424,273	-	(11,424,273)
2007-08	12,476,024	-	(12,476,024)
2008-09	12,625,693	-	(12,625,693)
2009-10	11,909,867	-	(11,909,867)
2010-11	11,419,379	-	(11,419,379)
2011-12	11,093,766	-	(11,093,766)
Total	\$ 118,771,218	\$ -	\$ (118,771,218)

The following table summarizes the salaries and benefits audit adjustment by reimbursable activity:

Reimbursable Activity	Amount		
	Amount Claimed	Allowable	Audit Adjustment
Participation in District and College Governance	\$ 2,549,936	\$ -	\$ (2,549,936)
Transfer Centers	43,541,111	-	(43,541,111)
Standards of Scholarship	34,718,104	-	(34,718,104)
Curriculum	24,718,817	-	(24,718,817)
Degrees and Certificates	395,030	-	(395,030)
Open Courses	12,848,220	-	(12,848,220)
Total	\$ 118,771,218	\$ -	\$ (118,771,218)

The parameters and guidelines (section IV) states:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual costs was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, and declarations. Declarations must include a certification or declaration stating, "I certify (or declare) under

penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 2—
Overstated materials
and supplies**

The district claimed \$1,661,099 in materials and supplies for the audit period. The district claimed costs for five of the seven reimbursable activities: participation in district and college governance, transfer centers, standards of scholarship, degrees and certificates, and open courses. We found that \$1,149,270 is allowable and \$511,829 is unallowable. The costs are unallowable because the district did not adequately support its claimed costs. In addition, the district claimed unsupported pages/publishing costs under certain reimbursable activities.

The following table summarizes the audit adjustment related to materials and supplies for each fiscal year of the audit period:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	\$ 258,113	\$ 174,377	\$ (83,736)
2002-03	234,739	164,721	(70,018)
2003-04	141,124	83,467	(57,657)
2004-05	134,205	85,411	(48,794)
2005-06	147,286	109,688	(37,598)
2006-07	133,103	89,485	(43,618)
2007-08	143,301	103,942	(39,359)
2008-09	136,450	95,475	(40,975)
2009-10	120,302	88,260	(32,042)
2010-11	109,013	82,350	(26,663)
2011-12	103,463	72,094	(31,369)
Total	<u>\$ 1,661,099</u>	<u>\$ 1,149,270</u>	<u>\$ (511,829)</u>

The following table summarizes the materials and supplies audit adjustment by reimbursable activity:

Reimbursable Activity	Amount Claimed	Amount Allowable	Audit Adjustment
Participation in District and College Governance	\$ 91,547	\$ -	\$ (91,547)
Transfer Centers	399,420	36,528	(362,892)
Standards of Scholarship	31,146	12,897	(18,249)
Degrees and Certificates	34,035	58,327	24,292
Open Courses	1,104,951	1,041,518	(63,433)
Total	\$ 1,661,099	\$ 1,149,270	\$ (511,829)

Participation in District and College Governance

The district claimed \$91,547 in materials and supplies related to the participation in district and college governance. We found that the entire amount is unallowable. The costs are unallowable because the district did not provide adequate supporting documentation.

The district provided support only from its CCFS-311 report (EDP 6030 – Academic/Faculty Senate – Operating Expenses) for each fiscal year. However, this does not provide any detail as to what materials and supplies have been purchased for the purpose of the reimbursable activities.

Per the parameters and guidelines (section V.A.2), it states to “report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.”

Transfer Centers

The district claimed \$399,420 in materials and supplies related to transfer centers. We found that \$36,528 is allowable and \$362,892 is unallowable. The costs are unallowable because the district did not provide adequate supporting documentation; claimed non-reimbursable publishing costs for the college catalogs; and understated its publishing costs for the class schedules.

The district supported a majority of its materials and supplies claimed from its CCFS-311 report (EDP 6330 – Transfer Programs – Operating Expenses) for each fiscal year. However, this report does not provide any detail as to what materials and supplies have been purchased for the purpose of the reimbursable activities. Therefore, these costs, totaling \$352,195, are unallowable. The parameters and guidelines (section V.A.2) states that the district must “report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.”

The district claimed non-reimbursable publishing costs, totaling \$11,727, for the college catalogs. For transfer centers, the parameters and guidelines (section IV.2.b.2) state to only “include the text of the current transfer core curriculum in the published class schedule for each academic term...” We recalculated the district’s allowable publishing costs, totaling \$36,528, for the class schedules. To calculate the allowable publishing costs for each

term, we first divided the number of reimbursable pages related to the transfer core curriculum by the total number of printed pages, and then multiplied that percentage by the total printing costs that were adequately supported by source documents. This calculation was completed separately for each college.

Standards of Scholarship

The district claimed \$31,146 in materials and supplies related to standards of scholarship. We found that \$12,897 is allowable and \$18,249 is unallowable. The costs are unallowable because the district claimed non-reimbursable publishing costs for the class schedules.

The district claimed non-reimbursable publishing costs, totaling \$20,438, for the class schedules. We recalculated the district's allowable publishing costs, totaling \$12,897, for the college catalogs. To calculate the allowable publishing costs for each fiscal year, we first divided the number of reimbursable pages related to standards of scholarship (as described in the parameters and guidelines) by the total number of printed pages, and then multiplied that percentage by the total printing costs and internet software costs that were adequately supported by source documents. This calculation was completed separately for each college.

Specifically for standards of scholarship, the parameters and guidelines (sections IV.4.b.2, IV.4.b.6, IV.4.b.15, IV.4.b.18, IV.4.b.20b, and IV.4.b.21) allow reimbursement only for publishing the relevant pages in the college catalogs.

Degrees and Certificates

The district claimed \$34,035 in materials and supplies related to degrees and certificates. We found that \$58,327 is allowable. The district understated its costs by \$24,292.

The district claimed non-reimbursable publishing costs, totaling \$11,008, for the class schedules. We recalculated the district's allowable publishing costs, totaling \$58,327, for the college catalogs. To calculate the allowable publishing costs for each fiscal year, we first divided the number of reimbursable pages related to degrees and certificates (as described in the parameters and guidelines) by the total number of printed pages, and then multiplied that percentage by the total printing costs and internet software costs that were adequately supported by source documents. This calculation was completed separately for each college.

We found that the district did not include pages related to the various associate degrees under this reimbursable activity. Instead, the district included the pages for both degrees and certificates under Open Courses reimbursable activity.

Specifically for degrees and certificates, the parameters and guidelines (section IV.6.a) state:

Include in the policy the requirement to condition receipt of an associate degree by a student on the satisfactory completion of at least 60 semester

units or 90 quarter units of college work that is fulfilled in a curriculum accepted toward the degree by a college within the district (as shown in its catalog).

The parameters and guidelines also state the following for degrees and certificates (section IV.6.b):

Publish in the college catalog under appropriate headings the policy that is consistent with the subchapter in title 5 of the California Code of Regulations regarding degrees and certificates. (Cal. Code Regs., tit. 5, §55800, Register 91, No. 23; for current requirement see Cal. Code of Regs., tit. 5, §55060, Register 2007, No. 35.)

Title 5, *California Code of Regulations*, section 55060, states that the governing board of each community college district shall adopt policy consistent with the provisions in this article. The policy should be published in the college catalog. This policy is found under Article 6, which applies to the Associate Degree only, and not certificates. Therefore, any pages that include certificates is not reimbursable under the mandate.

Open Courses

The district claimed \$1,104,951 in materials and supplies related to open courses. We found that \$1,041,518 is allowable and \$63,433 is unallowable.

The district claimed publishing costs, totaling \$293,873, for the college catalogs. However, we recalculated the district's allowable publication costs, totaling \$223,019, for the college catalogs. We found that the district included pages related to degrees and certificates along with its course descriptions for some of the fiscal years and for both colleges. Therefore, we properly reported the pages related to degrees under degrees and certificates. As mentioned in the previous reimbursable activity, the parameters and guidelines do not specifically allow reimbursement for printing pages related to certificates.

The district claimed publishing costs, totaling \$811,078, for the class schedules. However, we recalculated the district's allowable publication costs, totaling \$818,499, for the class schedules. To calculate the allowable publishing costs for each semester/fiscal year, we first divided the number of reimbursable pages related to course descriptions by the total number of printed pages, and then multiplied that percentage by the total printing costs and/or internet software costs that were adequately supported by source documents. This calculation was completed separately for each college and for each college publication.

For open courses, the parameters and guidelines (section IV.7.a) allows reimbursement for publishing in the official catalog, schedule of classes, and addenda a description of each course that is clear and understandable to the prospective student.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 3—
Overstated fixed
assets**

The district claimed \$101,698 in fixed assets for the audit period. We found that the entire amount is unallowable. The district claimed costs for only two of the seven reimbursable activities: participation in district and college governance, and transfer centers.

The costs for the participation in district and college governance and transfer centers are unallowable because the district provided support only from its CCFS-311 report, EDP 6030 - Academic/Faculty Senate - Capital Outlay and EDP 6330 - Transfer Programs - Capital Outlay, respectively. The district did not provide any other supporting documents that detail what fixed assets were purchased under the mandate and how they relate to the implementation of the reimbursable activities.

The following table summarizes the audit adjustment related to fixed assets for each fiscal year of the audit period:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowed</u>	<u>Audit Adjustment</u>
2001-02	\$ 69,207	\$ -	\$ (69,207)
2002-03	16,186	-	(16,186)
2003-04	2,024	-	(2,024)
2004-05	4,085	-	(4,085)
2005-06	1,760	-	(1,760)
2006-07	2,713	-	(2,713)
2007-08	5,229	-	(5,229)
2008-09	494	-	(494)
2009-10	-	-	-
2010-11	-	-	-
2011-12	-	-	-
Total	\$ 101,698	\$ -	\$ (101,698)

The following table summarizes the fixed assets audit adjustment by reimbursable activity:

<u>Reimbursable Activity</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Participation in District and College Governance	\$ 1,614	\$ -	\$ (1,614)
Transfer Centers	100,084	-	(100,084)
Total	\$ 101,698	\$ -	\$ (101,698)

The parameters and guidelines (section V.A.4) state:

Report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

FINDING 4— Overstated indirect costs

The district claimed indirect costs totaling \$44,473,586 for the audit period. We found that \$57,061 is allowable and \$44,416,525 is unallowable. The costs are unallowable primarily because of the unallowable salaries and benefits found in Finding 1. In addition, the district did not apply its federally approved rates to its correct direct cost base for FY 2001-02 through FY 2007-08.

For FY 2001-02 through FY 2005-06, the district calculated indirect costs claimed by applying its federally approved rate to total salaries and benefits rather than to salaries and wages. The district's federal approval letter states that the approved direct cost base is salaries and wages.

For FY 2006-07 and FY 2007-08, the district calculated indirect costs claimed by applying its federally approved rate to total salaries and benefits, rather than to total direct costs. Therefore, we calculated allowable indirect costs by applying the federally approved rate to allowable salaries and benefits, and materials and supplies. The district's federal approval letter states that the approved direct cost base is salaries and benefits, and materials and supplies.

For FY 2008-09 through FY 2010-11, the district calculated its indirect cost rates using the SCO's FAM-29C methodology. The rates were audited by the SCO in a separate audit of the district's Enrollment Fee Collection and Waivers Program. We applied FAM-29C rates to allowable salaries and benefits.

For FY 2011-12, the district calculated its indirect cost rate using the Form FAM-29C. However, the district calculated its rate based on costs from the prior year's CCFS-311 report. We recalculated the district's allowable indirect cost rate and found that the difference between the claimed and audited rate is immaterial. Therefore, we allowed the district's claimed rate of 42.63% for FY 2011-12 on allowable salaries and benefits.

The following table summarizes the audit adjustment related to indirect costs for each fiscal year of the audit period:

Fiscal Year	(A)			(B)	(C) = (A) x (B)	(D)	(E) = (C) - (D)
	Allowable Salaries	Allowable Salaries and Benefits	Allowable Materials and Supplies	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
2001-02	\$ -	\$ -		38.00%	\$ -	3,429,324	\$ (3,429,324)
2002-03	-	-		39.00%	-	3,748,463	(3,748,463)
2003-04	-	-		39.00%	-	3,502,293	(3,502,293)
2004-05	-	-		39.00%	-	3,779,482	(3,779,482)
2005-06	-	-		39.00%	-	4,100,857	(4,100,857)
2006-07	-	-	89,485	29.50%	26,398	3,370,161	(3,343,763)
2007-08	-	-	103,942	29.50%	30,663	3,680,427	(3,649,764)
2008-09	-	-		37.99%	-	4,796,501	(4,796,501)
2009-10	-	-		38.48%	-	4,582,917	(4,582,917)
2010-11	-	-		41.63%	-	4,753,888	(4,753,888)
2011-12	-	-		42.63%	-	4,729,273	(4,729,273)
Total	\$ -	\$ -	\$ 193,427		\$ 57,061	\$ 44,473,586	\$ (44,416,525)

The parameters and guidelines (section V.B) state:

Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21, "Cost Principles of Educational Institutions;" (2) the rate calculated on State Controller's Form FAM-29C; or (3) a 7% indirect cost rate.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim indirect costs by properly applying its indirect cost rates to the correct direct cost base as identified in the federal approval letter and/or the SCO's claiming instructions

**FINDING 5—
Understated offsetting revenues**

The district did not report any offsetting revenue for the audit period. We found that the district understated its offsetting revenue by \$473,973.

The district charged students a fee for purchasing a class schedule and/or college catalog during the audit period. The district identified these revenues in its self-supported programs account. As the district is receiving partial reimbursement for publishing its class schedules and college catalogs under this mandate, only a portion of the revenue received from these sales would be reported as an offset to the claim.

The following table summarizes the audit adjustment related to offsetting revenues for each fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ -	\$ (30,397)	\$ (30,397)
2002-03	-	(28,999)	(28,999)
2003-04	-	(74,620)	(74,620)
2004-05	-	(56,011)	(56,011)
2005-06	-	(41,705)	(41,705)
2006-07	-	(43,755)	(43,755)
2007-08	-	(42,914)	(42,914)
2008-09	-	(44,174)	(44,174)
2009-10	-	(39,077)	(39,077)
2010-11	-	(33,372)	(33,372)
2011-12	-	(38,949)	(38,949)
Total	\$ -	\$ (473,973)	\$ (473,973)

To calculate the related offsetting revenue from the sales of the college publications, we applied the overall percentage of reimbursable pages for both class schedules and college catalogs to each respective college's offsetting revenue received.

To calculate the overall percentage of reimbursable pages for a particular college, we added the total number of reimbursable pages from each class schedule and college catalog and then divided it by the total number of printed pages.

The following table summarizes the overall percentage of reimbursable pages for the college publications combined by fiscal year:

Overall % of Reimbursable Pages		
Fiscal Year	Cypress College	Fullerton College
2001-02	65.96%	62.48%
2002-03	66.67%	59.90%
2003-04	70.10%	63.62%
2004-05	65.44%	66.46%
2005-06	67.13%	64.72%
2006-07	69.27%	67.35%
2007-08	69.45%	66.20%
2008-09	72.76%	68.18%
2009-10	69.60%	68.08%
2010-11	69.67%	66.77%
2011-12	69.12%	68.46%

Per the district's records, the following table summarizes the revenue received from sales of the class schedules and college catalogs by fiscal year:

Fiscal Year	Per District's Records		Total
	Cypress College	Fullerton College	
2001-02	\$ (10,507)	\$ (37,560)	\$ (48,067)
2002-03	(8,858)	(38,553)	(47,411)
2003-04	(37,079)	(76,435)	(113,514)
2004-05	(25,976)	(58,700)	(84,676)
2005-06	(20,457)	(43,220)	(63,677)
2006-07	(21,417)	(42,938)	(64,355)
2007-08	(20,863)	(42,938)	(63,801)
2008-09	(24,263)	(38,897)	(63,160)
2009-10	(19,806)	(37,150)	(56,956)
2010-11	(15,396)	(33,916)	(49,312)
2011-12	(20,009)	(36,692)	(56,701)
Total	<u>\$ (224,631)</u>	<u>\$ (486,999)</u>	<u>\$ (711,630)</u>

The following table summarizes the related offsetting revenue that should have been reported for each college:

Fiscal Year	Related Offsetting Revenue		Total
	Cypress College	Fullerton College	
2001-02	\$ (6,930)	\$ (23,467)	\$ (30,397)
2002-03	(5,906)	(23,093)	(28,999)
2003-04	(25,992)	(48,628)	(74,620)
2004-05	(16,999)	(39,012)	(56,011)
2005-06	(13,733)	(27,972)	(41,705)
2006-07	(14,836)	(28,919)	(43,755)
2007-08	(14,489)	(28,425)	(42,914)
2008-09	(17,654)	(26,520)	(44,174)
2009-10	(13,785)	(25,292)	(39,077)
2010-11	(10,726)	(22,646)	(33,372)
2011-12	(13,830)	(25,119)	(38,949)
Total	<u>\$ (154,880)</u>	<u>\$ (319,093)</u>	<u>\$ (473,973)</u>

The parameters and guidelines (section VII) state:

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed...

In addition, reimbursement for this mandate from any source, including but not limited to, service fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district report all related offsetting revenues/other reimbursements on its mandated cost claims.

**Attachment—
District's Response to
Draft Audit Report**



NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

June 8, 2017

CHERYL A. MARSHALL, Ed.D.
Chancellor

GREG SCHULZ, Ed.D.
President
Fullerton College

BOB SIMPSON, Ed.D.
President
Cypress College

VALENTINA PURTELL
Provost
School of Continuing Education

BOARD OF TRUSTEES

Molly McClanahan
President

Jacqueline Rodarte
Vice President

Jeffrey P. Brown
Secretary

Ryan Bent
Member

Stephen T. Blount
Member

Barbara Dunsheath, Ed.D.
Member

Ed Lopez
Member

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Minimum Conditions for State Aid State Mandate Program
Annual Claim Fiscal Years: 2000-01 through 2011-12
North Orange County Community College District

Dear Mr. Spano:

This letter is the response of the North Orange County Community College District to the draft audit report dated May 26, 2017, and received June 5, 2017, for the above referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

The District disagrees with all the findings of the draft audit report and will respond at the appropriate time by an Incorrect Reduction Claim ("IRC").

Sincerely,

Cheryl A. Marshall, Ed.D., Chancellor
North Orange County Community College District

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>