

REDWOODS 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 seq.

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

October 2017



BETTY T. YEE
California State Controller

October 27, 2017

Sally Biggin, President
Board of Trustees
Redwoods Community College District
7351 Tompkins Hill Road
Eureka, CA 95501

Dear Ms. Biggin:

The State Controller's Office (SCO) audited the costs claimed by Redwoods 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 seq.) for the period of July 1, 2001, through June 30, 2012.

The district claimed \$7,270,606 for the mandated program. Our audit found that the entire amount is unallowable, primarily because the district claimed estimated costs that were not supported by source documentation. The State paid the district \$1,615,135. The SCO's Local Government Programs and Services Division will send the district a separate notification letter to resolve the amount paid in excess of allowable costs, totaling \$1,615,135. The letter will be sent within 30 days from the issuance date of this final report.

This final audit report contains an adjustment to costs claimed by the district. If you disagree with the audit finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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/IRCFrm.pdf.

If you have any questions, please contact Jim L. Spano, CPA, Assistant Division Chief, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Dr. Keith Snow-Flamer, President/Superintendent
Redwoods Community College District
Lee Lindsey, Vice President, Administrative Services
Redwoods Community College District
Julia Morrison, Controller
Redwoods Community College District
Doug Edgmon, Senior Accounting Manager
Redwoods Community College District
Frances Parmelee, Assistant Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Wrenna Finche, Director of Fiscal Standards and Accountability
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Chris Ferguson, Principal Program Budget Analyst
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California Department of Finance
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Local Government Programs and Services Division
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Redwoods Community College District for the legislatively mandated Minimum Conditions for State Aid (MCSA) 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 seq.) for the period of July 1, 2001, through June 30, 2012.

The district claimed \$7,270,606 for the mandated program. Our audit found that the entire amount is unallowable, primarily because the district claimed estimated costs that were not supported by source documentation. The State paid the district \$1,615,135. The SCO's Local Government Programs and Services Division (LGPSD) will send the district a separate notification letter to resolve the amount paid in excess of allowable costs, totaling \$1,615,135. The letter will be sent within 30 days from the issuance date of this final report.

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 seq. 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

Objective, Scope, and Methodology

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

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the MCSA Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The audit period was July 1, 2001, through June 30, 2012.

To achieve our audit objective, we:

- Reviewed annual mandated cost claims filed by the district for the audit period to identify the material cost components of each claim, and determine whether there were any errors or unusual or unexpected variances from year to year. We also reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key personnel, and performed a walkthrough of the claim preparation process to determine what information was obtained, who obtained it, and how it was used;
- Reviewed all supporting time documents related to counselors for the audit period. The district did not provide contemporaneous time documents to support the actual hours worked. Instead, the district provided estimated staff time (in percentages) for each fiscal year of the audit period; these time documents are unallowable;
- Reviewed the district's claimed productive hourly rates (PHRs) for the audit period. As none of the salaries and benefits claimed were allowable, we did not test nor recalculate the district's PHRs;
- Reviewed all indirect cost rates claimed and recalculated the rates in accordance with the SCO's claiming instructions for the FAM-29C methodology. As none of the salaries and benefits claimed were allowable, we did not apply the indirect cost rate adjustments to its claims; and
- Reviewed whether the district realized any offsetting revenues related to its MCSA mandated cost claims. Although we found instances of unclaimed offsetting revenues, we did not apply the unclaimed offsetting revenues since none of the claimed salaries and benefits were allowable.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. We did not audit the district’s financial statements.

Conclusion

Our audit found an instance of noncompliance with the requirements outlined in the Objective section. This instance is described in the accompanying Schedule (Summary of Program Costs) and in the Finding and Recommendation section of this report.

For the audit period, the Redwoods Community College District claimed \$7,270,606 for costs of the MCSA Program. Our audit found that the entire amount is unallowable.

For the fiscal year (FY) 2001-02 through FY 2004-05 claims, the State paid the district \$1,615,135. Our audit found that the claimed costs are unallowable. The SCO’s LGPSD will send the district a separate notification letter to resolve the amount paid in excess of allowable costs, totaling \$1,615,135. The letter will be sent within 30 days from the issuance date of this final report.

For the FY 2005-06 through FY 2011-12 claims, the State made no payment to the district. Our audit found that the claimed costs are unallowable.

Views of Responsible Officials

We discussed our audit results with the district’s representatives during an exit conference conducted on August 23, 2017. Lee Lindsey, Vice President, Administrative Services; Julia Morrison, Controller; and Doug Edgmon, Senior Accounting Manager, neither agreed nor disagreed with the audit results. Mr. Lindsey declined a draft audit report and agreed that we could issue the audit report as final. The district also expressed interest in filing an Incorrect Reduction Claim with the Commission at a later date.

Restricted Use

This report is solely for the information and use of Redwoods 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

October 27, 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				
Transfer centers	\$ 37,817	\$ -	\$ (37,817)	Finding
Standards of scholarship	128,974	-	(128,974)	Finding
Curriculum	124,773	-	(124,773)	Finding
Open courses	50,540	-	(50,540)	Finding
Total direct costs	342,104	-	(342,104)	
Indirect costs	141,734	-	(141,734)	Finding
Total program costs	<u>\$ 483,838</u>	-	<u>\$ (483,838)</u>	
Less amount paid by the State ³		(435,454)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (435,454)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 39,807	\$ -	\$ (39,807)	Finding
Standards of scholarship	135,763	-	(135,763)	Finding
Curriculum	131,340	-	(131,340)	Finding
Open courses	53,200	-	(53,200)	Finding
Total direct costs	360,110	-	(360,110)	
Indirect costs	140,155	-	(140,155)	Finding
Total program costs	<u>\$ 500,265</u>	-	<u>\$ (500,265)</u>	
Less amount paid by the State ³		(450,238)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (450,238)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 41,903	\$ -	\$ (41,903)	Finding
Standards of scholarship	142,908	-	(142,908)	Finding
Curriculum	138,252	-	(138,252)	Finding
Open courses	56,000	-	(56,000)	Finding
Total direct costs	379,063	-	(379,063)	
Indirect costs	146,470	-	(146,470)	Finding
Total program costs	<u>\$ 525,533</u>	-	<u>\$ (525,533)</u>	
Less amount paid by the State ³		(472,980)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (472,980)</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				
Transfer centers	\$ 41,727	\$ -	\$ (41,727)	Finding
Standards of scholarship	142,309	-	(142,309)	Finding
Curriculum	137,672	-	(137,672)	Finding
Open courses	55,765	-	(55,765)	Finding
Total direct costs	377,473	-	(377,473)	
Indirect costs	143,062	-	(143,062)	Finding
Total program costs	<u>\$ 520,535</u>	-	<u>\$ (520,535)</u>	
Less amount paid by the State ³		(256,463)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (256,463)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 44,469	\$ -	\$ (44,469)	Finding
Standards of scholarship	151,663	-	(151,663)	Finding
Curriculum	146,722	-	(146,722)	Finding
Open courses	59,430	-	(59,430)	Finding
Total direct costs	402,284	-	(402,284)	
Indirect costs	150,655	-	(150,655)	Finding
Total program costs	<u>\$ 552,939</u>	-	<u>\$ (552,939)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 36,646	\$ -	\$ (36,646)	Finding
Standards of scholarship	124,977	-	(124,977)	Finding
Curriculum	120,906	-	(120,906)	Finding
Open courses	48,973	-	(48,973)	Finding
Total direct costs	331,502	-	(331,502)	
Indirect costs	159,784	-	(159,784)	Finding
Total program costs	<u>\$ 491,286</u>	-	<u>\$ (491,286)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</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				
Transfer centers	\$ 52,064	\$ -	\$ (52,064)	Finding
Standards of scholarship	177,564	-	(177,564)	Finding
Curriculum	171,779	-	(171,779)	Finding
Open courses	<u>69,579</u>	<u>-</u>	<u>(69,579)</u>	Finding
Total direct costs	470,986	-	(470,986)	
Indirect costs	<u>200,593</u>	<u>-</u>	<u>(200,593)</u>	Finding
Total program costs	<u>\$ 671,579</u>	<u>-</u>	<u>\$ (671,579)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 63,805	\$ -	\$ (63,805)	Finding
Standards of scholarship	217,607	-	(217,607)	Finding
Curriculum	210,517	-	(210,517)	Finding
Open courses	<u>85,271</u>	<u>-</u>	<u>(85,271)</u>	Finding
Total direct costs	577,200	-	(577,200)	
Indirect costs	<u>249,120</u>	<u>-</u>	<u>(249,120)</u>	Finding
Total program costs	<u>\$ 826,320</u>	<u>-</u>	<u>\$ (826,320)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 66,183	\$ -	\$ (66,183)	Finding
Standards of scholarship	225,716	-	(225,716)	Finding
Curriculum	218,362	-	(218,362)	Finding
Open courses	<u>88,448</u>	<u>-</u>	<u>(88,448)</u>	Finding
Total direct costs	598,709	-	(598,709)	
Indirect costs	<u>255,469</u>	<u>-</u>	<u>(255,469)</u>	Finding
Total program costs	<u>\$ 854,178</u>	<u>-</u>	<u>\$ (854,178)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</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				
Transfer centers	\$ 66,183	\$ -	\$ (66,183)	Finding
Standards of scholarship	225,716	-	(225,716)	Finding
Curriculum	218,362	-	(218,362)	Finding
Open courses	88,448	-	(88,448)	Finding
Total direct costs	598,709	-	(598,709)	
Indirect costs	234,275	-	(234,275)	Finding
Total program costs	<u>\$ 832,984</u>	-	<u>\$ (832,984)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 80,316	\$ -	\$ (80,316)	Finding
Standards of scholarship	273,915	-	(273,915)	Finding
Curriculum	264,991	-	(264,991)	Finding
Open courses	107,335	-	(107,335)	Finding
Total direct costs	726,557	-	(726,557)	
Indirect costs	284,592	-	(284,592)	Finding
Total program costs	<u>\$ 1,011,149</u>	-	<u>\$ (1,011,149)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 570,920	\$ -	\$ (570,920)	
Standards of scholarship	1,947,112	-	(1,947,112)	
Curriculum	1,883,676	-	(1,883,676)	
Open courses	762,989	-	(762,989)	
Total direct costs	5,164,697	-	(5,164,697)	
Indirect costs	2,105,909	-	(2,105,909)	
Total program costs	<u>\$ 7,270,606</u>	-	<u>\$ (7,270,606)</u>	
Less amount paid by the State		(1,615,135)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,615,135)</u>		

¹ See the Finding and Recommendation 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 \$435,454 for FY 2001-02, \$450,238 for FY 2002-03, \$472,980 for FY 2003-04, and \$256,463 for FY 2004-05.

Finding and Recommendation

**FINDING—
Unallowable salaries
and benefits**

The district claimed \$5,164,697 in salaries and benefits for the audit period. The related indirect costs total \$2,105,909. We found that the entire amount is unallowable. The district claimed costs for four of the seven reimbursable activities: transfer centers, standards of scholarship, curriculum, and open courses.

The district did not provide contemporaneous time documents to support the hours worked. The district provided an Individual Average Time Record: Individual Counselor Time Percentages, to support each counselor’s time spent on reimbursable activities regarding transfer centers, standards of scholarship, curriculum, and open courses. This 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.

In addition to the non-contemporaneous time documents, nearly all of the claimed activities for transfer centers were 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 received 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.

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	\$ 342,104	\$ -	\$ (342,104)
2002-03	360,110	-	(360,110)
2003-04	379,063	-	(379,063)
2004-05	377,473	-	(377,473)
2005-06	402,284	-	(402,284)
2006-07	331,502	-	(331,502)
2007-08	470,986	-	(470,986)
2008-09	577,200	-	(577,200)
2009-10	598,709	-	(598,709)
2010-11	598,709	-	(598,709)
2011-12	726,557	-	(726,557)
Total	\$ 5,164,697	\$ -	\$ (5,164,697)

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

Reimbursable Activity	Amount Claimed	Amount Allowable	Audit Adjustment
Transfer centers	\$ 570,920	\$ -	\$ (570,920)
Standards of scholarship	1,947,112	-	(1,947,112)
Curriculum	1,883,676	-	(1,883,676)
Open courses	762,989	-	(762,989)
Total	<u>\$ 5,164,697</u>	<u>\$ -</u>	<u>\$ (5,164,697)</u>

The following table summarizes the unallowable salaries and benefits and their related indirect costs:

Fiscal Year	(A)	(B)	(C) = (A) × (B)
	Unallowable Salaries and Benefits	Indirect Cost Rate Claimed	Indirect Costs Audit Adjustment
2001-02	\$ (342,104)	41.43%	\$ (141,734)
2002-03	(360,110)	38.92%	(140,155)
2003-04	(379,063)	38.64%	(146,470)
2004-05	(377,473)	37.90%	(143,062)
2005-06	(402,284)	37.45%	(150,655)
2006-07	(331,502)	48.20%	(159,784)
2007-08	(470,986)	42.59%	(200,593)
2008-09	(577,200)	43.16%	(249,120)
2009-10	(598,709)	42.67%	(255,469)
2010-11	(598,709)	39.13%	(234,275)
2011-12	<u>(726,557)</u>	39.17%	<u>(284,592)</u>
Total	<u>\$ (5,164,697)</u>		<u>\$ (2,105,909)</u>

Section IV of the parameters and guidelines 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 GC 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.

**State Controller's Office
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