

# **FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

Audit Report

## **ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM**

Education Code Section 76300 and  
Title 5, *California Code of Regulations*,  
Sections 58501-58503, 58611-58613, 58620, and 58630

*July 1, 1998, through June 30, 2012*



**BETTY T. YEE**  
California State Controller

November 2015



**BETTY T. YEE**  
California State Controller

November 6, 2015

Pearl Cheng, President  
Board of Trustees  
Foothill-De Anza Community College District  
12345 El Monte Road  
Los Altos Hills, CA 94022

Dear Ms. Cheng:

The State Controller's Office audited the costs claimed by the Foothill-De Anza Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code Section 76300 and Title 5, *California Code of Regulations*, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2012.

The district claimed \$24,029,111 for the mandated program. Our audit found that \$347,844 is allowable (\$368,893 less a \$21,049 penalty for filing late claims) and \$23,681,267 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, understated allowable costs, overstated student enrollment numbers, misstated indirect costs, misstated eligible offsetting revenues, and misstated productive hourly rates. The State paid the district \$1,794,386. The amount paid exceeds allowable costs claimed by \$1,446,542.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). The IRC must be filed within three years following the date of this report. You may obtain IRC information at the Commission's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/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/lis

cc: Dr. Judy C. Miner, Chancellor  
    Foothill-De Anza Community College District  
Kevin McElroy, Vice Chancellor  
    Business Services  
    Foothill-De Anza Community College District  
Hector Quinonez, Executive Director  
    Fiscal Services  
    Foothill-De Anza Community College District  
Joni Hayes-Lamprey, Director of Budget Operations  
    Foothill-De Anza Community College District  
Mario Rodriguez, Assistant Vice Chancellor  
    College Finance and Facilities Planning  
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Christine Atalig, Specialist  
    College Finance and Facilities Planning  
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Chris Ferguson, Principal Program Budget Analyst  
    Education Systems Unit  
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Keith Nezaam, Staff Finance Budget Analyst  
    Education Systems Unit  
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Jay Lal, Manager  
    Division of Accounting and Reporting  
    State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Foothill-De Anza Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code Section 76300 and Title 5, *California Code of Regulations*, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2012.

The district claimed \$24,029,111 for the mandated program. Our audit found that \$347,844 is allowable (\$368,893 less a \$21,049 penalty for filing late claims) and \$23,681,267 is unallowable. The costs are unallowable primarily because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, understated allowable costs, overstated student enrollment numbers, misstated indirect costs, misstated eligible offsetting revenues, and misstated productive hourly rates. The State paid the district \$1,794,386. The amount paid exceeds allowable costs claimed by \$1,446,542.

## Background

Education Code section 76300 and Title 5, *California Code of Regulations*, sections 58501-58503, 58611-58613, 58620, and 58630 authorize community college districts to calculate and collect student enrollment fees and to waive student fees in certain instances. The codes also direct community college districts to report the number of, and amounts provided for Board of Governor Grants (BOGGs) and to adopt procedures that will document all financial assistance provided on behalf of students pursuant to Chapter 9 of Title 5, *California Code of Regulations*.

The sections were added and/or amended by:

- Chapters 1, 274, and 1401, Statutes of 1984;
- Chapters 920 and 1454, Statutes of 1985;
- Chapters 46 and 395, Statutes of 1986;
- Chapter 1118, Statutes of 1987;
- Chapter 136, Statutes of 1989;
- Chapter 114, Statutes of 1991;
- Chapter 703, Statutes of 1992;
- Chapters 8, 66, 67, and 1124, Statutes of 1993;
- Chapters 153 and 422, Statutes of 1994;
- Chapter 308, Statutes of 1995;
- Chapter 63, Statutes of 1996; and
- Chapter 72, Statutes of 1999.

On April 24, 2003, the Commission on State Mandates (Commission) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The Commission found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on community college districts within the meaning of Article XIII B, Section 6 of the California Constitution and Government Code section 17514.

The Commission found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in Education Code section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOGG fee waivers.
- Reporting to the California Community Colleges Chancellor the number of and amounts provided for Board of Governors waivers.
- Adopting procedures that will document all financial assistance provided on behalf of students pursuant to Title 5 of the *California Code of Regulations*, Chapter 9; and including in the procedures the rules for retention of support documentation which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

The program's parameters and guidelines establish the State mandate and define reimbursement criteria. The Commission adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

## **Objectives, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Enrollment Fee Collection and Waivers Program for the period of July 1, 1998, through June 30, 2012.

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.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance 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.

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

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

## Conclusion

Our audit found instances of noncompliance with the requirements outlined above. 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 Foothill-De Anza Community College District claimed \$24,029,111 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$347,844 is allowable (\$368,893 less a \$21,049 penalty for filing late claims) and \$23,681,267 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$879,431 (\$99,518 as a regular mandated cost payment on September 13, 2012, and \$779,813 on January 8, 2015, from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858)). Our audit found that the claimed costs are unallowable. The State will apply \$779,831 against any balances of unpaid mandated program claims due the district as of June 20, 2014. The State will offset \$99,518 from other mandated program payments due the district, or alternatively, the district may remit this amount to the State.

For the FY 1999-2000 claim, the State paid \$340,538 to the district. Our audit found that the claimed costs are unallowable. The State will apply \$340,538 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2000-01 claim, the State made no payments to the district. Our audit found that \$1,812 is allowable (\$2,013 less a \$201 penalty for filing a late claim). The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2001-02 claim, the State made no payments to the district. Our audit found that \$1,787 is allowable (\$1,986 less a \$199 penalty for filing a late claim). The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payments to the district. Our audit found that \$14,579 is allowable (\$16,199 less a \$1,620 penalty for filing a late claim). The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2003-04 through FY 2007-08 claims, the State made no payments to the district. Our audit found that none of the claimed costs are allowable.

For the FY 2008-09 claim, the State paid the district \$572,417. Our audit found that \$30,677 is allowable. The State will offset \$541,417 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 claim, the State made no payments to the district. Our audit found that \$94,390 is allowable. The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2010-11 claim, the State paid the district \$1,000. Our audit found that \$86,309 is allowable (\$95,899 less a \$9,590 penalty for filing a late claim). The State will pay allowable costs claimed that exceed the amount paid, totaling \$85,309, contingent upon available appropriations.

For the FY 2011-12 claim, the State paid the district \$1,000. Our audit found that \$127,729 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$126,729, contingent upon available appropriations.

### **Views of Responsible Officials**

We issued a draft audit report on September 15, 2015. Kevin McElroy, Vice Chancellor of Business Services, responded by letter dated September 28, 2015 (Attachment), disagreeing with the audit results for Findings 1 through 4, 6, 8, and 9, but does not dispute the audit results for Findings 5, 7, and 10. This final audit report includes the district's response.

### **Restricted Use**

This report is solely for the information and use of the Foothill-De Anza Community College District, the California Community Colleges Chancellor's Office (CCCCO), 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

November 6, 2015

## Schedule—

# Summary of Program Costs

### July 1, 1998, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,503	\$ 1,503	\$ -	
Train staff	2,705	2,705	-	
Calculate and collect enrollment fees	796,853	87,885	(708,968)	Finding 2
Total direct costs	801,061	92,093	(708,968)	
Indirect costs	229,665	12,534	(217,131)	Finding 8
Total direct and indirect costs	1,030,726	104,627	(926,099)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(53,581)	(128,171)	(74,590)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	23,544	23,544	
Total costs	977,145	-	(977,145)	
Less late filing penalty <sup>3</sup>	-	-	-	
Total program costs	<u>\$ 977,145</u>	-	<u>\$ (977,145)</u>	
Less amount paid by the State <sup>4</sup>		(879,431)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (879,431)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,754	\$ 1,754	\$ -	
Train staff	3,740	-	(3,740)	Finding 1
Calculate and collect enrollment fees	864,411	93,496	(770,915)	Finding 2
Total direct costs	869,905	95,250	(774,655)	
Indirect costs	261,754	14,507	(247,247)	Finding 8
Total direct and indirect costs	1,131,659	109,757	(1,021,902)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(45,682)	(118,401)	(72,719)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	8,644	8,644	
Total enrollment fee collection	<u>1,085,977</u>	-	<u>(1,085,977)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 771	\$ 771	\$ -	
Train staff	854	854	-	
Adopt procedures, record and maintain records	12,965	2,779	(10,186)	Finding 5
Waive student fees	39,563	21,368	(18,195)	Finding 6
Report BOGG fee waiver data to CCCC	4,316	5,553	1,237	Finding 7

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
Total direct costs	58,469	31,325	(27,144)	
Indirect costs	17,595	4,771	(12,824)	Finding 8
Total direct and indirect costs	76,064	36,096	(39,968)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(58,469)	(193,050)	(134,581)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	156,954	156,954	
Total enrollment fee waivers	17,595	-	(75,595)	
Total costs	1,103,572	-	(1,103,572)	
Less late filing penalty <sup>3</sup>	-	-	-	
Total program costs	<u>\$ 1,103,572</u>	-	<u>\$ (1,103,572)</u>	
Less amount paid by the State <sup>4</sup>		(340,538)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (340,538)</u>		
 <u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,868	\$ 1,868	\$ -	
Train staff	3,755	-	(3,755)	Finding 1
Calculate and collect enrollment fees	888,937	101,002	(787,935)	Finding 2
Total direct costs	894,560	102,870	(791,690)	
Indirect costs	283,307	16,171	(267,136)	Finding 8
Total direct and indirect costs	1,177,867	119,041	(1,058,826)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(27,062)	(117,028)	(89,966)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	-	-	
Total enrollment fee collection	1,150,805	2,013	(1,148,792)	
 <i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,058	\$ 1,058	\$ -	
Train staff	730	730	-	
Adopt procedures, record and maintain records	9,400	3,206	(6,194)	Finding 5
Waive student fees	44,242	23,481	(20,761)	Finding 6
Report BOGG fee waiver data to CCCCCO	12,256	12,097	(159)	Finding 7
Total direct costs	67,686	40,572	(27,114)	
Indirect costs	21,435	6,378	(15,057)	Finding 8
Total direct and indirect costs	89,121	46,950	(42,171)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(67,685)	(159,694)	(92,009)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	112,744	112,744	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
Total enrollment fee waivers	21,436	-	(21,436)	
Total costs	1,172,241	2,013	(1,170,228)	
Less late filing penalty <sup>3</sup>	-	(201)	(201)	
Total program costs	<u>\$ 1,172,241</u>	\$ 1,812	<u>\$ (1,170,429)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,812</u>		
<u>July 1, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,108	\$ 2,108	\$ -	
Train staff	4,322	-	(4,322)	Finding 1
Calculate and collect enrollment fees	1,038,576	107,651	(930,925)	Finding 2
Total direct costs	1,045,006	109,759	(935,247)	
Indirect costs	370,976	18,988	(351,988)	Finding 8
Total direct and indirect costs	1,415,982	128,747	(1,287,235)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(21,054)	(126,761)	(105,707)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	-	-	
Total enrollment fee collection	<u>1,394,928</u>	<u>1,986</u>	<u>(1,392,942)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 941	\$ 941	\$ -	
Train staff	961	961	-	
Adopt procedures, record and maintain records	7,650	3,952	(3,698)	Finding 5
Waive student fees	48,994	25,144	(23,850)	Finding 6
Report BOGG fee waiver data to CCCCCO	10,232	10,064	(168)	Finding 7
Total direct costs	68,778	41,062	(27,716)	
Indirect costs	24,418	7,104	(17,314)	Finding 8
Total direct and indirect costs	93,196	48,166	(45,030)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(68,779)	(140,909)	(72,130)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	92,743	92,743	
Total enrollment fee waivers	<u>24,417</u>	<u>-</u>	<u>(24,417)</u>	
Total costs	1,419,345	1,986	(1,417,359)	
Less late filing penalty <sup>3</sup>		(199)	(199)	
Total program costs	<u>\$ 1,419,345</u>	1,787	<u>\$ (1,417,558)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,787</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,276	\$ 2,276	\$ -	
Train staff	4,783	-	(4,783)	Finding 1
Calculate and collect enrollment fees	<u>1,200,894</u>	<u>117,791</u>	<u>(1,083,103)</u>	Finding 2
Total direct costs	1,207,953	120,067	(1,087,886)	
Indirect costs	<u>389,928</u>	<u>19,979</u>	<u>(369,949)</u>	Finding 8
Total direct and indirect costs	1,597,881	140,046	(1,457,835)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(19,975)	(123,847)	(103,872)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total enrollment fee collection	<u>1,577,906</u>	<u>16,199</u>	<u>(1,561,707)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,062	\$ 1,062	\$ -	
Train staff	1,096	1,096	-	
Adopt procedures, record and maintain records	9,432	5,395	(4,037)	Finding 5
Waive student fees	67,846	76,796	8,950	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>8,972</u>	<u>8,781</u>	<u>(191)</u>	Finding 7
Total direct costs	88,408	93,130	4,722	
Indirect costs	<u>28,537</u>	<u>15,497</u>	<u>(13,040)</u>	Finding 8
Total direct and indirect costs	116,945	108,627	(8,318)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(88,409)	(127,407)	(38,998)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>18,780</u>	<u>18,780</u>	
Total enrollment fee waivers	<u>28,536</u>	<u>-</u>	<u>(28,536)</u>	
Total costs	1,606,442	16,199	(1,590,243)	
Less late filing penalty <sup>3</sup>	<u>-</u>	<u>(1,620)</u>	<u>(1,620)</u>	
Total program costs	<u>\$ 1,606,442</u>	14,579	<u>\$ (1,591,863)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 14,579</u>		

### Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,566	\$ 2,566	\$ -	
Train staff	5,393	-	(5,393)	Finding 1
Calculate and collect enrollment fees	<u>1,220,428</u>	<u>151,248</u>	<u>(1,069,180)</u>	Finding 2
Total direct costs	1,228,387	153,814	(1,074,573)	
Indirect costs	<u>382,151</u>	<u>27,825</u>	<u>(354,326)</u>	Finding 8
Total direct and indirect costs	1,610,538	181,639	(1,428,899)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(37,237)	(191,777)	(154,540)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>10,138</u>	<u>10,138</u>	
Total enrollment fee collection	<u>1,573,301</u>	<u>-</u>	<u>(1,573,301)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,551	\$ 1,551	\$ -	
Train staff	2,595	2,595	-	
Adopt procedures, record and maintain records	17,526	6,160	(11,366)	Finding 5
Waive student fees	81,016	93,474	12,458	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>10,210</u>	<u>10,005</u>	<u>(205)</u>	Finding 7
Total direct costs	112,898	113,785	887	
Indirect costs	<u>35,122</u>	<u>20,584</u>	<u>(14,538)</u>	Finding 8
Total direct and indirect costs	148,020	134,369	(13,651)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(112,898)	(134,614)	(21,716)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>245</u>	<u>245</u>	
Total enrollment fee waivers	<u>35,122</u>	<u>-</u>	<u>(35,122)</u>	
Total costs	1,608,423	-	(1,608,423)	
Less late filing penalty <sup>3</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total program costs	<u>\$ 1,608,423</u>	<u>-</u>	<u>\$ (1,608,423)</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 <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,703	\$ 2,703	\$ -	
Train staff	5,798	-	(5,798)	Finding 1
Calculate and collect enrollment fees	<u>1,264,310</u>	<u>114,680</u>	<u>(1,149,630)</u>	Finding 2
Total direct costs	1,272,811	117,383	(1,155,428)	
Indirect costs	<u>377,516</u>	<u>42,094</u>	<u>(335,422)</u>	Finding 8
Total direct and indirect costs	1,650,327	159,477	(1,490,850)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(84,495)	(250,864)	(166,369)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	91,387	91,387	
Total enrollment fee collection	<u>1,565,832</u>	<u>-</u>	<u>(1,565,832)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 4,026	\$ -	\$ (4,026)	Finding 3
Train staff	2,431	2,431	-	
Adopt procedures, record and maintain records	34,719	9,753	(24,966)	Finding 5
Waive student fees	90,476	103,249	12,773	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>11,256</u>	<u>10,716</u>	<u>(540)</u>	Finding 7
Total direct costs	142,908	126,149	(16,759)	
Indirect costs	<u>42,385</u>	<u>45,237</u>	<u>2,852</u>	Finding 8
Total direct and indirect costs	185,293	171,386	(13,907)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(142,907)	(215,974)	(73,067)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	44,588	44,588	
Total enrollment fee waivers	<u>42,386</u>	<u>-</u>	<u>(42,386)</u>	
Total costs	1,608,218	-	(1,608,218)	
Less late filing penalty <sup>3</sup>	-	-	-	
Total program costs	<u>\$ 1,608,218</u>	<u>-</u>	<u>\$ (1,608,218)</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 <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,862	\$ 2,862	\$ -	
Train staff	6,118	-	(6,118)	Finding 1
Calculate and collect enrollment fees	<u>1,333,627</u>	<u>112,930</u>	<u>(1,220,697)</u>	Finding 2
Total direct costs	1,342,607	115,792	(1,226,815)	
Indirect costs	<u>388,013</u>	<u>42,276</u>	<u>(345,737)</u>	Finding 8
Total direct and indirect costs	1,730,620	158,068	(1,572,552)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(80,315)	(249,888)	(169,573)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>91,820</u>	<u>91,820</u>	
Total enrollment fee collection	<u>1,650,305</u>	<u>-</u>	<u>(1,650,305)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 3,615	\$ 3,615	\$ -	
Train staff	2,363	2,363	-	
Adopt procedures, record and maintain records	20,875	8,545	(12,330)	Finding 5
Waive student fees	105,073	118,216	13,143	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>11,218</u>	<u>10,842</u>	<u>(376)</u>	Finding 7
Total direct costs	143,144	143,581	437	
Indirect costs	<u>41,370</u>	<u>52,421</u>	<u>11,051</u>	Finding 8
Total direct and indirect costs	184,514	196,002	11,488	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(143,145)	(198,445)	(55,300)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>2,443</u>	<u>2,443</u>	
Total enrollment fee waivers	<u>41,369</u>	<u>-</u>	<u>(41,369)</u>	
Total costs	1,691,674	-	(1,691,674)	
Less late filing penalty <sup>3</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total program costs	<u>\$ 1,691,674</u>	<u>-</u>	<u>\$ (1,691,674)</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 <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 465	\$ 465	\$ -	
Calculate and collect enrollment fees	967,742	102,940	(864,802)	Finding 2
Total direct costs	968,207	103,405	(864,802)	
Indirect costs	381,957	38,973	(342,984)	Finding 8
Total direct and indirect costs	1,350,164	142,378	(1,207,786)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(83,949)	(219,078)	(135,129)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>		76,700	76,700	
Total enrollment fee collection	1,266,215	-	(1,266,215)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 3,482	\$ -	\$ (3,482)	Finding 3
Train staff	1,131	1,131	-	
Adopt procedures, record and maintain records	11,793	2,295	(9,498)	Finding 5
Waive student fees	169,798	104,425	(65,373)	Finding 6
Report BOGG fee waiver data to CCCCCO	4,202	4,997	795	Finding 7
Total direct costs	190,406	112,848	(77,558)	
Indirect costs	75,116	42,532	(32,584)	Finding 8
Total direct and indirect costs	265,522	155,380	(110,142)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(190,406)	(213,245)	(22,839)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	57,865	57,865	
Total enrollment fee waivers	75,116	-	(75,116)	
Total costs	1,341,331	-	(1,341,331)	
Less late filing penalty <sup>3</sup>	-	-	-	
Total program costs	\$ 1,341,331	-	\$ (1,341,331)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ -		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 499	\$ 499	\$ -	
Train staff	371	371	-	
Calculate and collect enrollment fees	896,682	115,133	(781,549)	Finding 2
Total direct costs	897,552	116,003	(781,549)	
Indirect costs	354,084	52,955	(301,129)	Finding 8
Total direct and indirect costs	1,251,636	168,958	(1,082,678)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(66,743)	(204,099)	(137,356)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	35,141	35,141	
Total enrollment fee collection	1,184,893	-	(1,184,893)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 3,360	\$ -	\$ (3,360)	Finding 3
Train staff	1,612	1,612	-	
Adopt procedures, record and maintain records	6,111	1,435	(4,676)	Finding 5
Waive student fees	155,466	103,440	(52,026)	Finding 6
Report BOGG fee waiver data to CCCCCO	3,974	5,379	1,405	Finding 7
Total direct costs	170,523	111,866	(58,657)	
Indirect costs	67,270	51,067	(16,203)	Finding 8
Total direct and indirect costs	237,793	162,933	(74,860)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(170,522)	(202,544)	(32,022)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	39,611	39,611	
Total enrollment fee waivers	67,271	-	(67,271)	
Total program costs	\$ 1,252,164	-	\$ (1,252,164)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ -		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 526	\$ 526	\$ -	
Train staff	1,808	1,808	-	
Calculate and collect enrollment fees	<u>2,523,732</u>	<u>141,575</u>	<u>(2,382,157)</u>	Finding 2
Total direct costs	2,526,066	143,909	(2,382,157)	
Indirect costs	<u>1,070,042</u>	<u>68,659</u>	<u>(1,001,383)</u>	Finding 8
Total direct and indirect costs	3,596,108	212,568	(3,383,540)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(62,968)	(222,030)	(159,062)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	9,462	9,462	
Total enrollment fee collection	<u>3,533,140</u>	<u>-</u>	<u>(3,533,140)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 3,423	\$ -	\$ (3,423)	Finding 3
Train staff	4,586	1,743	(2,843)	Finding 4
Adopt procedures, record and maintain records	8,956	2,341	(6,615)	Finding 5
Waive student fees	238,722	145,504	(93,218)	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>4,439</u>	<u>6,443</u>	<u>2,004</u>	Finding 7
Total direct costs	260,126	156,031	(104,095)	
Indirect costs	<u>110,189</u>	<u>74,442</u>	<u>(35,747)</u>	Finding 8
Total direct and indirect costs	370,315	230,473	(139,842)	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(185,167)	(199,796)	(14,629)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	-	-	
Total enrollment fee waivers	<u>185,148</u>	<u>30,677</u>	<u>(154,471)</u>	
Total program costs	<u>\$ 3,718,288</u>	30,677	<u>\$ (3,687,611)</u>	
Less amount paid by the State		<u>(572,417)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (541,740)</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2009, through June 30, 2010</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 365	\$ 365	\$ -	
Train staff	2,087	2,087	-	
Calculate and collect enrollment fees	2,628,733	167,043	(2,461,690)	Finding 2
Total direct costs	2,631,185	169,495	(2,461,690)	
Indirect costs	1,299,015	80,391	(1,218,624)	Finding 8
Total direct and indirect costs	3,930,200	249,886	(3,680,314)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(847,985)	(276,868)	571,117	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	26,982	26,982	
Total enrollment fee collection	3,082,215	-	(3,082,215)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 5,554	\$ 5,554	\$ -	
Train staff	4,026	-	(4,026)	Finding 4
Adopt procedures, record and maintain records	3,537	8,510	4,973	Finding 5
Waive student fees	124,728	194,121	69,393	Finding 6
Report BOGG fee waiver data to CCCCCO	5,454	4,990	(464)	Finding 7
Total direct costs	143,299	213,175	69,876	
Indirect costs	70,748	101,109	30,361	Finding 8
Total direct and indirect costs	214,047	314,284	100,237	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(214,047)	(219,894)	(5,847)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	-	-	-	
Total enrollment fee waivers	-	94,390	94,390	
Total costs	3,082,215	94,390	(2,987,825)	
Less late filing penalty <sup>3</sup>	-	(9,439)	(9,439)	
Total program costs	\$ 3,082,215	84,951	\$ (2,997,264)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 84,951		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,947	\$ 2,947	\$ -	
Train staff	2,338	2,338	-	
Calculate and collect enrollment fees	<u>2,427,329</u>	<u>169,581</u>	<u>(2,257,748)</u>	Finding 2
Total direct costs	2,432,614	174,866	(2,257,748)	
Indirect costs	<u>1,194,902</u>	<u>90,126</u>	<u>(1,104,776)</u>	Finding 8
Total direct and indirect costs	3,627,516	264,992	(3,362,524)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(861,788)	(262,478)	599,310	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total enrollment fee collection	<u>2,765,728</u>	<u>2,514</u>	<u>(2,763,214)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 8,765	\$ -	\$ (8,765)	Finding 3
Train staff	7,508	458	(7,050)	Finding 4
Adopt procedures, record and maintain records	1,935	8,254	6,319	Finding 5
Waive student fees	136,823	214,944	78,121	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>4,719</u>	<u>4,244</u>	<u>(475)</u>	Finding 7
Total direct costs	159,750	227,900	68,150	
Indirect costs	<u>78,470</u>	<u>117,460</u>	<u>38,990</u>	Finding 8
Total direct and indirect costs	238,220	345,360	107,140	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(238,220)	(251,975)	(13,755)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total enrollment fee waivers	<u>-</u>	<u>93,385</u>	<u>93,385</u>	
Total costs	2,765,728	95,899	(2,669,829)	
Less late filing penalty <sup>3</sup>	<u>-</u>	<u>(9,590)</u>	<u>(9,590)</u>	
Total program costs	<u>\$ 2,765,728</u>	86,309	<u>\$ (2,679,419)</u>	
Less amount paid by the State		<u>(1,000)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 85,309</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2011, through June 30, 2012</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,577	\$ 1,577	\$ -	
Train staff	1,373	1,373	-	
Calculate and collect enrollment fees	<u>475,948</u>	<u>177,286</u>	<u>(298,662)</u>	Finding 2
Total direct costs	478,898	180,236	(298,662)	
Indirect costs	<u>254,392</u>	<u>97,057</u>	<u>(157,335)</u>	Finding 8
Total direct and indirect costs	733,290	277,293	(455,997)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(50,965)	(336,000)	(285,035)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>58,707</u>	<u>58,707</u>	
Total enrollment fee collection	<u>682,325</u>	<u>-</u>	<u>(682,325)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 2,649	\$ 2,649	\$ -	
Train staff	2,581	2,581	-	
Adopt procedures, record and maintain records	-	8,603	8,603	Finding 5
Waive student fees	21,347	252,134	230,787	Finding 6
Report BOGG fee waiver data to CCCCCO	<u>1,280</u>	<u>2,834</u>	<u>1,554</u>	Finding 7
Total direct costs	27,857	268,801	240,944	
Indirect costs	<u>14,797</u>	<u>144,749</u>	<u>129,952</u>	Finding 8
Total direct and indirect costs	42,654	413,550	370,896	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(42,654)	(285,821)	(243,167)	Finding 9
Adjustment for unused portion of offsets <sup>2</sup>	<u>-</u>	<u>-</u>	<u>-</u>	
Total enrollment fee waivers	<u>-</u>	<u>127,729</u>	<u>127,729</u>	
Total program costs	<u>\$ 682,325</u>	127,729	<u>\$ (554,596)</u>	
Less amount paid by the State		<u>(1,000)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 126,729</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<b>Summary: July 1, 1998, through June 30, 2012</b>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 24,019	\$ 24,019	\$ -	
Train staff	44,591	10,682	(33,909)	
Calculate and collect enrollment fees	18,528,202	1,760,241	(16,767,961)	
Total direct costs	18,596,812	1,794,942	(16,801,870)	
Indirect costs	7,237,702	622,535	(6,615,167)	
Total direct and indirect costs	25,834,514	2,417,477	(23,417,037)	
Less offsetting savings and reimbursements				
Enrollment fee collection	(2,343,799)	(2,827,290)	(483,491)	
Adjustment for unused portion of offsets <sup>2</sup>	-	432,525	432,525	
Total enrollment fee collection	23,490,715	22,712	(23,468,003)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	40,257	17,201	(23,056)	
Train staff	32,474	18,555	(13,919)	
Adopt procedures, record and maintain records	144,899	71,228	(73,671)	
Waive student fees	1,324,094	1,476,296	152,202	
Report BOGG fee waiver data to CCCCCO	92,528	96,945	4,417	
Total direct costs	1,634,252	1,680,225	45,973	
Indirect costs	627,452	683,351	55,899	
Total direct and indirect costs	2,261,704	2,363,576	101,872	
Less offsetting savings and reimbursements				
Enrollment fee waivers	(1,723,308)	(2,543,368)	(820,060)	
Adjustment for unused portion of offsets <sup>2</sup>	-	525,973	525,973	
Total enrollment fee waivers	538,396	346,181	(192,215)	
Total costs	24,029,111	368,893	(23,660,218)	
Less late filing penalty <sup>3</sup>		(21,049)	(21,049)	
Total program costs	\$ 24,029,111	\$ 347,844	\$ (23,681,267)	
Less amount paid by the State <sup>4</sup>		(1,794,386)		
Allowable costs claimed in excess of (less than) amount paid		\$ (1,446,542)		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Offsetting savings and reimbursements are limited to total allowable direct and indirect costs and are calculated separately for enrollment fee collection and enrollment fee waivers.

<sup>3</sup> The district's claims included \$980,537 in late penalties (\$97,714 for FY 1998-99, \$110,357 for FY 1999-2000, \$117,224 for FY 2000-01, \$141,934 for FY 2001-02, \$160,644 for FY 2002-03, \$160,842 for FY 2003-04, \$160,822 for FY 2004-05, \$10,000 for FY 2005-06, \$10,000 for FY 2006-07, \$10,000 for FY 2009-101, and \$1,000 for FY 2010-11). The SCO assesses the penalty on allowable costs for claims filed after the filing deadline specified in the Controller's claiming instructions. FY 1998-99 through FY 2004-05 claims were initial reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17561, subdivision (d)(3), equal to 10% of allowable costs, with no maximum penalty. FY 2005-06 through FY 2006-07, and FY 2009-10 through FY 2010-11 claims were annual reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17568, equal to 10% of allowable costs, not to exceed \$10,000.

<sup>4</sup> Payment from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858) totaled \$779,913 for FY 1998-99 and \$340,538 for FY 1999-2000.

# Findings and Recommendations

**FINDING 1—  
Enrollment Fee  
Collection: Train  
Staff cost component  
– unallowable one-  
time costs**

The district claimed \$44,591 for salaries and benefits for the audit period for the one-time activity of staff training (one-time per employee) for district staff who implement the program on the procedures for the collection of enrollment fees. We found that \$10,682 is allowable and \$33,909 is unallowable.

The district claimed costs for FY 1999-2000 through FY 2005-06 based on 123 estimated hours spent per year by the same four district employees to perform the one-time reimbursable activity. The district did not support a reason for why training costs were claimed more than once per employee. We did not review costs claimed for other years as the costs were below our materiality threshold.

The costs are unallowable because the district claimed estimated costs and did not provide support related to the nature of the training provided, the length of the training, which district employees attended the training, or whether any of the costs related to trainers’ time. In addition, the district claimed costs for staff who do not collect enrollment fees from students.

The following table summarizes claimed and allowable costs, and audit adjustments related to the one-time activity of staff training by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ 2,705	\$ 2,705	\$ -
1999-2000	3,740	-	(3,740)
2000-01	3,755	-	(3,755)
2001-02	4,322	-	(4,322)
2002-03	4,783	-	(4,783)
2003-04	5,393	-	(5,393)
2004-05	5,798	-	(5,798)
2005-06	6,118	-	(6,118)
2006-07	-	-	-
2007-08	371	371	-
2008-09	1,808	1,808	-
2009-10	2,087	2,087	-
2010-11	2,338	2,338	-
2011-12	1,373	1,373	-
<b>Total, salaries and benefits</b>	<u>44,591</u>	<u>10,682</u>	<u>(33,909)</u>

## Salaries and Benefits

### *Costs Claimed*

For FY 1998-1999 through FY 2011-12, the district claimed salaries and benefits for the one-time activity of staff training (one-time per employee) for district staff who implement the program on the procedures for the collection of enrollment fees. The district estimated the hours per year spent by various employee classifications to perform the reimbursable activity using forms developed by the district's mandated cost consultant. The district did not provide any source documentation based on actual data to support the estimated time allowances. For the audit period, the district claimed 1,102 hours for the one-time activity of staff training. The district did not claim any costs for FY 2006-07.

We attempted to verify the reasonableness of the costs claimed. The Cashier's Office Supervisors explained that new staff typically receive on-the-job training. We requested that the district provide us with a list of employees who received such training, which employee classification(s) provided the training, and how long the training lasted. The district did not provide any additional information for us to consider.

The program's parameters and guidelines (section IV–Reimbursable Activities) state:

To be eligible for mandated cost reimbursement, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable 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 cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records, time logs, sign-in sheets, invoices, and receipts.

The parameters and guidelines (section IV.A.1.b–Reimbursable Activities–Enrollment Fee Collection–One-Time Activities–Staff Training (one time per employee) state that staff training is reimbursable as a one-time cost per employee for training district staff who implement the program on the procedures for the collection of enrollment fees. Consistent with the Final Staff Analysis for the proposed parameters and guidelines (Item #9, Commission hearing of January 26, 2006), relating to policies and procedures, training existing staff for changes in the community college district's policy rather than State law is not reimbursable.

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) require claimants to “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

### 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.

### District's Response

Costs were disallowed for FY 1999-00 through FY 2005-06 because they were based on estimates of time to perform the reimbursable activity. The auditors did not review costs claimed for other years as the costs were below their materiality threshold.

The audit report states:

We attempted to verify the reasonableness of the costs claimed. The Cashier's Office Supervisors explained that new staff typically receive on-the-job training. We requested that the district provide us with a list of employees who received such training, which employee classification(s) provided the training, and how long the training lasted. The district did not provide any additional information for us to consider.

It is not clear how the name of the employees trained, from as long as 14 years ago, would improve the determination of how much time the supervisors spent training new staff. The duration of training is indicated by the hours claimed for the staff conducting the training. The nature of the on-the-job training does not lend itself to agendas or formal plans. This is an example of the pointless pursuit of a second piece of paper that may have never existed to corroborate a good faith estimate staff declarations.

The audit report finding does not distinguish between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the fourteen fiscal years in the audit period. However, it should be considered that the content of the training would change over the span of years; thus, new content would be a new onetime activity for any repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections as may have been updated by the Board of Governors.

It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years either for individual job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

The audit report also disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The audit does not indicate how this documentation was not “actual cost documentation.” This staff time should either be reinstated or reevaluated.

#### SCO’s Comments

The finding and recommendation remain unchanged.

The district stated that “the District provided documentation in the form of declarations, which are acceptable source documentation.” We disagree. The audit report for this finding references section IV of the parameters and guidelines, which defines the terms “actual costs,” “source documents,” and “corroborating documents.” The district supported costs claimed only with corroborating documents rather than with source documents. The parameters and guidelines state that corroborating documents cannot be substituted for source documents.

The district also stated that “there should be no blanket disallowance of staff time for persons whose name appears more than once” and that “we should have considered that the content of training would change over the span of years” and that “the names of supervisors or managers conducting the training would appear in the claims for several years.” We requested information from the district during the audit relating to the nature of training provided to district staff and identification of the persons who conducted such training. However, the district did not provide any information in its claims or respond to the auditor’s request for information related to training activities. In addition, the district did not provide any additional information in its response to the draft audit report.

**FINDING 2—  
Enrollment Fee  
Collection: Calculate  
and Collect  
Enrollment Fees cost  
component—  
overstated ongoing  
costs**

The district claimed \$18,528,202 for salaries and benefits to calculate and collect enrollment fees during the audit period. We found that \$1,760,241 is allowable and \$16,767,961 is unallowable. The costs are overstated because the district estimated the amount of time required to perform the reimbursable activities. In addition, we noted variations in the number of students used in the district’s calculations based on the student enrollment data reported to us by the California Community College Chancellor’s Office (CCCCO) and the number of students who paid their enrollment fees online rather than in person, based on information provided to us by the district.

The district did not claim costs during the audit period for Activity 6, providing a refund to students who pay their enrollment fees and are subsequently granted a BOGG fee waiver. However, we determined allowable costs for this activity for the audit period based on support that the district provided during the audit. We also made adjustments to the average productive hourly rates used in the district’s claims.

The following table summarizes the overstated ongoing costs related to calculating and collecting enrollment fees by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ 796,853	\$ 87,885	\$ (708,968)
1999-2000	864,411	93,496	(770,915)
2000-01	888,937	101,002	(787,935)
2001-02	1,038,576	107,651	(930,925)
2002-03	1,200,894	117,791	(1,083,103)
2003-04	1,220,428	151,248	(1,069,180)
2004-05	1,264,310	114,680	(1,149,630)
2005-06	1,333,627	112,930	(1,220,697)
2006-07	967,742	102,940	(864,802)
2007-08	896,682	115,133	(781,549)
2008-09	2,523,732	141,575	(2,382,157)
2009-10	2,628,733	167,043	(2,461,690)
2010-11	2,427,329	169,581	(2,257,748)
2011-12	475,948	177,286	(298,662)
Total, salaries and benefits	<u>\$ 18,528,202</u>	<u>\$ 1,760,241</u>	<u>\$ (16,767,961)</u>

The parameters and guidelines (section IV.A.2) allow ongoing activities related to costs for calculating and collecting the student enrollment fee for each student enrolled, with the exception of nonresidents and special part-time students cited in Government Code section 76300, subdivision (f), for the following six reimbursable activities:

- i. Referencing student accounts and records to determine course workload, status of payments, and eligibility for fee waiver. Printing a list of enrolled courses. **(Activity 1)**
- ii. Calculating the total enrollment fee to be collected. Identifying method of payment. Collecting cash and making change as necessary. Processing credit card and other non-cash payment transactions (however, any fees that may be charged to a community college district by a credit card company or bank are not reimbursable). Preparing a receipt for a payment received. **(Activity 2)**
- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
- iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
- v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**

- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). (**Activity 6**)

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time the actual cost was incurred for the event or activity in question.” See Finding 1 for the specific language.

### Salaries and Benefits

For FY 1998-99 through FY 2011-12, the district claimed salaries and benefits for the five reimbursable activities using time allowances developed from the estimated time it took staff to complete various activities through the use of employees’ annual survey forms. Employees estimated the average time in minutes it took them to perform the six reimbursable activities per student per year on certification forms developed by the district’s mandated cost consultant. To compute the average time increment claimed for each of the six reimbursable activities, the district added all of the employee’s time estimates together and divided the total by the number of employees who provided estimates. The district did not provide any source documentation based on actual data to support the estimated time allowances. In addition, the district provided no evidence indicating that the average time increments were verified for reasonableness.

The following table summarizes the minutes claimed for reimbursable Activities 1 through 5:

Reimbursable Activity	FY 1998-99 through				FY 2009-10 and	
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010-11	FY 2011-12
1 Referencing Students Accounts	3.50	3.70	4.40	5.40	6.00	5.80
2 Calculating the Fee	4.00	3.70	4.10	4.20	5.20	4.40
3 Answering Questions	4.60	4.00	5.70	8.00	7.80	9.00
4 Updating Records	3.30	3.30	4.30	4.10	4.30	4.60
Claimed for Activities 1-4	15.40	14.70	18.50	21.70	23.30	23.80
5 Collecting Delinquent Fees	5.80	4.90	6.20	9.40	9.60	10.70
6 Providing Refunds	-	-	-	-	-	-
Total Time Increments Claimed for Activities 1-6	21.20	19.60	24.70	31.10	32.90	34.50

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff for the audit period were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We also observed district staff in the Admissions and Records Office and Cashier’s Office who collect enrollment fees from students, and documented the average time increments spent by district staff to perform these activities based on our observations.

In applying the estimated time allowances, the district did not report the correct number of students related to the various reimbursable activities. We recalculated reimbursable activities using the correct number of students (multiplier). We also made adjustments to the average productive hourly rates that were used in the district's claims.

**Activities 1 through 4: Activity 1: Referencing student accounts, Activity 2: Calculating and collecting the fee, Activity 3: Answering student's questions, Activity 4: Updating student records.**

#### *Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed the following time allowances per student: 15.40 minutes for its FY 1998-99 through FY 2005-06 claims, 14.70 minutes for its FY 2006-07 claim, 18.50 minutes for its 2007-08 claim, 21.70 minutes for its FY 2008-09 claim, 23.30 minutes for its FY 2009-10 and FY 2010-11 claims, and 23.80 minutes for its FY 2011-12 claim. Based on our observations, we found that the time allowances claimed for these activities for these years were overstated.

We held discussions with various district representatives during the audit in order to determine the procedures that district staff followed to perform the reimbursable activities. We also observed district staff in the Admissions and Records and Cashier's Office performing the reimbursable activities as well as other non-mandated activities. Over several days, we observed 541 payment transactions processed by district staff. Of these, 141 involved the payment of enrollment fees encompassing Activities 1 through 4 totaling 366.18 minutes. The average time to perform all four activities was 2.60 minutes, or 0.65 minutes per activity.

Prior to conducting our observations, we discussed with district representatives our intention to observe a sample of staff performing Activities 1 through 4 and encouraged the Cashier Supervisors to watch over the auditors while we documented our observations. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. We reviewed the observations as they took place with the Cashier Supervisors, who acknowledged that the claimed time increments were high because the district staff did not know how each individual time estimate was being combined and used in the district's claims. They explained that neither they, nor their staff, understood that each estimate was being combined and that the total was going to be used to represent the time required to perform the reimbursable activities associated with the collection of enrollment fees from students.

### *Multiplier Calculation*

#### Claimed Costs

The district's Executive Director for the Institutional Research & Planning Department compiled the "Headcount Enrollment by Enrollment Type, Year, and Term" summary reports from the district's internal computerized system for the district's claims. The district also provided the "Student Total Headcount" summary report obtained from the CCCC's Web site for comparison; however, the district did not use the CCCC's student enrollment numbers in its claims during the audit period.

For Activities 1 through 4, the district claimed costs by multiplying the number of students (multiplier) by a uniform time allowance and an annual average productive hourly rate.

For FY 1998-99 through FY 2007-08, the district used total student enrollment as the multiplier number for Activities 1 and 3. For Activities 2 and 4, the district used the number of students who paid enrollment fees less the number of BOGG fee waivers granted.

For FY 2006-07 through FY 2010-11, the district changed its methodology for the calculation of the multiplier. For Activities 1 and 3, the district used total student enrollment as the multiplier number as in the previous years; however, for Activities 2 and 4, the district used the number of students who paid enrollment fees without excluding the number of BOGG fee waivers granted.

For FY 2011-12, the district changed its methodology for the calculation of the multiplier once again. For Activities 1 and 3, the district claimed 15% of total student enrollment as an estimate for the number of students who paid their enrollment fees in person rather than online. For Activities 2 and 4, the district claimed 15% of the number of students who paid enrollment fees as an estimate for the number of students who paid enrollment fees in person.

#### Allowable Costs

We updated the district's calculations of eligible students for Activities 1 and 3 based on the number of students enrolled as reported to the CCCC, less non-resident students and special admit students. The CCCC's management information system (MIS) identifies enrollment information based on student data that the district reported. The CCCC identifies the district's enrollment based on CCCC's MIS data element STD 7, codes A through G. The CCCC eliminates any duplicate students by term based on their Social Security Number.

We also updated the district's calculations of eligible students for Activities 2 and 4 by deducting the number of BOGG recipients from reimbursable student enrollment confirmed by the CCCC. The CCCC identifies the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. In addition, we added the number of refunds for students who paid their

enrollment fees and were subsequently granted a BOGG fee waiver and deducted students who paid their enrollment fees through the district's online system, based on information provided by the district.

The district provided a breakdown of the numbers of students who paid their enrollment fees using the district's online system and in person from FY 1998-99 through FY 2011-12. Based on this information, we calculated the percentage of enrollment fees paid in person at the Admissions and Records Office and Cashier's Office by dividing the number of students who paid in person by the total number of students who paid enrollment fees. We applied the percentage we calculated to the net enrollment number (the number of students enrolled less non-resident students, special admit students, and BOGG fee waiver recipients) to compute the number of students who paid enrollment fees in person. We then added in the number of refunds claimed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver.

#### *Productive Hourly Rates*

We also found that the district overstated the average productive hourly rates used in its claims for Activity 1 through 4 during the audit period. The district's average productive hourly rate calculations excluded Student Hourly Workers for all years except FY 2006-07 and FY 2007-08 because they did not receive and complete a time survey form. In addition, district staff explained that they excluded Student Hourly Workers during the audit period because they were partially funded by Federal Work Study (FWS) funds.

The district's average productive hourly rate calculations also did not take into account the extent that the various employee classifications performed the reimbursable activities. Instead, all employee classifications were weighted at the same level, as if they all performed the reimbursable activities to the same extent, which is not reasonable. As explained in Finding 10 (Overstated Productive Hourly Rates), we recalculated the average productive hourly rates based on the employees actually involved and the extent of their involvement in calculating and collecting enrollment fee activities, and made appropriate adjustments to the claimed rates.

#### **Activity 5—Collecting delinquent enrollment fees**

##### *Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable Activity 5. Based on these certifications, the district developed time allowances per delinquent student account of 5.80 minutes for its FY 1998-99 through FY 2005-06 claims, 4.90 minutes for its FY 2006-07 claim, 6.20 minutes for its 2007-08 claim, 9.40 minutes for its FY 2008-09 claim, 9.60 minutes for its FY 2009-10 and FY 2010-11 claim, and 10.70 minutes for its FY 2011-12, to collect delinquent enrollment fees in the Admissions and Records Office and Cashier's Office.

The district's Cashier's Office Supervisors described the procedures in place to collect delinquent enrollment fees during the audit period, both before and after the district's current Banner software system was in place. The Supervisors explained that the district drops students for two instances of non-payment of enrollment fees, the first, two weeks before the term begins, and then again one week before the term begins. During the first two weeks of the term, students may add or drop classes. However, after the first two weeks of the term, any unpaid enrollment fees are considered delinquent. Therefore, the district is able to collect delinquent enrollment fees only after the second week of the term is completed.

If enrollment fees are unpaid, the district places a hold on the student's record, which remains in effect until the delinquent enrollment fees are paid. District staff run reports to identify students who have delinquent enrollment fees for two consecutive quarters. The district sends these students a past-due notice with instructions to pay unpaid enrollment fees within a month. If the student does not pay the delinquent enrollment fees within a month, the unpaid amounts are sent to a collection agency. During the audit period, the district used various collection agencies to assist in the collection of delinquent enrollment fees. District representatives explained that the fees charged by the collection agencies were collected from the students rather than billed to the district. District representatives also stated that the district was billed by the collection agencies for delinquent enrollment fees that were not ultimately collected. However, the district declined the opportunity to perform an analysis to identify the applicable collection costs incurred during the audit period.

We documented staff collecting delinquent fees at the front windows during our observation of Activities 1 through 4. However, we did not observe the district's Cashier's Supervisors involvement in Activity 5 being performed during our observations at the Admissions and Records Office and Cashier's Office. However, based on the procedures in place and the information gathered during our discussions with district representatives, we found that the time claimed appears to be reasonable.

#### *Multiplier Calculation*

For Activity 5, the district was unable to provide support for the number of delinquent fees reported in its claims.

The district's Institutional Research and Planning Department ran new reports to support the number of delinquent enrollment fees for the audit period. The department provided the number of students who had not paid enrollment fees after the first two weeks of the term for FY 2010-11 and FY 2011-12. The district explained that the data for previous years was in their old system and it would be difficult and time consuming to extract. The district suggested, and we agreed, to analyze the last two years and apply an average to the earlier years.

For FY 1998-99 through FY 2009-10, we found 8,995 delinquent student accounts per year may have been processed based on the average of the number of delinquent enrollment fees provided by the district for FY 2010-11 and FY 2011-12. The district provided, and we accepted, 9,633 delinquent student accounts processed for FY 2010-11 and 8,356 delinquent student accounts processed for FY 2011-12.

### *Productive Hourly Rates*

Consistent with the information presented for Activities 1 through 4, the district overstated the annual average productive hourly rates in its claims during the audit period for Activity 5. As explained in Finding 10, we recalculated the annual average productive hourly rates based on employees actually involved in calculating and collecting enrollment fee activities based on the extent of their involvement in the reimbursable activities and made adjustments as appropriate to the claimed rates.

### **Activity 6—providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected.**

#### *Time Increments*

The district did not include any costs for this activity in its claims for the audit period. However, the district performed this reimbursable activity during the audit period, based on our discussions with district staff during the audit.

We observed and documented staff processing refunds for students who established fee waiver eligibility after paying their enrollment fees. The district's refund process consists of three steps, as follows:

- In order to obtain a refund, students are first required to fill out a "Student Refund Request" form at the Cashier's Office window. The students must provide a mailing address matching their student record in the student's "MyPortal" for a check refund or include their credit card information for the refund to be credited back to the same credit card that was used originally to pay the enrollment fees.
- The second step is performed by a Senior Cashier, who verifies the type of refund the student is requesting (e.g., fees paid by BOGG fee waiver, drop in semester units, course cancelled, overpaid fees, drop school, parking permit, or any other reason).
- The final verification is done by a second Senior Cashier, who re-verifies that a refund is due the student. If the refund is below \$300, the Senior Cashier is authorized to approve the refund. If the refund is above \$300, it must be approved by the Cashier Supervisor. The credit card refunds are processed on the spot by the Senior Cashier. Refunds by check at Foothill College are printed and mailed out by the Admissions and Records Supervisor or Cashiering Supervisor. At DeAnza College, check refunds are flagged for the Accounting Department to print and mail out.

We observed Activity 6 being performed during our observations at the Admissions and Records Office and Cashier's Office. Over several days, we observed 10 refunds being processed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver. On average, it took district staff 8.35 minutes to process the refund. The process was broken down as follows:

- 2.60 minutes to take the Refund Request Form at the front window from the student,

- 3.48 minutes for the first Senior Cashier to verify that a refund was due the student because a BOGG fee waiver was granted, and
- 2.27 minutes for the second Senior Cashier to re-verify the refund and process the refund either by check or credit the refund back to the student’s credit card.

*Multiplier Calculation*

As the district did not claim any costs for this component, we requested that the district provide the number of refunds processed during the audit period for students who established fee waiver eligibility after paying their enrollment fees.

For Activity 6, the district provided the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees for FY 2010-11 and FY 2011-12. We randomly sampled 20 refunds for both years to verify the validity of the number of BOGG fee waiver refunds provided. During our testing, we found that one sample selected in each year (5%), was not a refund resulting from a student first paying enrollment fees and then being granted a BOGG fee waiver. The district suggested, and we agreed, that instead of running new reports, the original number of refunds each year should be adjusted downward by 5%. As a result, we found that the district processed 2,756 eligible refunds for students during FY 2011-12 and 2,839 refunds during FY 2010-11. For FY 1998-99 through FY 2009-10, we applied an average of 2,798 BOGG fee waiver refunds per year to determine allowable costs. The average is based on allowable refunds processed for FY 2010-11 and FY 2011-12.

*Productive Hourly Rates*

As explained in Finding 10, we recalculated the annual average productive hourly rates based on employees actually involved in calculating and collecting enrollment fee activities and the extent of their involvement and made adjustments as appropriate to the claimed rates.

**Calculation of Time Increments Adjustment**

The following tables summarize the minutes per student claimed and allowable for reimbursable Activities 1 through 6:

Reimbursable Activity	Claimed					
	FY 1998-99 through		FY 2009-10 and			
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010-11	FY 2011-12
1 Referencing Students Accounts	3.50	3.70	4.40	5.40	6.00	5.80
2 Calculating the Fee	4.00	3.70	4.10	4.20	5.20	4.40
3 Answering Questions	4.60	4.00	5.70	8.00	7.80	9.00
4 Updating Records	3.30	3.30	4.30	4.10	4.30	4.60
Subtotal, Activities 1-4	15.40	14.70	18.50	21.70	23.30	23.80
5 Collecting Delinquent Fees	5.80	4.90	6.20	9.40	9.60	10.70
6 Providing Refunds	-	-	-	-	-	-
Total Time Increments Claimed for Activities 1-6	21.20	19.60	24.70	31.10	32.90	34.50

Reimbursable Activity	Allowable					
	FY 1998-99 through FY 2006-07				FY 2009-10 and FY 2011-12	
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010-11	FY 2011-12
1 Referencing Students Accounts	0.65	0.65	0.65	0.65	0.65	0.65
2 Calculating the Fee	0.65	0.65	0.65	0.65	0.65	0.65
3 Answering Questions	0.65	0.65	0.65	0.65	0.65	0.65
4 Updating Records	0.65	0.65	0.65	0.65	0.65	0.65
Subtotal, Activities 1-4	2.60	2.60	2.60	2.60	2.60	2.60
5 Collecting Delinquent Fees	5.80	4.90	6.20	9.40	9.60	10.70
6 Providing Refunds	8.35	8.35	8.35	8.35	8.35	8.35
Total Time Increments Allowable for Activities 1-6	16.75	15.85	17.15	20.35	20.55	21.65

**Calculation of Multiplier Adjustment**

The following table summarizes the claimed, allowable, and adjustment amounts for the multiplier for each reimbursable activity that took place at the district during the audit period for reimbursable Activities 1 through 6:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	1,618,044	1,728,766	110,722
2	1,253,283	650,865	(602,418)
3	1,618,044	1,728,766	110,722
4	1,253,283	650,865	(602,418)
5	133,256	125,929	(7,327)
6	-	39,171	39,171
Total	5,875,910	4,924,362	(951,548)

**Calculation of Hours Adjustments**

We multiplied the allowable minutes per activity by the multiplier for the reimbursable activities (as identified in the table above) to compute the number of allowable hours for reimbursable Activities 1 through 6.

The following table summarizes the claimed and allowable hours for the audit period:

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
1	121,900.30	18,728.32	(103,171.98)
2	93,795.53	7,051.06	(86,744.47)
3	160,298.85	18,728.32	(141,570.53)
4	80,914.62	7,051.06	(73,863.56)
5	16,165.36	14,500.08	(1,665.28)
6	-	5,451.32	5,451.32
Developing, procurring, maintaining <sup>1</sup>	188.00	-	(188.00)
Total	473,262.66	71,510.16	(401,752.50)

<sup>1</sup> The district did not support hours claimed. Further, this activity is not identified in the parameters and guidelines as being reimbursable.

### Calculation of Costs by Reimbursable Activities

For Activities 1 and 3, we multiplied the allowable minutes by net student enrollment to compute the number of hours spent to perform the reimbursable activities for FY 1998-99 through FY 2011-12. We then multiplied the hours spent by the audited average productive hourly rates to compute allowable costs for salaries and benefits. We found net student enrollment by excluding non-residents and special part-time students from total student enrollment. The CCCCCO's management information system (MIS) identifies enrollment information based on student data that the district reported. The CCCCCO identifies the district's enrollment based on the CCCCCO's MIS data element STD 7, codes A through G. The CCCCCO eliminates any duplicate students based on their Social Security Numbers. We also took into account the number of students who paid their enrollment fees using the district's on-line system or by telephone, based on a report that was prepared by district staff.

For Activities 2 and 4, we multiplied the allowable minutes by the adjusted net student enrollment to compute the number of hours spent to perform the activities for FY 1998-99 through FY 2011-12. We then multiplied the hours spent by the audited productive hourly rates to compute allowable costs for salaries and benefits. To compute adjusted net student enrollment, we deducted from net student enrollment the number of students who were exempt from paying enrollment fees because they received a BOGG fee waiver. We obtained the number of district students who received BOGG fee waivers each year from the CCCCCO based on data the district reported. The CCCCCO identifies the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F.

We applied the audited average productive hourly rates to the allowable hours per reimbursable activity. We found that salaries and benefits totaling \$1,760,241 are allowable and that \$16,767,961 is unallowable.

The following table summarizes the claimed and allowable salary and benefit costs by reimbursable activity for the audit period:

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
1	\$ 4,793,014	\$ 468,177	\$ (4,324,837)
2	3,598,753	155,555	(3,443,198)
3	6,338,256	468,177	(5,870,079)
4	3,096,304	155,555	(2,940,749)
5	688,251	377,553	(310,698)
6	-	135,224	135,224
Developing, procuring, maintaining <sup>1</sup>	13,624	-	(13,624)
Total	<u>\$ 18,528,202</u>	<u>\$ 1,760,241</u>	<u>\$ (16,767,961)</u>

<sup>1</sup> The district did not support costs claimed. Further, this activity is not identified in the parameters and guidelines as being reimbursable.

### **Develop, Procure, Maintain, and Use Electronic and Information Technology for Enrollment Fee Collection**

The district claimed \$13,624 for salaries and benefits (\$5,450 for FY 2010-11 and \$8,174 for FY 2011-12), based on 188 estimated hours spent by district staff to develop, procure, maintain, and use electronic and information technology (telecommunications, multimedia, etc.) equipment and software for the purpose of the collection of enrollment fees. The district stated that it captured these hours using survey forms developed by the district's mandated cost consultant. However, this activity is not identified in the parameters and guidelines as a reimbursable activity. Therefore, the costs are unallowable as claimed.

Based on the survey forms completed by district staff, the district claimed the following staff and time increments for performing the activity:

- Dean of Admissions and Records, 100 hours
- Veterans Coordinator, 48 hours
- Cashier Supervisor, 40 hours

#### 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.

#### District's Response

The draft audit report states that \$1,760,241 is allowable and \$16,767,961 is unallowable because the District estimated the amount of time required to perform the reimbursable activities and did not provide any "source" documentation based on actual data. The audit report also replaces the number of students used in the District calculation with student enrollment data obtained by the auditor from the Chancellor's Office and further reduces that number for the number of students who paid their enrollment fees online rather than in-person. The collective effect of the disallowances is an 85% reduction of the 473,263 claimed mandate program hours to 71,510. There is a 91% reduction to the \$18,528,202 in claimed costs to \$1,760,241. Based on the audited net enrollment of 1,728,766 for the audit period, the implied audited average time for all six activities per enrollment is an improbable 2.5 minutes and \$1.02 per enrollment.

##### A. Average activity time

Using certification forms developed by the District's mandated cost consultant staff who implemented the mandate responded to six time surveys conducted over the 14-year audit period. Each person estimated their average individual times required to perform each of the five reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the auditor for activities 1 through 4 and accepted for activity 5 even though the same forms and time survey methods were used.

For activities 1 through 4, collecting the enrollment fee, the District claimed average times per student transaction of 14.70 to 23.80 minutes over the 14 years. The auditor decided that the good faith time estimates reported by District staff were overstated. The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor observed 541 transactions at the cashier's office over several days, of which 141 involved the payment of enrollment fees encompassing Activities 1 through 4, totaling 366.18 minutes. The average observed time to perform all four activities was 2.60 minutes, or 0.65 minutes per activity.

This 82% to 89% reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited net enrollment transactions are 1,728,766 over the 14-year period, of which 141 student transactions were observed in 2013. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and the District procedures changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample according to the Controller's own published standards.

A review of the Controller's website indicates that this stopwatch observation method is being used for audits of this program for other districts. This may make the method a standard of general application without appropriate state agency rulemaking and is therefore unenforceable (Government Code Section 11340.5). The process is not an exempt audit guideline (Government Code Section 11340.9 (e)). State agencies are prohibited from enforcing underground regulations. If a state agency issues, enforces, or attempts to enforce a rule without following the Administrative Procedure Act, when it is required to, the rule is called an "underground regulation." Further, the audit adjustment is a financial penalty against the District, and since the adjustment is based on an underground regulation, the process cannot be used for the audit adjustment (Government Code Section 11425.50 (c)).

For activity 5, the District claimed average times from the six surveys ranging from 4.90 to 10.70 minutes. The audit report states that the auditor observed and documented the collection of delinquent fees at the front windows, except for the Cashier's Supervisors involvement. Based on the procedures in place and the information gathered during the discussions with staff, the auditor found that the time claimed appears to be reasonable. In addition, the high-low range of staff responses was "tighter," about 60% (23.80 /14.70 minutes) for activities 1-4, than the range for activity 5 which has a high-low range of about 120% (10.70/4.90 minutes). Regardless, the auditor accepted the activity 5 staff reported data, but not the data for activities 1-4.

The District did not claim any costs for activity 6. However the auditor observed and documented staff processing refunds for students who established fee waiver eligibility after paying their enrollment fees and established an average of 8.35 minutes for the process which was multiplied by workload data supplied by staff during the audit.

#### B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For four of the activities the workload multipliers rely upon enrollment statistics with relevant adjustments. As a matter of Controller policy, the audit utilized data obtained from the Chancellor's Office which the auditor modified for different categories of special admission students. The District does not dispute these statistics at this time.

#### C. Electronic and information technology for enrollment fee collection

During the audit period the District began an internet online method to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the number of in-person fee transactions to represent the number of the students who paid the enrollment fees online. However, the audit findings do not replace the staff time lost from these eliminated transactions with the staff time to operate the online payment collection system. Thus, no costs are recognized in the audit for the online transactions because these costs are not identified in the parameters and guidelines as a reimbursable activity. It appears that this action is a matter of Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

For the FY 2011-12 annual claim, the District reduced the enrollment statistic by a percentage for online transactions. The FY 2010-11 and FY 2011-12 annual claims included costs of \$13,624, a total of 188 hours for three employees, for developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection. While not specifically identified in the parameters and guidelines as a reimbursable activity, nor need it be, the District believes that the costs claimed were appropriate to operating an online system for students to pay their enrollment fees. Similar costs were not claimed for prior years when the online payment system started because FY 2011-12 was the first annual claim in which the District reduced the number of in-person statistics.

The draft audit states that the entire amount is unallowable primarily because the time was not "supported." The District provided documentation using the same consultant forms that were acceptable for activity 5 that are in the form of declaration that are acceptable as source documentation for annual claims.

#### D. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates because the District did not weight the average rates for each activity by relevant staff participating percentages by job title. This is discussed at Finding 10.

#### SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses three specific issues:

- Average activity time
- Workload multipliers
- Electronic and information technology for enrollment fee collection

We have addressed our comments in the same order as the issues were presented by the district.

#### Average activity time

The district stated that, for Activities 1 through 4, its "good faith time estimates" were considered to be "overstated" by the auditor. We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities were unreasonable. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation. Section IV of the parameters and guidelines states:

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 Civil Code of Procedure section 2105.5. 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 [emphasis added].*

The district did not provide source documentation based on actual data to support the estimated time allowances or verify that its time estimates were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, the district did not costs support in compliance with the documentation requirements stipulated in the parameters and guidelines.

As the mandated activities took place at the district during the audit period, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. The certified survey forms were completed by district employees for enrollment fee collection activities during the audit period. We held discussions with various district representatives to determine the procedures that the district employees followed to perform the reimbursable activities. We observed district staff in the Cashier's Office collect enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's certified estimates ranged from 14.7 to 23.8 minutes for Activities 1 through 4 over the 14-year audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 1 through 4 as high as 23.8 minutes, we observed an average time of 2.60 minutes for all four activities, or 0.65 minutes per activity.

The district stated in its response that "the auditor's observation sample size is statistically meaningless" in comparison to the enrollment fee collection transactions performed by the district throughout the audit period. As noted in the audit report, our auditors spent three days at the Cashier's Office observing students paying a variety of fees owed to the district. We observed 541 transactions processed by district staff, 141 of which involved the payment of enrollment fees encompassing Activities 1 through 4. The district stated that it conducted 1,728,766 student enrollment transactions during the audit period and that our sample, therefore, "does not constitute a representative 'time study' sample." However, the district did not provide any source documentation to support the time required to perform these transactions. Instead, all time increments were only supported by estimates. In addition, the district did not provide evidence based on actual cost data or conduct its own time study supporting a different conclusion from ours. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

In its response to the draft report, the district made reference to what it describes as the "stopwatch method" that was used to determine the actual time increments that were required by district staff to perform reimbursable activities 1 through 4. The district correctly noted that this observation method was used for audits of this program at other districts, based on information obtained from the Controller's website, although it does not indicate which audits it was referencing. The district states its belief that our audit methodology of conducting observations of district staff performing some of the reimbursable activities may be a standard of general application requiring rulemaking under the Administrative Procedures Act. We disagree.

There is no "standard of general application" that auditors are expected to apply during audits of Enrollment Fee Collection and Waivers claims. SCO auditors are *not required* to perform any certain auditing steps during the course of audit fieldwork to evaluate evidence provided by claimants supporting mandated cost claims. Following generally accepted government auditing standards, SCO auditors design auditing tests, as necessary, to obtain sufficient and appropriate evidence to support their findings and conclusions. To do this, auditors begin by reviewing the evidence, if any, which is included by claimants in claims filed with the State Controller's Office (SCO).

For this audit, the district did not provide any documentation with the claims that it submitted to the SCO for reimbursement. During the audit entrance conference, the district provided the SCO auditor with information supporting how its claims were put together. We reviewed this information and noted that all of the time claimed during the entire audit

period was based on estimates of time spent by district staff performing various reimbursable and non-reimbursable activities. Therefore, instead of determining that all of the costs claimed were unallowable, the audit methodology was designed to provide actual cost documentation on which to base allowable costs.

Auditing standards advise that when auditors are using information provided by officials of the audited entity as part of their evidence, the auditors should determine what the officials of the audited entity did to obtain assurance over the reliability of the information. In addition, the standards advise that the auditor *may* need to perform testing of management's procedures to obtain assurance or perform direct testing of the information. The SCO auditor held discussions with various district staff after the entrance conference. Staff explained how the district performed the reimbursable activities. During those discussions, the auditor found that the district did not perform any verification procedures to obtain assurance over the reliability of the information included in its claims. SCO auditors also encountered the same lack of actual cost documentation and verification procedures during various audits of this program conducted at other districts.

We believe that the district is isolating one segment of the methodology used to determine allowable time for a portion of the Calculate and Collect Enrollment Fees cost component. The detailed information provided by the district supporting how its claims were prepared was not based on actual cost documentation and did not provide any reasonable basis on which to base our conclusions. The time surveys that were filled out by district staff for this cost component included time estimates that varied widely, as follows:

- Calculate and Collect Enrollment Fees
  - Activity 1 (Reference student accounts) – 0.5-15 minutes
  - Activity 2 (Calculate and collect enrollment fees) – 1-11 minutes
  - Activity 3 (Answer students' question about enrollment fees) – 1-20 minutes
  - Activity 4 (Update written and computer records) – 1-15 minutes
  - Activity 5 (Collect delinquent enrollment fees) – 1-30 minutes
  - Activity 6 (Providing refunds) – not claimed

Regardless of these variances, *all* of the time estimates provided by district staff were added together and divided by the number of responses provided. In addition, as noted in the audit report, district staff informed us that the total claimed time increments were high for activities 1 through 5 because they were not advised how their individual time estimates were being combined and used in the district's claims. Therefore, based on the evidence provided by the district supporting the length of time it took to perform the reimbursable activities, the auditor followed auditing standards and performed direct testing of management's procedures to obtain assurance of the information. However, the auditor's methodology to obtain evidence of management's procedures was not confined to the "stopwatch method," as inferred by the district in its response to the draft report. Instead, the auditor performed the following tests to determine the allowable time increments:

- Calculate and Collect Enrollment Fees
  - Activities 1-4 – direct observation of the activities being performed
  - Activity 5 – discussions with district representatives
  - Activity 6 – direct observation of the activity being performed

During the discussions held with district staff, one of the auditor's objectives was to determine whether the claimed time increments were reasonable, based on staff explanations of the procedures that were followed. If the estimated time increments claimed appeared to be reasonable, based on auditor judgement of the information provided by the district, then we relied on the time increments claimed. If the estimated time increments claimed did not appear to be reasonable, based on auditor judgement of the information provided by the district, then we performed direct testing of management's procedures to obtain appropriate evidence on which to base allowable costs.

We determined allowable costs for Activities 1 through 4 (Calculate and Collect Fees) and Activity 6 (Providing refunds to students that obtained fee waiver eligibility after paying their enrollment fees) based on our observations of district staff performing the activities. The district did not claim any costs for Activity 6 during the audit period and is not objecting to our calculations of allowable costs, even though we used the same "stopwatch method" on which to base such calculations. We determined allowable costs for Activity 5 based on staff explanations of the procedures that were performed and the auditor's conclusion that the time estimates cited for this activity appeared to be reasonable based on staff explanations.

#### Workload multiplier

The district stated that it does not dispute the corrections made to the workload multiplier for each activity.

#### Electronic and information technology for enrollment fee collection

The district stated that "the audit findings do not replace the time lost from these eliminated online transactions with the costs to operate the online payment collections. Thus, no costs are recognized in the audit for the online transactions." We agree. The district is responsible for preparing actual cost documentation supporting mandated costs it incurred. The district did not provide support based on actual cost documentation for the costs of operating the district's online payment system.

The district attempted to replace time lost from the eliminated online transactions with claimed costs totaling \$13,624 (\$5,450 for FY 2010-11 and \$8,174 for FY 2011-12) for what is described in the district's response as "time spent by staff developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection." However, the time estimates provided by three district staff members were documented as "time spent by staff developing, procuring, maintaining, and using electronic and information technology (telecommunications, internet, multimedia, etc.) equipment and software for the purpose of the collection of enrollment fees," which is a different activity. We noted that

the district did not include any costs in its claims for those years related to equipment or software purchases. In addition, the documentation did not support which activity staff was estimating time to complete. One district staff member identified that their time estimates were for “weekly Banner support meetings dealing with functionality, including billing, etc.” while another claimed “time to process VA students once, which includes fee information.”

**FINDING 3—  
Enrollment Fee  
Waivers: Prepare  
Policies and  
Procedures cost  
component –  
unallowable one-time  
costs**

The district claimed \$40,257 for salaries and benefits during the audit period to prepare district policies and procedures for determining which students are eligible for waiver of the enrollment fees. We found that \$17,201 is allowable and \$23,056 is unallowable.

Costs claimed for FY 1999-2000 through FY 2003-04, and FY 2011-12 are allowable because they were below our threshold of materiality for testing. Costs claimed for FY 2005-06 and FY 2009-10 are allowable because they were incurred during years in which the CCCCCO’s Board of Governors Fee Waiver Program and Special Programs Manual was updated. District staff explained the procedures in place to update the district’s policies and procedures during those years and the costs claimed for those years appear reasonable to comply with updating the district’s policy and procedures.

Costs claimed in FY 2004-05, FY 2006-07 through FY 2008-09, and FY 2010-11 are unallowable because the costs were based on 346 estimated hours spent by district staff during years in which there were no changes made in state law requiring the district to update its policies and procedures more than one time.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-2000 <sup>1</sup>	\$ 771	\$ 771	\$ -
2000-01	1,058	1,058	-
2001-02	941	941	-
2002-03	1,062	1,062	-
2003-04 <sup>2</sup>	1,551	1,551	-
2004-05	4,026	-	(4,026)
2005-06 <sup>2</sup>	3,615	3,615	-
2006-07	3,482	-	(3,482)
2007-08	3,360	-	(3,360)
2008-09	3,423	-	(3,423)
2009-10 <sup>2</sup>	5,554	5,554	-
2010-11	8,765	-	(8,765)
2011-12	2,649	2,649	-
<b>Total, salaries and benefits</b>	<b>\$ 40,257</b>	<b>\$ 17,201</b>	<b>\$ (23,056)</b>

<sup>1</sup>This is the first year of the reimbursement period.

<sup>2</sup>The Board of Governors Fee Waiver Program and Special Programs Manual was updated in FY 2003-04, FY 2005-06, and FY 2009-10.

The parameters and guidelines (section IV.B.1.a–Reimbursable Activities, Enrollment Fee Waivers–One-Time Activities–Policies and Procedures) state that the preparation of policies and procedures is reimbursable as a one-time activity for determining which students are eligible for waiver of the enrollment fees. The CSM Final Staff Analysis for the Proposed Parameters and Guidelines dated January 13, 2006, for the onetime activity of adopting policies and procedures, states “. . . staff finds that updates to the policies and procedures would be subject to change in the community college district’s policy rather than state law, and would not be reimbursable.”

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time the actual cost was incurred for the event or activity in question.” See Finding 1 for the specific language.

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) require claimants to “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

#### 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.

#### District’s Response

Costs claimed for six years (FY 1999-00 through FY 2003-04 and FY 2011-12) were determined to be allowable because they were below the threshold of materiality for testing. Costs claimed for two years (FY 2005-06 and FY 2009-10) are allowable because they were incurred during the years the state BOGG Manual was updated. The draft audit report states that the costs claimed for those years (\$3,615 and \$5,554) appear reasonable for updating policy and procedures. Costs claimed for five years (FY 2004-05, 2006-07 through FY 2008-09, and FY 2010-11) are disallowed because the costs were based on “estimates of time” spent by staff that occurred in years which there were no changes made in state law.

It should be noted that the documentation source (staff declarations) is the same for all fiscal years. In other words, what the Controller staff calls “estimates” were acceptable to the auditor for some years, but not others. The years for which these “estimates” were allowed, the audit declared the amounts to be reasonable based on staff interviews. Note that the allowed amounts (\$3,615 and \$5,554) are larger than the amounts for four of the five years that were disallowed. Thus, it appears it is not that the amounts reported each year are unreasonable, but it is just that some years do not have changes in state law or regulations.

The parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. When there is a need to update a policy or procedure, this is a new one-time activity. There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report. Regardless, there have been numerous changes in state law as a result of changes in the enrollment fee waiver eligibility, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors. Further, the change in state law or the state manual may occur in the year prior to the implementation at the districts.

This mandate activity was not observable by the auditor. The District policies and program procedures are the work product for this activity and were available to the auditor to evaluate the hours claimed. This staff time should either be reinstated or reevaluated to compare the hours claimed with changes to state laws and District accounting software.

#### SCO's Comments

The finding and recommendation remain unchanged.

The district stated its belief that the basis for this audit finding was inconsistent because "what the Controller staff calls 'estimates' were acceptable to the auditor for some years, but not others." We disagree. The district did not provide source documentation based on actual data to support its estimated time allowances or to determine whether its time estimates were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, the district did not support costs in compliance with the documentation requirements identified in the parameters and guidelines. For years in which costs claimed were less than the materiality threshold for the audit, costs were allowable on that basis alone. None of the costs were allowable because we accepted the employee declaration forms as sufficient documentation.

We did recognize that allowable costs were incurred by the district for this cost component during the audit period. We were aware that changes were made to the Board of Governors Fee Waiver Program and Special Programs Manual for FY 2003-04, FY 2005-06, and FY 2009-10, based on information that we obtained from the CCCCCO. Costs claimed for FY 2003-04 are allowable because they were below our materiality threshold for testing. Costs claimed for FY 2005-06 and FY 2009-10 are allowable due to changes made in state laws for those years and the costs claimed also appear to be reasonable based on discussions with district staff members explaining what they did to perform the reimbursable activity.

Costs were not allowable for FY 2004-05, FY 2006-07 through FY 2008-09, and FY 2010-11 because the district did not support that changes were made to state laws for those years which required it to incur increased costs to update its policies and procedures. The district did not provide any support explaining why costs were incurred for a one-time activity in years during which there were no changes in state laws requiring it to do so.

In the Final Staff Analysis and Proposed Parameters and Guidelines (Item 9) addressed during the January 26, 2006 Commission on State Mandates hearing for this mandated program, it states on page 5 that:

The claimant proposed that the activities of preparing policies and procedures be reimbursable activities. Staff found that preparing policies and procedures is reasonable to comply with the mandate. However, staff finds that updates to the policies and procedures would be subject to changes in the community college district’s policy rather than state law, and would not be reimbursable. Therefore, staff modified this section to delete updating the policies and procedures and to specify that preparation of policies and procedures is a one-time activity.

Therefore, this issue was already decided more than nine years ago when the parameters and guidelines were first adopted.

**FINDING 4—  
Enrollment Fee  
Waiver: Train Staff  
cost component –  
unallowable one-time  
costs**

The district claimed \$32,474 for salaries and benefits for the one-time activity of staff training (once per employee) for district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. We determined that \$18,555 is allowable and \$13,919 is unallowable.

Costs claimed for FY 2008-09 through FY 2010-11 are unallowable because they were based on 279 estimated hours to perform the one-time reimbursable activity. In addition, the district’s claims for those years included training costs for the same five employees. The district did not support a reason why costs were claimed more than once per employee. In addition, certain staff claimed were not identified in the district’s payroll report for the same year in which they were claimed.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the one-time reimbursable costs for the Enrollment Fee Waivers–Train Staff cost component:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-2000	\$ 854	\$ 854	\$ -
2000-01	730	730	-
2001-02	961	961	-
2002-03	1,096	1,096	-
2003-04	2,595	2,595	-
2004-05	2,431	2,431	-
2005-06	2,363	2,363	-
2006-07	1,131	1,131	-
2007-08	1,612	1,612	-
2008-09	4,586	1,743	(2,843)
2009-10	4,026	-	(4,026)
2010-11	7,508	458	(7,050)
2011-12	2,581	2,581	-
<b>Total, salaries and benefits</b>	<b>\$ 32,474</b>	<b>\$ 18,555</b>	<b>\$ (13,919)</b>

## Salaries and Benefits

### *Costs Claimed*

For FY 1999-2000 through FY 2011-12, the district claimed salaries and benefits for the one-time activity of staff training (one time per employee) for district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. The district estimated the hours spent per year by various employee classifications to perform the reimbursable activity using forms developed by the district's mandated cost consultant. The district did not provide any source documentation based on actual data to support the estimated time allowances. For the audit period, the district claimed 681 hours for the one-time activity of staff training.

Costs claimed for FY 1999-2000 through FY 2007-08 and FY 2011-12 are allowable because they are below our threshold of materiality for testing. We attempted to verify the reasonableness of the costs claimed for FY 2008-09 through FY 2010-11. District staff explained that new staff typically receive on-the-job training. We requested that the district provide documentation related to the nature of the training, the length of the training, which district employees received the training, and whether any of the costs incurred related to trainers' time. The district did not provide any additional information for us to consider. We noted that the district's claim for FY 2010-11 included training for seven district staff members who did not appear in any of the district's previous claims. However, upon further review, we found that one of the employees claimed did not work in the Financial Aid Department and five did not appear in the district's payroll reports for that year. We found that costs were allowable as claimed for training one new Financial Aid Coordinator that year based on reasonableness.

The parameters and guidelines (section IV.B.1.b–Reimbursable Activities–Enrollment Fee Waivers–One-Time Activities–Staff Training (one time per employee) state that staff training is reimbursable as a one-time cost per employee for training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. Consistent with the Final Staff Analysis for the Proposed Parameters and Guidelines (Item #9, Commission hearing of January 26, 2006), training existing staff for changes in the community college district's policy rather than state law is not reimbursable.

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were created at or near the same time the actual cost was incurred for the event or activity in question. (See finding #1 for the specific language).

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) require claimants to “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

### 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.

### District's Response

Costs claimed for ten of the thirteen years (FY 1999-00 through FY 2007-08 and FY 2011-12) were allowed because they were below the threshold of materiality for testing. Costs claimed for FY 2008-09 through FY 2010-11 were disallowed as costs claimed for staff that were already claimed in prior years or because certain staff claimed did not appear in the payroll report in the claimed year.

As in Finding 1, the audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the audit period. The content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The name of the supervisors or managers conducting the training would appear in the claims for several years either for individual on-the-job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

The audit report also disallowed claimed time for lack of supporting documentation. The audit report states that the District did not provide additional information for consideration by the auditor. The District provided documentation in the form of declarations, which are acceptable source documentation and were acceptable for other findings, notably in Finding 7. The audit does not indicate how this documentation was not actual cost documentation. This staff time should either be reinstated or reevaluated to compare the hours claimed with changes to state laws and District procedures, as well as addressing the eligibility of time reported by supervisor for training new staff.

### SCO's Comments

The district stated that "The District provided documentation in the form of declarations, which are acceptable source documentation" and that "the audit does not indicate how this documentation was not actual cost documentation." The district also stated its belief that the district's employee declarations "were acceptable for other findings, notably in Finding 7." We disagree. The audit report for this finding references section IV of the parameters and guidelines, which defines the terms "actual costs," "source documents," and "corroborating documents." The district supported costs claimed only with corroborating documents rather than with source documents. For years in which costs claimed were less than the materiality threshold for the audit, costs were allowable on that

basis alone. None of the costs were allowable for this cost component or any other cost component of this mandated program because we accepted the employee declaration forms as sufficient documentation. For example, the district references Finding 7. For that finding, we accepted many of the time estimates based on reasonableness after holding extensive discussions with district staff, who explained what they did to perform the reimbursable activities along with related observations of staff performing such activities.

The district also stated that “there should be no blanket disallowance of staff time for persons whose name appears more than once.” The district further stated that “the content of the training would change over the span of years” and that “the name of the supervisors or managers conducting the training would appear in the claims for several years.” We requested information from the district during the audit relating to the nature of training provided to district staff and identification of persons who conducted such training. However, the district did not provide any information in its claims or respond to the auditor’s request for information related to training activities. In addition, the district did not provide any additional information in its response to the draft audit report.

**FINDING 5—  
Enrollment Fee  
Waivers: Adopt  
Procedures, Record  
and Maintain Records  
cost component –  
unallowable ongoing  
costs**

The district claimed \$144,899 for salaries and benefits related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. We found that \$71,228 is allowable and \$73,671 is unallowable. The costs are unallowable primarily because the district estimated the time to perform the reimbursable activities and did not provide actual source documentation supporting the time estimates. The district claimed costs for FY 1999-2000 through FY 2010-11 based on 3,443 estimated hours spent by various district staff members to perform the reimbursable activities. The annual estimates varied from as little as 27 hours in FY 2010-11 to as many as 859 hours in FY 2004-05. The district did not include any costs for this component in its claim for FY 2011-12. We worked with the Director of Financial Aid to determine the tasks performed by the district to adopt district procedures that documented all financial assistance provided to students and to record and maintain BOGG fee waiver records, and the time required to complete them.

The following table summarizes the claimed, allowable, and audit adjustment amounts related to adopting procedures, recording, and maintaining records related to enrollment fee waiver costs:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-2000	\$ 12,965	\$ 2,779	\$ (10,186)
2000-01	9,400	3,206	(6,194)
2001-02	7,650	3,952	(3,698)
2002-03	9,432	5,395	(4,037)
2003-04	17,526	6,160	(11,366)
2004-05	34,719	9,753	(24,966)
2005-06	20,875	8,545	(12,330)
2006-07	11,793	2,295	(9,498)
2007-08	6,111	1,435	(4,676)
2008-09	8,956	2,341	(6,615)
2009-10	3,537	8,510	4,973
2010-11	1,935	8,254	6,319
2011-12	-	8,603	8,603
Total, salaries and benefits	<u>\$ 144,899</u>	<u>\$ 71,228</u>	<u>\$ (73,671)</u>

### Salaries and Benefits

#### Claimed

For FY 1999-2000 through FY 2011-12, the district claimed salaries and benefits for adopting procedures, recording, and maintaining records related to enrollment fee waivers by estimating the hours spent per year by various employee classifications to perform the reimbursable activity using forms developed by the district's mandated cost consultant. The district did not provide any source documentation based on actual data to support the estimated time allowances. For the audit period, the district claimed 3,443 hours spent by various staff members for FY 1999-2000 through FY 2010-11. The district did not claim any hours for this component in FY 2011-12.

Using survey forms developed by the district's mandated cost consultant, various district staff members estimated the number of hours spent each year for "time spent by staff to record and maintain records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." However, recording and maintaining records for the payment of enrollment fees is not a reimbursable activity under this cost component.

In addition to staff in the Financial Aid Office, district staff completing survey forms for this cost component included staff from the Admissions and Records Department, the Cashier's Office, and the Counseling and Student Services Department. However, we found that staff in these departments are not primarily responsible for adopting procedures related to BOGG fee waivers. In addition, we found that certain activities described in the time surveys are not eligible for reimbursement per the parameters and guidelines. These activities were described as:

- Y2K implementation
- Add new student IDs to records
- Responding to Form 1098-T questions
- Financial Aid file connections
- Code updates
- Support for new regulations for Veterans funding

Claimed costs were computed by multiplying the annual estimated hours spent by staff by the productive hourly rate for the various employee classifications.

#### Allowable

Based on discussions with district staff and the Director of Financial Aid, we found that 1,312 hours are allowable during the audit period for adopting procedures, recording, and maintaining records related to enrollment fee waivers. We found that 290 hours claimed for FY 2002-03 through 2006-07 for the district's Web Coordinator to design and maintain an online web application for the BOGG fee waivers are allowable. We found that 96 hours are allowable for the Financial Aid Directors, 545 hours for the Financial Aid Outreach Coordinators, and 381 hours for the Financial Aid Coordinators based on the district's procedures in place to comply with the mandated program during the audit period.

The following table summarizes the allowable hours per year per employee classification:

Fiscal Year	Financial Aid				Hours Allowable
	Financial Aid Directors	Outreach Coordinators	Financial Aid Coordinators	Web Coordinator	
1999-2000	8	-	64	-	72
2000-01	8	-	70	-	78
2001-02	8	-	84	-	92
2002-03	8	-	80	20	108
2003-04	4		10	85	99
2004-05	4	56	10	100	170
2005-06	8	44	10	75	137
2006-07	8	4	13	10	35
2007-08	8	8	9	-	25
2008-09	8	25	11	-	44
2009-10	8	136	8	-	152
2010-11	8	136	8	-	152
2011-12	8	136	4	-	148
Totals	96	545	381	290	1,312

#### Procedures in Place during the Audit Period

We held discussions with the Directors of Financial Aid, a Financial Aid Outreach Coordinator, and a Financial Aid Outreach Assistant to determine the tasks involved during the audit period to perform the reimbursable activities. One Director of Financial Aid identified the staff involved in adopting procedures throughout the audit period. However, the Director was not able to describe the tasks involved throughout the entire audit period, as the Director was not employed by the district in FY 1999-2000 or FY 2000-2001. In addition, with the exception of one Financial Aid Outreach Coordinator, none of the current district staff responsible for processing BOGG fee waivers worked for the district before the FY 2011-12 academic year. The Director of Financial Aid suggested that the most reasonable method to determine the time staff spent performing the reimbursable activities was to consider the time estimates provided by district staff based on our inquiries of the procedures in place throughout the audit period. Therefore, we gained an understanding of the tasks involved during the audit period. We determined the allowable hours based on a combination of audit inquiry and considering the reasonableness of the time estimates recorded by staff in the time surveys prepared for this cost component.

#### *FY 1999-2000 through FY 2003-04, and FY 2004-05 through FY 2008-09*

For FY 1999-2000 through FY 2008-09, district staff were unable to provide documentation supporting actual hours spent on the reimbursable activities. Therefore, we determined allowable hours for the Directors of Financial Aid consistent with the district's "New Year Role" activities as described below for the last three years of the audit period (FY 2009-10 through FY 2011-12). For the Financial Aid Outreach Coordinators and

the Financial Aid Coordinators, allowable hours were based on reasonableness regardless of the activity described in the time survey. However, for years in which only one Financial Aid Coordinator was claimed (FY 2003-04 through FY 2005-06 and FY 2008-09), additional time for a second Financial Aid Coordinator also was allowable consistent with hours claimed in current or prior years.

For FY 1999-2000 through FY 2003-04, the Financial Aid Directors and Financial Aid Coordinators at each campus were responsible for adopting ongoing policies and procedures related to the BOGG fee waivers. District staff indicated that the volume of BOGG fee waivers processed was lower during those years; therefore, staff primarily used the Board of Governors Fee Waiver Program and Special Programs Manual to develop and adopt district procedural steps for the college campuses.

For FY 2004-05 through FY 2008-09, the Financial Aid Outreach Coordinators also were responsible for adopting procedures in addition to the Financial Aid Directors and the Financial Aid Coordinators.

*FY 2009-10 through FY 2011-12*

For FY 2009-10 through FY 2011-12, the district described three internal processes they performed referred to as “New Year Role,” “Homework,” and “Project POGO,” in which the district adopted procedures to document all financial assistance provided to students for the waiver of enrollment fees. These processes were described as follows:

“New Year Role” (maintaining records set-up)

District staff explained that the Financial Aid Directors met twice a month for several months, typically in January and February, to discuss all possible changes to the district’s Banner accounting software system. Once the Directors determined what changes needed to be made and implemented, they conducted an all-day meeting involving the Financial Outreach Coordinators and Financial Aid Coordinators, one from each college. Although the Directors conducted an all-day meeting, the topics discussed also pertained to various other financial aid updates that needed to be implemented. Therefore, we determined that four hours per classification was a reasonable allocation for time spent discussing issues related to BOGG fee waivers.

“Homework”

Following the all-day meetings described above, the Financial Aid Outreach Coordinators at each campus were responsible for implementing any changes pertaining to the BOGG fee waivers. The staff dedicated a full day per week (usually Fridays) for two months to modify the Banner BOGG waiver application process in order to record and maintain accurate BOGG fee waiver data.

“Procedures and Processes Project (‘POGO’ internal document)”

The district’s “Procedures and Processes” document (also called “Project POGO”) began in FY 2009-10 as the district prepared for movement from its SIS+ system to Banner. It is a document housed in the district’s URL/Intranet that gets updated as needed each year. The Intranet site is the place where all Banner documents and updates are posted, some relating to BOGG fee waivers and some relating to various other types of financial aid. The project is a shared document between the two campuses in which the district documents changes to their internal processes. This document is approved by the Directors of Financial Aid with input from the specialists working on the different types of financial aid. It is then sent to the Financial Outreach Coordinators and the Financial Aid Assistant who made changes and updated the ‘Intranet’ version of the document.

District staff indicated that time devoted to updating this document in FY 2009-10 and FY 2010-11 was time consuming because the processes had to be refined once the district began actively using Banner software. The Financial Aid Directors, Financial Aid Coordinators, Financial Aid Outreach Coordinators, and the Financial Aid Assistants all were involved in updating this internal document. However, the district did not provide records of the time devoted to maintaining the BOGG fee waiver portion of its “Procedures and Processed” document. Therefore, we did not determine any allowable costs for this activity.

**Productive Hourly Rates****Claimed**

For the audit period, the district claimed productive hourly rates based on 1,800 productive hours. The district prorated the productive hours for staff working fewer than 12 months. The district also properly excluded overtime identified by object code 2360 from the total salaries and benefits calculation.

**Allowable**

As explained in Finding 10 (misstated productive hourly rates), we recalculated the productive hourly rates based on the support provided by the district, and made minor changes to the claimed rates. In addition, we informed the district that the summary of the salaries and benefits used in the claim for FY 2008-09 contained mathematical errors and we made adjustments as necessary.

### Summary of Hours Adjustments

The following table summarizes the claimed and allowable hours by reimbursable activity for the audit period:

Fiscal Year	Hours Claimed	Hours Allowable	Adjusted Hours
1999-2000	405	72	(333)
2000-01	291	78	(213)
2001-02	222	92	(130)
2002-03	238	108	(130)
2003-04	443	99	(344)
2004-05	859	170	(689)
2005-06	358	137	(221)
2006-07	201	35	(166)
2007-08	159	25	(134)
2008-09	182	44	(138)
2009-10	58	152	94
2010-11	27	152	125
2011-12	-	148	148
Totals	<u>3,443</u>	<u>1,312</u>	<u>(2,131)</u>

We applied the audited productive hourly rates to the allowable hours. We found that salaries and benefits in the amount of \$71,228 were allowable and in the amount of \$73,671 were unallowable.

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time the actual cost was incurred for the event or activity in question.” (See Finding 1 for the specific language).

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) require claimants to “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

The parameters and guidelines (section IV.B.2.a–Reimbursable Activities–Enrollment Fee Waivers–Ongoing Activities) allow ongoing activities related to the following:

Adopting procedures that will document all financial assistance provided on behalf of students pursuant to chapter 9 of title 5 of the California Code of Regulations; and including in the procedures the rules for retention of support documentation that will enable an independent determination regarding accuracy of the districts certification of need for financial assistance.

Recording and maintaining records that document all of the financial assistance provided to students for the waiver of enrollment fees in a manner that will enable an independent determination of the district’s certification of the need for financial assistance.

### 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.

### District's Response

Staff annually reported time spent implementing the mandate using survey forms developed by the District's mandated cost consultant. Based on discussions with staff and review of documentation maintained in the usual course of business, and the "reasonableness of the time estimates recorded by staff," the audit approved 1,312 hours, of which 290 hours are for the Web Coordinator, 96 hours are allowable for the Financial Aid Directors, 545 hours for the Financial Aid Outreach Coordinators, and 381 hours for the Financial Aid Coordinators. The disallowed staff time was for related similar activities that the auditor determined were not specifically reimbursable. The District does not dispute this adjustment at this time.

### SCO's Comments

The district does not dispute the adjustment at this time.

**FINDING 6—  
Enrollment Fee  
Waivers: Waive  
Student Fees cost  
component –  
misstated ongoing  
costs**

The district claimed \$1,324,094 for salaries and benefits to waive student fees during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h), and waiving student fees for students who apply and are eligible for BOGG fee waivers. We found that \$1,476,296 is allowable. We found that salaries and benefits were misstated by \$152,202 (overstated by \$170,118 and understated by \$322,320). The salaries and benefits were misstated because the district estimated the amount of time required to perform the reimbursable activities and reduced costs claimed for FY 2011-12 based on the estimated percentage of students who applied online for a BOGG fee waiver. In addition, we noted variations in the number of students used in the district's calculations based on data the district reported to the CCCCCO. We made adjustments to the student data and also to the average productive hourly rates used in the district's claims.

The following table summarizes the misstated ongoing costs related to waiving student fees by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-2000	\$ 39,563	\$ 21,368	\$ (18,195)
2000-01	44,242	23,481	(20,761)
2001-02	48,994	25,144	(23,850)
2002-03	67,846	76,796	8,950
2003-04	81,016	93,474	12,458
2004-05	90,476	103,249	12,773
2005-06	105,073	118,216	13,143
2006-07	169,798	104,425	(65,373)
2007-08	155,466	103,440	(52,026)
2008-09	238,722	145,504	(93,218)
2009-10	124,728	194,121	69,393
2010-11	136,823	214,944	78,121
2011-12	21,347	252,134	230,787
Total, salaries and benefits	<u>\$ 1,324,094</u>	<u>\$ 1,476,296</u>	<u>\$ 152,202</u>

The parameters and guidelines (section IV.B.2.b–Reimbursable Activities–Enrollment Fee Waivers–Ongoing Activities) allow the following ongoing reimbursable activities:

- A. Waiving student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h). Waiving fees for students who apply for and are eligible for BOG fee waivers.
  - i. Answering student’s questions regarding enrollment fee waivers or referring them to the appropriate person for an answer. **[Activity 7]**
  - ii. Receiving of waiver applications from students by mail, fax, computer online access, or in person, or in the form of eligibility information processed by the financial aid office. **[Activity 8]**
  - iii. Evaluating each application and verification documents (dependency status, household size and income, SSI and TANF/CalWorks, etc.) for compliance with eligibility standards utilizing information provided by the student, from the student financial aid records (e.g., Free Application for Federal Student Aid (FAFSA), and other records. **[Activity 9]**
  - iv. In the case of an incomplete application or incomplete documentation, notify the student of the additional required information and how to obtain that information. Hold student application and documentation in suspense file until all information is received. **[Activity 10]**
  - v. In the case of an approved application, copy all documentation and file the information for further review or audit. Entering the approved application information into district records and / or notifying other personnel performing other parts of the process (e.g., cashier’s office). Providing the student with proof of eligibility or an award letter, and file paper documents in the annual file. **[Activity 11]**

- vi. In the case of a denied application, reviewing an evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. [**Activity 12**]

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time that actual costs were incurred for the event or activity in question.” See Finding 1 for the specific language.

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) state that salaries and benefits are reimbursable if claimants “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

### **Salaries and Benefits**

#### Claimed

The district claimed salaries and benefits during the audit period to waive student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h) and to waive fees for students who apply and are eligible for BOGG fee waivers. For FY 1999-2000 through FY 2011-12, the district claimed salaries and benefits for the six reimbursable activities under the Waiving Student Fees cost component using time allowances developed from estimated time it took staff to complete reimbursable activities through the use of employees’ annual survey forms.

The district did not claim any costs for FY 1999-2000 through FY 2005-06 and FY 2008-09 through 2011-12 for Activity 10, incomplete fee waiver applications.

The district also did not claim any costs for FY 1999-2000 through FY 2005-06 and FY 2008-09 through 2010-11 for Activity 12, appealing a denied BOGG fee waiver application.

Employees estimated the average time in minutes it took them to perform the six reimbursable activities claimed per student per year on certification forms developed by the district’s mandated cost consultant. To compute the average time increment for each of the six reimbursable activities claimed, all of the employee’s time estimates were added together and the total was divided by the number of employees who provided estimates. The district did not provide any source documentation based on actual data to support the estimated time allowances. In addition, the district provided no evidence indicating that the average time increments were verified for reasonableness.

We assessed whether or not the time estimates cited by district staff for FY 1999-2000 through FY 2011-12 were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We also observed district staff in the Financial Aid Office who process students' BOGG fee waiver applications. We documented the average time increments spent by district staff to perform these activities based on our observations.

In applying the time allowances, the district did not report the correct number of students who received BOGG fee waivers. We recalculated reimbursable activities using the correct number of students who received BOGG fee waivers (multiplier). We also made adjustments to the average productive hourly rates that were used in the district's claims. Based on this information, we determined that the district understated salaries and benefits by \$152,202 (overstated by \$170,118 and understated by \$322,320) for the audit period.

### **Activities 7 through 12–BOGG Fee Waiver Application Processing**

#### **Activity 7–Answering student questions**

We observed Financial Aid Outreach Coordinators, Financial Outreach Assistants, and Financial Aid Assistants helping students who applied in person for a BOGG fee waiver. At the front counters, staff answered BOGG fee waiver questions, evaluated BOGG fee waiver applications, notified students of approved, incomplete, and denied applications, and informed students of additional information necessary to complete the BOGG fee waiver application.

#### **Activity 8–Receiving enrollment fee waiver applications**

The district received BOGG fee waiver applications via facsimile transmission, via email, and in person.

The district received paper BOGG fee waiver applications at the Financial Aid Department for FY 1999-2000 through FY 2003-04 and again after the audit period beginning in FY 2013-14. District staff explained that processing a BOGG fee waiver application through the online system during FY 2004-2005 through FY 2011-12 was more time consuming for staff because the student was not readily available to answer questions pertaining to their application. In addition, staff indicated that the district reverted to processing paper BOGG fee waiver applications because it was time consuming to match codes with the BOGG fee waiver module in the district's Banner accounting software system.

In addition to the paper BOGG fee waiver applications that are received at the Financial Aid Department, the district also received information in digital form for students who applied for financial aid and qualified for a BOGG fee waiver using the U.S. Department of Education's Free Application for Federal Student Aid (FAFSA) system.

**Activity 9–Evaluating waiver applications and verifying documentation**

The Financial Aid Outreach Coordinators, Financial Outreach Assistants, and Financial Aid Assistants evaluated and verified the BOGG fee waiver applications received from students. District procedures required that students submit supporting documentation for BOGG fee waivers to be approved. In addition, these same employee classifications evaluated FAFSA applications throughout the year. Therefore, while evaluating the financial aid applications, district staff also verified BOGG fee waiver eligibility by implementing the verification requirements required for financial aid applications.

We determined that the district may have processed and evaluated some students' BOGG fee waiver applications multiple times if the student first applied for a BOGG fee waiver and was denied for BOGG fee waiver A or BOGG fee waiver B, or if the student turned in an incomplete paper BOGG fee waiver.

**Activity 10–Notifying students of additional required information, in the case of an incomplete application**

District staff reviewed BOGG fee waiver applications at the front counter. If an application was incomplete, staff guided the student through the various steps to complete the application in order to determine the student's eligibility for a waiver of enrollment fees.

If a student submitted a BOGG fee waiver application and it was incomplete, the application was filed separately in alphabetical order to be easily accessible. The incomplete applications were stored for a year in case a student requested a status update.

If an incomplete application was submitted via facsimile transmission or email, the staff flagged the application and inserted a message into the student's record, which automatically went into the student's portal (online message system). Staff indicated that approximately 50% of the students came into the Financial Aid Office to inquire why their BOGG fee waiver had not yet been awarded. The Financial Aid staff initiated contact with the students for the other 50% of the incomplete applications. If the student already received a BOGG C waiver through the FAFSA, then the incomplete paper application was pulled from the incomplete file because it was no longer applicable.

Every June and July, the district cleared out the incomplete application file. The district placed all of the incomplete applications remaining in June and July in storage for at least four years.

**Activity 11–Copying all documentation and filing the information for further review, in the case of an approved application**

The district filed the approved, denied, and incomplete BOGG fee waiver applications. The district filed approved and denied applications together as the denied applications were considered to be "processed" in terms of determining eligibility.

If the district determined that a student was eligible for a BOGG fee waiver, staff posted the fee waiver and created a “budget” for the student. In addition, during the FAFSA application process, the student’s information was loaded into the district’s student database from the FAFSA website. During the FAFSA application process, staff briefly reviewed student information to ensure that a BOGG fee waiver was posted in the district’s system. If the student was eligible for a BOGG fee waiver, the staff posted the BOGG fee waiver to the student’s account.

We observed staff answering student questions about BOGG fee waiver applications (Activity 7), receiving enrollment fee waiver applications (Activity 8), evaluating waiver applications (Activity 9), and filing applications (approved, denied, and incomplete).

### **Activity 12–Appealing a denied BOGG fee waiver application**

District staff explained that the district had no written appeal process for denied BOGG fee waiver applications. According to the Financial Aid Director, there were very few denials. The denials usually resulted because the student’s and/or parent(s)’ income exceeded the eligibility threshold. If the waiver was denied, students were instructed to apply for financial aid using the FAFSA website.

However, staff indicated that they did make exceptions for the BOGG C based on professional judgment. In this case, staff who processed the BOGG fee waiver application requested additional supporting documentation from the student, such as proof of a drastic change in income based on the previous year’s tax return or proof of any special circumstance and/or the need for a BOGG fee waiver. The Director of Financial Aid ultimately approved or denied the BOGG fee waiver based on the special circumstance or need.

#### *Time Increments*

##### Claimed

Using certification forms developed by the district’s mandated cost consultant, district employees estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed the following time allowances per student: 12.70 minutes for its FY 1999-2000 through FY 2005-06 claims, 15.30 minutes for its FY 2006-07 claim, 14.50 minutes for its FY 2007-08 claim, 9.90 minutes for its FY 2008-09 claim, 9.80 minutes for its FY 2009-10 through FY 2010-11 claims, and 9.40 minutes for its FY 2011-12 claim. Based on our observations, we determined that the time allowances claimed for these years were overstated.

## Allowable

We held discussions with various district representatives during the audit in order to determine the procedures district staff followed to perform the reimbursable activities. We also observed district staff at the Financial Aid Office performing the reimbursable activities and other non-mandated activities. We documented the average time increments required for processing a BOGG fee waiver. After combining the number of transactions processed at the front and back counters of the Financial Aid Office and the time required to complete them, we found that the average time spent by the district's Financial Aid Office staff to perform all five reimbursable activities was 6.40 minutes, or 1.28 minutes per activity. In addition, we included 15.6 hours each year to perform a batch process each Friday, described in more detail below as the "Friday Re-Calculation."

We documented the average time increments spent by district staff for the reimbursable activities as follows:

### *Front Counters*

Over several days, we observed district staff at the front counters of the Financial Aid Office performing the reimbursable activities and other non-mandated activities. We observed 79 students assisted by Financial Aid Office staff. Of these, we observed 55 enrollment fee waiver transactions processed by district staff encompassing Activities 7 through 11, totaling 127.47 minutes. The average time to perform the reimbursable activities at the front counter was 2.32 minutes.

### *Processing Paper BOGG Applications*

We observed 110 students assisted by Financial Aid Office staff, 109 of whom were processing paper BOGG fee waiver applications. We observed that processing the 109 BOGG fee waiver applications totaled 180.52 minutes. The average time to perform this reimbursable activity was 1.66 minutes.

### *Dual Processing*

We observed district staff posting dual BOGG fee waivers (students who qualified for a BOGG waiver in one of the colleges who needed the BOGG fee waiver to also be posted to the second college). We observed 30 students assisted by Financial Aid Office staff. Of these, we observed 28 BOGG fee waiver transactions totaling 52.72 minutes. The average time to perform this reimbursable activity was 1.88 minutes.

### *Filing of BOGG Fee Waiver Applications*

We observed a Student Assistant alphabetizing and filing the BOGG fee waiver applications. The district explained that if there were no Student Assistants available, then the Financial Aid employee who processed the BOGG fee waiver application also was responsible for filing the application accordingly. The Student Assistant we observed filed 100 BOGG fee waiver applications in 54.22 minutes. The average time to perform this reimbursable activity was .54 minutes per application.

*Batch Processing of BOGG C Waivers*

The district's Financial Aid Office staff explained that data was downloaded in a batch process during the audit period twice a week, which documented BOGG fee waivers granted for students who applied for financial aid using the FAFSA system. We observed staff performing the batch process over several days, which included processing 84,117 Financial Aid applications in 889 minutes. Therefore, an additional .01 minutes was added to the average processing time for BOGG fee waivers for FY 1999-2000 through FY 2011-12.

*"Friday Re-Calculation"*

The Financial Aid staff also perform an additional batch process at each college on Fridays to manually recalculate and grant BOGG fee waivers to those students who may qualify, but were not captured through the FAFSA batch processing. Working with district staff, we calculated 15.60 allowable annual hours to perform this additional batch process. This process was not applicable for FY 1999-2000 through FY 2003-04, because the district only processed paper BOGG fee waiver applications during those years. Therefore, we applied 15.60 hours each year for this process from FY 2004-05 through FY 2011-12. In order to represent the average time increment per BOGG fee waiver, we divided the total time by the allowable multiplier per year. The average time to perform this reimbursable activity was .04 minutes for FY 2004-05 through FY 2007-08, .03 minutes for FY 2008-09 and FY 2009-10, and .02 minutes for FY 2010-11 and FY 2011-12.

*Financial Aid Directors*

We discussed with district representatives our intention to observe district staff performing Activities 7 through 11 and we encouraged the Directors of Financial Aid to watch over the auditors while we documented our observations. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. We reviewed the observations as they took place with the Directors of Financial Aid. However, while the Directors watched the SCO auditors as they made observations of district staff processing BOGG fee waiver applications, they did not have any comments or questions about our observations or our observation logs. In order to provide an actual cost basis on which to determine allowable costs for the district's claims, we applied the results of our observations to all years of the audit period.

**Calculation of Time Increments Adjustment**

The following table summarizes the minutes claimed and allowable for reimbursable Activities 7 through 12:

Reimbursable Activity	Claimed					
	FY 1999-2000 Through			FY 2009-10 Through		
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010-11	FY 2011-12
7 Answering questions	3.50	2.80	2.50	2.70	2.70	2.40
8 Receiving applications	2.30	1.80	1.90	2.40	2.30	2.40
9 Evaluate applications	2.70	2.10	2.20	2.20	2.20	2.10
10 Incomplete applications - notification	-	3.10	2.90	-	-	-
11 Approved applications	4.20	2.90	2.50	2.60	2.60	2.50
12 Review waiver denials appealed by students	-	2.60	2.50	-	-	-
Friday recalculation	-	-	-	-	-	-
	12.70	15.30	14.50	9.90	9.80	9.40

Reimbursable Activity	Allowable				
	FY 1999-2000 Through	FY 2004-05 Through	FY 2008-09 And	FY 2010-11 And	
	FY 2003-04	FY 2007-08	FY 2009-10	FY 2011-12	
7 Answering questions		1.28	1.28	1.28	1.28
8 Receiving applications		1.28	1.28	1.28	1.28
9 Evaluate applications		1.28	1.28	1.28	1.28
10 Incomplete applications - notification		1.28	1.28	1.28	1.28
11 Approved applications		1.28	1.28	1.28	1.28
12 Review waiver denials appealed by students		-	-	-	-
Friday recalculation		-	0.04	0.03	0.02
		6.40	6.44	6.43	6.42

*Multiplier Calculation*

**Claimed**

For Activities 7 through 11, the district claimed costs by multiplying the number of BOGG fee waivers based on district records by a uniform time allowance and an annual average productive hourly rate.

For FY 1999-2000 through FY 2005-06 and FY 2008-09 through FY 2010-11, the district used the number of students who received a BOGG fee waiver in its claims for Activities 7, 8, 9, and 11. The district did not claim any costs for Activity 10 (incomplete applications) or Activity 12 (reviewing waivers appealed by students) in those years.

For FY 2006-07 and FY 2007-08, the district claimed the number of BOGG fee waivers requested for Activities 7, 8, and 9, which included the BOGG fee waivers approved and denied. For Activity 11, the district claimed the number of approved BOGG fee waiver applications. The district claimed the same number of duplicated denied BOGG fee waivers for Activity 10 (incomplete applications) and Activity 12 (reviewing waivers appealed by students).

The district obtained the claimed multipliers from the CCCC's "Financial Aid Count and Amount by Type" reports, which is also known as the CCCC's "DataMart" system.

Allowable

For Activities 7 through 10, we applied the time required to perform the reimbursable activities by the number of students who received BOGG fee waivers, according to statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO identified the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. For Activities 7 through 10, we adjusted the CCCCCO information by including students whose fee waiver applications were incomplete at the end of the year as well as denied applications, based on information provided by the district. In order to determine the number of incomplete and denied BOGG fee waiver applications for FY 1990-2000 through FY 2009-10, we calculated an average based on the last two years of the audit period. For those years (FY 2010-11 and FY 2011-12), the district provided an actual count of the incomplete and denied applications at the end of the year. The district indicated that information for the prior years of the audit period were unavailable, as the district purged those records after four years

For Activity 11 (approved BOGG fee waiver applications) we applied the time required to perform the reimbursable activity by the number of students who received BOGG fee waivers according to statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO identifies the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F.

For Activity 12 (appeals of denied BOGG fee waiver applications) we did not apply any time increments to the number of students who appealed denied BOGG fee waiver applications. As noted previously, the district does not have a written process in place to review denied BOGG fee waiver applications. Rather than conduct a review of denied BOGG fee waivers, district staff instructs students to apply for financial aid. While the district may review denied BOGG fee waivers based on special circumstances, the district does not have a count of the BOGG fee waivers that were granted based on special circumstances.

**Calculation of Multiplier Adjustment–Number of BOGG Fee Waivers**

The following table summarizes the claimed, allowable, and adjustment amounts for the multiplier for each reimbursable activity that took place at the district for reimbursable Activities 7 through 12:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	164,753	295,112	130,359
8	164,753	295,112	130,359
9	164,753	295,112	130,359
10	2,720	295,112	292,392
11	162,033	285,233	123,200
12	2,720	-	(2,720)
	<u>661,732</u>	<u>1,465,681</u>	<u>803,949</u>

## **Productive Hourly Rates**

### **Claimed**

We found that the district misstated the average productive hourly rates used for Activity 7 through 11 in its claims for the audit period. The district's average productive hourly rate calculations excluded some Financial Aid staff who performed the reimbursable activities, included Extended Opportunity Program and Services (EOPS) staff, and included 100% of the Student Hourly Workers' salary and benefit costs. However, we found that some Student Workers were partially funded by a Federal Work Study Program. In addition, the district's average productive hourly rate calculations did not weigh the average rates by actual involvement in the reimbursable activities by the various employee classifications. Instead, all employee classifications were weighted at the same level in the district's calculations, as if they all performed the reimbursable activities to the same extent. We do not believe that this is a reasonable conclusion.

### **Allowable**

We requested district payroll reports to support the claimed productive hourly rates. We included in our request the Financial Aid Staff who performed the reimbursable activities, but were omitted from the district's average rate calculations. During our observations of district staff performing the reimbursable activities, we noted that the district's Financial Aid Staff processed the majority of the BOGG fee waivers, while the EOPS staff answered questions related to the BOGG fee waivers and helped students with BOGG fee waiver A (students receiving benefits) and Special Classification BOGG fee waivers. Therefore, we did not exclude the EOPS staff used in the calculations of the average rates. We also identified the funding for Student Hourly Workers and adjusted the allowable salaries to reflect the district's actual cost. We made minor adjustments to the weight of involvement and the average productive hourly rates.

As explained in Finding 10 (misstated productive hourly rates), we recalculated the average productive hourly rates based on the employees actually involved in the reimbursable activities and the extent of their involvement in processing BOGG fee waiver applications, and made minor changes to the claimed rates.

### **Calculation of Hours Adjustments**

We multiplied the allowable minutes per reimbursable activity by the multiplier for the reimbursable activities (as identified in the table above) to determine the number of allowable hours for reimbursable Activities 7 through 11.

The following table summarizes the claimed and allowable hours by reimbursable activity for the audit period:

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
7	8,099.45	6,295.75	(1,803.70)
8	5,993.64	6,295.75	302.11
9	6,456.46	6,295.75	(160.71)
10	137.54	6,295.75	6,158.21
11	8,569.36	6,084.97	(2,484.39)
12	116.37	-	(116.37)
Developing, procuring, maintaining Friday recalculation	7.00	-	(7.00)
		124.80	124.80
	<u>29,379.82</u>	<u>31,392.77</u>	<u>2,012.95</u>

**Developing, procuring, maintaining electronic information technology for enrollment fee waivers**

The district included \$446 in salaries and benefits in its claim for FY 2011-12, based on estimates of 7 hours for district staff to perform the activity of “Developing, procuring, maintaining, and using electronic and information technology (telecommunications, internet, multimedia, etc.) equipment and software for the purpose of the waiver of enrollment fees.” The district claimed the following staff and time for performing this activity:

- Director of Financial Aid – 2 hours
- Financial Aid Outreach Coordinator – 5 hours

We determined that the amount claimed is unallowable. The costs are unallowable primarily because this activity is not identified as reimbursable in the parameters and guidelines for this cost component. In addition, the costs claimed are based on estimates.

**Calculation of Costs by Reimbursable Activities**

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that salaries and benefits totaling \$1,476,296 were allowable. The district understated salaries and benefit costs of \$152,202.

The following table summarizes the claimed and allowable salary and benefit costs by reimbursable activity for the audit period:

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
7	\$ 364,737	\$ 295,916	\$ (68,821)
8	274,270	295,916	21,646
9	291,404	295,916	4,512
10	5,720	295,916	290,196
11	382,678	286,666	(96,012)
12	4,839	-	(4,839)
Developing, procuring, maintaining	446	-	(446)
Friday recalculation	-	5,966	5,966
	<u>\$ 1,324,094</u>	<u>\$ 1,476,296</u>	<u>\$ 152,202</u>

### 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.

### District's Response

The audit report states that the amounts were misstated because the District estimated the amount of time required to perform the reimbursable activities. The audit report also replaces the number of students used in the District calculation with student waiver statistics obtained by the auditor from the Chancellor's Office. Based on the audited number of waived students (295,112) for the 13-year audit period (FY1998-99 excluded), and the allowed number of hours (31,393), the implied audited average time for all waiver activities per student applicant is an implausible 6.4 minutes at the cost of \$5.00 per waiver.

#### A. Average activity time

Using the certification forms, the staff who implemented the mandate responded to six annual surveys conducted for the 13-year audit period. Each person estimated their individual average times required to perform each of the six reimbursable activities. These individual averages were combined and averaged for each activity. These averages were rejected by the auditor for all six activities.

For activities 7 through 11, the waiver application processing, the District claimed average times per student transaction of 9.40 to 12.70 minutes over the audit period. The auditor decided that the good faith time estimates reported by staff were "overstated." The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities and observed staff work over several days:

- For the "front counter" student interaction, the auditor observed 79 in-person transactions at the financial aid office of which 55 were relevant transactions, totaling 127.47 minutes, for an average time of 2.32 minutes;

- For the evaluation of the applications, the auditor observed 109 transactions, totaling 180.52 minutes, for an average time of 1.66 minutes;
- For processing multiple site waivers, the auditor observed 30 transactions, totaling 52.72 minutes, for an average time of 1.88 minutes;
- For filing waiver paper applications, the auditor observed the alphabetical filing of 100 applications, totaling 54.22 minutes, for an average time of 0.54 minutes per application;
- For the additional processing of the BOGG-C waivers qualified by the FAFSA process, the auditor observed the “batch processing” of 84,117 applications in 889 minutes, or about .01 minutes per application; and,
- For the “Friday Recalculation” batch process, applicable beginning FY 2004-05, the auditor allowed 15.60 hours per year, which resulted in per student averages ranging from .02 to .04 minutes.

All these findings combined resulted in audited total averages ranging from 6.40 to 6.44 minutes for activities 7 through 11.

This 32% (6.42 audited average minutes divided by 9.40 claimed average minutes) to 49% (6.42 audited/12.70 claimed) reduction in time allowed for all transactions is the largest source of the cost reduction. However, the auditor’s observation sample size is statistically meaningless. The audited number of waiver transactions is 295,112 over the 13-year period, of which 55 in-person transaction, 109 application evaluations, and the filing of 100 applications were observed. The audit report does not state that the procedures observed necessarily matched the entire scope of the parameters and guidelines and the District procedures changed over the years. For these and many other reasons the auditor’s observation process does not constitute a representative “time study” sample.

For activity 12, appealing a denied BOGG waiver, the District claimed staff time cost of \$4,839 (116.37 hours) for FY 2006-07 and FY 2007-08 only, with average times per student of 2.60 and 2.50 minutes, respectively, for 2,720 students for both years. The audit report defaults to total disallowance of costs for this activity based on lack of documentation. It appears that the auditor did not observe this process during the week of fieldwork. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

District staff explained that the district has no written appeal process for denied BOGG fee waiver applications. According to the Financial Aid Director, there were very few denials. The denials usually resulted because the student’s and/or parent(s)’ income exceeded the eligibility threshold. If the waiver was denied, students were instructed to apply for financial aid using the FAFSA website. However, staff indicated that they did make exceptions for the BOGG C based on professional judgment. In this case, staff who processed the BOGG fee

waiver application requested additional supporting documentation from the student, such as proof of a drastic change in income based on the previous year's tax return or proof of any special circumstance and/or the need for a BOGG fee waiver. The Director of Financial Aid ultimately approved or denied the BOGG fee waiver based on the special circumstance or need.

The audit report later concludes:

For Activity 12 (appeals of denied BOGG fee waiver applications) we did not apply any time increments to the number of students who appealed denied BOGG fee waiver applications. As noted previously, the district does not have a written process in place to review denied BOGG fee waiver applications. Rather than conduct a review of denied BOGG fee waivers, district staff instructs students to apply for financial aid. While the district may review denied BOGG fee waivers based on special circumstances, the district does not have a count of the BOGG fee waivers that were granted based on special circumstances.

The audit report incorrectly concludes that the District does not have an "appeal process." There is no requirement in the parameters and guidelines for a "formal" or written appeal process. District staff described the process to remedy the denied applications. The District reported 2,720 such transactions for two years of the audit period which is an amount sufficient for the auditor to generate an opinion of the average time it takes to resolve the waiver eligibility issues, as was done for other findings in this audit. The claimed costs should be allowed as reasonable.

B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For activities 7 through 11, the draft audit report replaces the workload data reported by the District and substitutes the workload data the auditor obtained from the Chancellor's Office which removes the number of unduplicated BOGG recipients. These changes made by the auditor are not disputed at this time.

For activity 12, appeals of denied BOGG fee waiver applications, the District reported 2,720 waiver applications requiring some sort of review function within the scope of the parameters and guidelines. The audited multiplier is zero even though the District statistics were not evaluated and the audit report incorrectly defaults to total disallowance of this activity based on lack of documentation.

C. Electronic and information technology for enrollment fee collection

There is no online process for a student to complete all the steps of the BOGG application and obtain certification, although the process does utilize information technology services. The District claimed \$446 in salaries and benefits in FY 2011-12, for 7 hours of staff time to develop, maintain, and use hardware and software for the purpose of the process of waiver of enrollment fees. The audit disallows this

time because it was based on based on estimates. These activities may be similar to those allowed in Finding 5. Regardless, the amount here is not significant and the District does not dispute it at this time.

D. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates for some of the years because the District did not weight the average rates for each activity by relevant staff participating percentages by job title. This is discussed at Finding 10.

SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses four specific issues:

- Average activity time
- Workload multipliers
- Electronic information technology for enrollment fee collection
- Productive hourly rates

We addressed our comments in the same order as presented.

The district stated that its "good faith estimates" were considered to be overstated by the SCO auditor. We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances being claimed for these activities were unreasonable. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation.

Section IV of the parameters and guidelines states:

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 Civil Code of Procedure section 2105.5. 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* [emphasis added].

The district did not provide source documentation based on actual data to support the estimated time allowances or verify that its time estimates were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, the district did not support costs in compliance with the documentation requirements stipulated in the parameters and guidelines.

As the mandated activities took place at the district during the audit period, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. The certified survey forms were completed by district employees for waiving student fee activities during the audit period. We held discussions with various district representatives to determine the procedures that the district employees followed to perform the reimbursable activities. We observed district staff in the Financial Aid Office perform the mandate activities and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's certified estimates ranged from 9.4 to 15.3 minutes for Activities 7 through 11 over the 13 year audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 7 through 11 as high as 15.3 minutes, we observed an average time of 6.40 minutes for all five activities for FY 1999-2000 through FY 2003-04, an average of 6.44 minutes for FY 2004-05 through FY 2007-08, an average of 6.43 minutes for FY 2008-09 through FY 2009-10, and an average of 6.42 minutes for FY 2010-11 through FY 2011-12.

The district stated in its response that "the auditor's observation sample size is statistically meaningless" in comparison to the number of waiver transactions performed by the district throughout the audit period. However, we spent four days at the Financial Aid Office observing staff process BOGG waiver applications, as noted in the audit report, and documented the average time increments spent by district staff to perform these activities based on our observations. The district stated that it conducted 295,112 waiver transactions during the audit period and that our sample, therefore, "does not constitute a representative "time study" sample." However, the district did not provide evidence based on actual cost data to support a different conclusion from ours. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

For this finding, unlike its response for Finding 2 (Calculating and Collecting Enrollment Fees), the district does not object to our use of what it described as the "stopwatch method" to determine allowable costs for the Waive Student Fees cost component. For this cost component, the SCO auditor also concluded that the claimed time estimates were overstated based on the audit evidence provided by the district and district staff explanations of the procedures they followed to perform the reimbursable activities. As a result, the auditor also performed direct observations of district staff performing reimbursable Activities 7 through 11 to obtain actual cost documentation on which to base allowable costs. The main difference between the conclusions for Finding 2 and Finding 6 is that

Finding 2 results in overstated costs totaling \$16,767,961 for the audit period while Finding 6 results in understated costs totaling \$152,202. Therefore, the district is being inconsistent in its approach to the audit findings.

For costs claimed to perform Activity 12 (Appeals of Denied BOGG fee waiver applications, the district correctly notes that there is no requirement in the parameters and guidelines for the district to have a formal or written appeal process for costs to be reimbursable. However, the lack of a written appeal process for district staff to follow to conduct the reimbursable activity supports statements made by district staff in the Financial Aid Office that rather than conduct a review of denied BOGG fee waivers, staff instructs students to apply for financial aid. However, district staff did indicate that they *may* review denied BOGG fee waivers based on special circumstances. Our audit finding for this activity was not based on the lack of a district process in place to perform the activity. Instead, the finding was based on the lack of a count, based on actual cost documentation, for the number of denied BOGG fee waivers that were reviewed in special circumstances. In the audit report, we noted that the district only included costs for Activity 12 in its claims for FY 2006-07 and FY 2007-08. For those years, the district used the same multiplier for Activity 12 as it did for Activity 10 (incomplete applications). However, it is not reasonable to assume that 100% of the BOGG fee waiver applications identified as incomplete resulted in denied BOGG fee waiver applications that also resulted in appeals of such denials filed by students. In addition, the parameters and guidelines require that districts “provide written notification to the student of the results of the appeal or any change in eligibility status.” The district did not provide any evidence of such written notices provided to students during the audit period.

#### Workload multiplier

The district stated that it does not dispute the corrections we made for Activities 7 through 11.

#### Electronic and information technology for enrollment fee collection [sic]

The audit finding pertained to costs claimed for developing, procuring, maintaining electronic information technology for enrollment fee waivers. The district does not dispute the audit adjustment based on materiality.

#### Productive Hourly Rates

The district referenced its comments to Finding 10 (misstated productive hourly rates) regarding adjustments made to productive hourly rates related to this cost component.

**FINDING 7—  
Enrollment Fee  
Waivers: BOGG Fee  
Waivers to the  
CCCCO cost  
component –  
misstated ongoing  
costs**

The district claimed \$92,528 for salaries and benefits related to the reporting to the CCCCCO the number and amounts provided for BOGG Fee Waivers. We found that \$96,945 is allowable, and that salaries and benefits costs claimed were misstated by \$4,417 (overstated by \$2,578 and understated by \$6,995). The costs were misstated because the district estimated the amount of time required to perform the reimbursable activity, did not claim IT staff who compiled the BOGG fee waiver data reports for FY 1999-2000 and FY 2006-07 through FY 2011-12, and claimed employee classifications not involved in the reporting of BOGG fee waiver data to the CCCCCO.

The following table summarizes the claimed, allowable, and audit-adjustment amounts related to reporting BOGG fee waivers to the CCCCCO:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-2000	\$ 4,316	\$ 5,553	\$ 1,237
2000-01	12,256	12,097	(159)
2001-02	10,232	10,064	(168)
2002-03	8,972	8,781	(191)
2003-04	10,210	10,005	(205)
2004-05	11,256	10,716	(540)
2005-06	11,218	10,842	(376)
2006-07	4,202	4,997	795
2007-08	3,974	5,379	1,405
2008-09	4,439	6,443	2,004
2009-10	5,454	4,990	(464)
2010-11	4,719	4,244	(475)
2011-12	1,280	2,834	1,554
Total, salaries and benefits	<u>\$ 92,528</u>	<u>\$ 96,945</u>	<u>\$ 4,417</u>

**Salaries and Benefits**

*Costs Claimed*

For FY 1999-2000 through FY 2011-12, the district claimed salaries and benefits for reporting the numbers and amounts of BOGG fee waivers to the CCCCCO. The district estimated the hours per year spent by various employee classifications to perform the reimbursable activity using forms developed by the district’s mandated cost consultant. The district did not provide any source documentation based on actual data to support the estimated time allowances. For the audit period, the district claimed 1,800 hours for reporting the numbers and amounts of BOGG fee waivers to the CCCCCO for various employees.

The following table summarizes the claimed hours per fiscal year by employee classification:

Fiscal Year	Dean Student Outreach	Financial Aid Directors	Financial Aid Outreach Coordinators	Financial Aid Coordinators	Financial Aid Assistant	Senior Programmer Analyst	Veterans Coordinator	Cashier Supervisor	Hours Claimed
1999-2000	-	20	-	95	5	-	-	-	120
2000-01	-	20	-	240	5	40	-	-	305
2001-02	-	20	-	170	5	40	-	-	235
2002-03	-	20	-	120	5	40	-	-	185
2003-04	-	20	-	120	5	40	-	-	185
2004-05	3	20	3	124	5	40	-	-	195
2005-06	2	20	-	123	5	40	-	-	190
2006-07	4	16	-	42	5	-	-	-	67
2007-08	-	19	-	45	5	-	-	-	69
2008-09	-	18	25	35	-	-	-	-	78
2009-10	-	13	37	35	-	-	-	-	85
2010-11	-	30	25	-	-	-	1	12	68
2011-12	-	12	6	-	-	-	-	-	18
Totals	9	248	96	1,149	45	240	1	12	1,800

Claimed costs were computed by multiplying the annual hours by the productive hourly rates for the various employee classifications.

*Allowable Costs*

Based on discussions with district staff and the Director of Financial Aid, we found that 1,821.46 hours were allowable for the audit period for reporting the numbers and amounts of BOGG fee waivers to the CCCC.

The following table summarizes the allowable hours per fiscal year by employee classification:

Fiscal Year	Financial Aid Directors	Financial Aid Outreach Coordinators	Financial Aid Coordinators	Senior Programmer Analyst	Research Analyst/Data Warehouse Coordinator	Hours Allowable
1999-2000	20.00	-	95.00	40.00	-	155.00
2000-01	20.00	-	240.00	40.00	-	300.00
2001-02	20.00	-	170.00	40.00	-	230.00
2002-03	20.00	-	120.00	40.00	-	180.00
2003-04	20.00	-	120.00	40.00	-	180.00
2004-05	20.00	-	124.00	40.00	-	184.00
2005-06	20.00	-	123.00	40.00	-	183.00
2006-07	16.00	-	42.00	-	18.75	76.75
2007-08	19.00	-	45.00	-	18.75	82.75
2008-09	18.00	25.00	35.00	-	18.75	96.75
2009-10	13.00	2.32	35.00	-	18.75	69.07
2010-11	30.00	2.32	-	-	18.75	51.07
2011-12	12.00	2.32	-	-	18.75	33.07
Totals	248.00	31.96	1,149.00	280.00	112.50	1,821.46

*Procedures in Place during the Audit Period*

We held discussions with the Directors of Financial Aid, a Financial Aid Outreach Coordinator, and the Senior Research Analyst/Data Warehouse Coordinator to determine the tasks involved during the audit period to perform the reimbursable activity.

For FY 1999-2000 through FY 2009-10, we found that the Programmer Analyst began the reporting process to the CCCCCO by preparing the district's financial aid data. Once the financial aid data was prepared, the Senior Research Analyst/Data Warehouse Coordinator performed preliminary checks of the data and then sent the data out to each campus for review. The Director of Financial Aid at each campus was responsible for researching any errors and cleaning up the data by using information from students' FAFSA applications in order to update data in either the district's SIS+ or Banner software systems. District staff indicated that cleaning up the data required several steps, sometimes requiring time-consuming research.

District staff explained that during the district's transition from COBOL-based software to the Banner system in FY 2009-10, the district ran the two systems that year in parallel. In addition, the Senior Research Analyst/Data Warehouse Coordinator took over all of the Programmer Analyst's duties. The Analyst developed the reports, cleaned up the reports, sent the reports to the Directors of Financial Aid for data correction, and ultimately submitted the financial aid data to the CCCCCO.

In the new Banner system, there was more control over both the reporting process and making data corrections. The Analyst ran structured query language (SQL) scripts to extract the financial aid data in order to send the data to the Financial Aid Directors for clean-up and reconciliation. The Analyst also used Statistical Analysis System (SAS) software to check for headcounts and award amounts for the Financial Aid Directors to confirm before final submission to the CCCCCO. Compared to the previous process, the new reporting process became more accurate and efficient because it was less time-intensive and error-prone.

#### *Time Claimed and Allowable*

The Director of Financial Aid confirmed the various employee classifications involved in performing the reimbursable activity. Based on the district's procedures in place, as described above, we determined that time estimates for the employee classifications identified by the Financial Aid Director were reasonable. However, we noted some exceptions, as follows:

We were unable to confirm whether the 40 hours per year claimed for the Programmer Analyst for FY 2000-01 through FY 2005-06 represents 100% of the time spent to prepare the financial aid data reported to the CCCCCO, as the Programmer Analyst no longer works for the district. However, we determined this time was reasonable for either IT classification involved in the data collection process based on discussions with the Senior Research Analyst/Data Warehouse Coordinator, who currently performs all of the IT-related reporting tasks.

For FY 2006-07 through FY 2011-12, the district did not claim costs for either a Programmer or Analyst. However, based on discussions with district staff, we determined that at least one IT professional should be included in each year of the audit period, because IT compiled the data and ran preliminary checks of the data. The Senior Research Analyst/Data Warehouse Coordinator estimated that her tasks took approximately 18.75 hours (75% of 25 hours) per year beginning in FY 2003-04, when she took over the previous Analyst's duties related to the MIS reporting to the CCCCCO. The Analyst explained that cleaning up the data is more time consuming for BOGG fee waivers because other financial aid data reporting consists of simpler and less time consuming tasks.

In addition, we observed and documented the Financial Outreach Coordinator's tasks applicable to FY 2009-10 through FY 2011-12. The Financial Outreach Coordinator at each college clarified data discrepancies by running an "Overall Award Report" process three times a year to prepare the data for reporting to the CCCCCO. Staff perform this process three times a year to reduce the number of corrections needed to be performed when the MIS report is prepared for the last quarter. Based on our observations, this process required 1.16 hours per year to complete (23.16 minutes per process, three times per year).

### **Productive Hourly Rates**

#### **Claimed**

For the audit period, the district claimed productive hourly rates based on 1,800 annual productive hours spent by district staff. The district prorated the productive hours for staff working fewer than 12 months. The district also properly excluded overtime (identified by object code 2360) from the total salaries and benefits calculation.

#### **Allowable**

As explained in Finding 10 (misstated productive hourly rates), we recalculated the productive hourly rates based on the support provided by the district and made minor changes to the claimed rates. In addition, we informed the district that the summary of salaries and benefits used in the district's claim for FY 2008-09 contained addition errors and we made corrections to the data as needed.

### Summary of Hours Adjustments

The following table summarizes the claimed and allowable hours by reimbursable activity for the audit period:

Fiscal Year	Hours Claimed	Hours Allowable	Adjusted Hours
1999-2000	120.00	155.00	35.00
2000-01	305.00	300.00	(5.00)
2001-02	235.00	230.00	(5.00)
2002-03	185.00	180.00	(5.00)
2003-04	185.00	180.00	(5.00)
2004-05	195.00	184.00	(11.00)
2005-06	190.00	183.00	(7.00)
2006-07	67.00	76.75	9.75
2007-08	69.00	82.75	13.75
2008-09	78.00	96.75	18.75
2009-10	85.00	69.07	(15.93)
2010-11	68.00	51.07	(16.93)
2011-12	18.00	33.07	15.07
Totals	<u>1,800.00</u>	<u>1,821.46</u>	<u>21.46</u>

We applied the audited productive hourly rates to the allowable hours. We found that salaries and benefits totaling \$96,945 were allowable and that the district understated costs by \$4,417.

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were created at or near the same time the actual cost was incurred for the event or activity in question. (See Finding 1 for the specific language.)

The parameters and guidelines (section V.A.1-Claim Preparation and Submission-Direct Cost Reporting-Salaries and Benefits) require claimants to “Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.”

The parameters and guidelines (section IV.B.2.c – Reimbursable Activities – Enrollment Fee Waivers – Ongoing Activities) allow ongoing activities related to “Reporting to the CCC the number of and amounts provided for BOG fee waivers. (Cal. Code Regs., tit. 5, § 58611.)”

#### 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.

District's Response

The audit report determined that \$96,945 is allowable, finding that salaries and benefits were misstated by \$4,417. Staff annually reported their time spent implementing the mandate using survey forms developed by the District's mandated cost consultant. Based on discussions with staff, review of documentation maintained in the usual course of business, and observation of staff performing some of the claimed functions, the audit approved 1,821 hours, of which 393 hours are for the information technology staff, 248 hours for the Financial Aid Directors, 32 hours for the Financial Aid Outreach Coordinators, and 1,149 hours for the Financial Aid Coordinators. The District does not dispute this adjustment at this time.

SCO's Comments

The district does not dispute the adjustment at this time.

**FINDING 8—  
Misstated indirect  
costs**

The district claimed indirect costs during the audit period totaling \$7,865,154 (\$7,237,702 for enrollment fee collection activities and \$627,452 for enrollment fee waivers activities). For enrollment fee collection activities, we found that \$622,535 was allowable and \$6,615,167 was unallowable. For enrollment fee waiver activities, we found that \$683,351 was allowable and indirect costs were understated by the net amount of \$55,899 (overstated by \$157,307 and understated by \$213,206).

The costs were misstated because the district overstated its indirect cost rates for FY 1998-99 through FY 2003-04, FY 2006-07, and 2009-10; and understated its indirect cost rates for FY 2004-05, FY 2005-06, FY 2007-08, FY 2008-09, FY 2010-11, and FY 2011-12. The audit adjustment for indirect cost rate differences totaled \$84,407. The audit adjustment for unallowable salaries and benefits identified in Findings 1 through 7 totaled \$6,474,681.

*Indirect Cost Rates Claimed*

For the audit period, the district claimed indirect costs using the SCO's FAM 29C methodology. Excluding FY 2006-07, the district incorrectly used prior year CCFS-311 reports to calculate its indirect cost rates. For FY 2007-08 and FY 2008-09, the district incorrectly calculated its indirect cost rates using total direct costs as a base instead of salaries and benefits. Then it improperly applied the indirect cost rates it calculated based on total direct costs to salaries and benefits.

*Indirect Cost Rates Allowable*

For FY 1998-99 and FY 2009-10 through FY 2011-12, we recalculated the indirect costs rates using SCO's FAM 29C methodology. We calculated the allowable indirect costs rates using the information contained in the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311).

For FY 1999-2000 through FY 2008-09, we used audited indirect cost rates from prior SCO audits of the district's Health Fee Elimination Program claims for those years. The audit findings related to indirect costs in those audit reports were as follows:

- We issued the audit report for the district's FY 1999-2000 through FY 2001-02 claims on March 10, 2004. In that audit report, we noted that the district claimed indirect costs using the OMB A-21 methodology, but failed to obtain federal approval of its rates. We recalculated the indirect cost rates using the SCO's FAM-29C methodology and the district's CCFS-311 reports applicable for each fiscal year. The district challenged the audit finding in an Incorrect Reduction Claim (IRC) filed with the Commission on State Mandates. In a Statement of Decision dated March 27, 2015, the Commission upheld the validity of our audit finding related to indirect costs for those years.
- We issued the audit report for the district's FY 2002-03 through FY 2005-06 claims on August 18, 2010. In that audit report, we noted that the district claimed indirect costs using the OMB A-21 methodology for FY 2002-03 and FY 2003-04, but failed to obtain federal approval of its rates. We also noted that the district used the SCO's FAM-29C methodology for FY 2004-05 and FY 2005-06, but understated its indirect cost rates for those years because the rates were not properly calculated. We recalculated the indirect cost rates using the SCO's FAM-29C methodology and the district's CCFS-311 reports applicable for each fiscal year. The district challenged the audit finding in an IRC filed with the Commission. That IRC is pending before the Commission.
- We issued the audit report for the district's FY 2006-07 through FY 2008-09 claims on September 25, 2012. In that audit report, we noted that the district used the SCO's FAM-29C methodology for all three years, but failed to properly calculate the rates. In addition, the district used the same rate in its claim for FY 2008-09 that it used for FY 2007-08. We recalculated the indirect cost rates using the SCO's FAM-29C methodology and the district's CCFS-311 reports applicable for each fiscal year.

The following table summarizes the claimed, allowable, and indirect cost rate adjustments by fiscal year:

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Audit Adjustment</u>
1998-99	28.67%	13.61%	-15.06%
1999-2000	30.09%	15.23%	-14.86%
2000-01	31.67%	15.72%	-15.95%
2001-02	35.50%	17.30%	-18.20%
2002-03	32.28%	16.64%	-15.64%
2003-04	31.11%	18.09%	-13.02%
2004-05	29.66%	35.86%	6.20%
2005-06	28.90%	36.51%	7.61%
2006-07	39.45%	37.69%	-1.76%
2007-08	39.45%	45.65%	6.20%
2008-09	42.36%	47.71%	5.35%
2009-10	49.37%	47.43%	-1.94%
2010-11	49.12%	51.54%	2.42%
2011-12	53.12%	53.85%	0.73%

*Enrollment Fee Collection*

The district claimed \$7,237,702 for indirect costs during the audit period, related to salaries and benefits claimed for enrollment fee collection activities. We determined that \$622,535 was allowable and \$6,615,167 was unallowable. We determined that \$71,814 was unallowable because the district miscalculated its indirect cost rates, and \$6,543,353 was unallowable due to the unallowable salaries and benefits identified in Findings 1 through 7.

The following table summarizes the claimed, allowable, and audit adjustment amounts for indirect costs related to enrollment fee collection by fiscal year:

<u>Fiscal Year</u>	<u>Indirect Cost Rates</u>	<u>Indirect Cost Rates</u>	<u>Indirect Costs</u>	<u>Indirect Costs</u>	<u>Audit Adjustment</u>
1998-99	28.67%	13.61%	\$ 229,665	\$ 12,534	\$ (217,131)
1999-2000	30.09%	15.23%	261,754	14,507	(247,247)
2000-01	31.67%	15.72%	283,307	16,171	(267,136)
2001-02	35.50%	17.30%	370,976	18,988	(351,988)
2002-03	32.28%	16.64%	389,928	19,979	(369,949)
2003-04	31.11%	18.09%	382,151	27,825	(354,326)
2004-05	29.66%	35.86%	377,516	42,094	(335,422)
2005-06	28.90%	36.51%	388,013	42,276	(345,737)
2006-07	39.45%	37.69%	381,957	38,973	(342,984)
2007-08	39.45%	45.65%	354,084	52,955	(301,129)
2008-09	42.36%	47.71%	1,070,042	68,659	(1,001,383)
2009-10	49.37%	47.43%	1,299,015	80,391	(1,218,624)
2010-11	49.12%	51.54%	1,194,902	90,126	(1,104,776)
2011-12	53.12%	53.85%	254,392	97,057	(157,335)
Totals			<u>\$ 7,237,702</u>	<u>\$ 622,535</u>	<u>\$ (6,615,167)</u>

Enrollment Fee Waivers

The district claimed \$627,452 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We found that \$683,351 was allowable and that indirect costs were understated by \$55,899 (overstated by \$157,307 and understated by \$213,206). We determined that \$12,593 was unallowable because the district misstated its indirect cost rates and \$68,492 was understated due to the unallowable salaries and benefits identified in Findings 1 through 7.

The following table summarizes the claimed, allowable, and audit adjustment amounts for indirect costs related to enrollment fee waivers by fiscal year:

Fiscal Year	Enrollment Fee Waivers				Audit Adjustment
	Claimed Indirect Cost Rates	Allowable Indirect Cost Rates	Claimed Indirect Costs	Allowable Indirect Costs	
1999-2000	30.09%	15.23%	\$ 17,595	\$ 4,771	\$ (12,824)
2000-01	31.67%	15.72%	21,435	6,378	(15,057)
2001-02	35.50%	17.30%	24,418	7,104	(17,314)
2002-03	32.28%	16.64%	28,537	15,497	(13,040)
2003-04	31.11%	18.09%	35,122	20,584	(14,538)
2004-05	29.66%	35.86%	42,385	45,237	2,852
2005-06	28.90%	36.51%	41,370	52,421	11,051
2006-07	39.45%	37.69%	75,116	42,532	(32,584)
2007-08	39.45%	45.65%	67,270	51,067	(16,203)
2008-09	42.36%	47.71%	110,189	74,442	(35,747)
2009-10	49.37%	47.43%	70,748	101,109	30,361
2010-11	49.12%	51.54%	78,470	117,460	38,990
2011-12	53.12%	53.85%	14,797	144,749	129,952
Totals			<u>\$ 627,452</u>	<u>\$ 683,351</u>	<u>\$ 55,899</u>

The parameters and guidelines (section V.B.–Claim Preparation and Submission–Indirect Costs) state:

Indirect costs are costs that have been incurred for common or joint purposes. . . . 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 Education 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 ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

District’s Response

Direct Cost Adjustments

The District claimed indirect costs during the audit period totaling \$7,237,702 for enrollment fee collection activities. The audit concluded that \$622,535 is allowable. Of this reduction amount, 91% is attributable to reduction in direct costs from Findings 1 and 2. The District claimed indirect costs \$627,452 for enrollment fee waiver activities. The audit determined that \$ 683,351 is allowable. Of this increase, 84% is attributable to the increase in direct costs from Findings 3 through 7, but mostly it is the increase the audited number of BOGG waivers in Finding 6.

Calculation of the Rates

Of the total audited reduction to the indirect costs, the audit report states \$84,407 (\$71,814 and \$12,593), about 1% of the claimed indirect costs, is the result of differences in the calculation of the annual indirect cost rates.

<u>Fiscal Year</u>	<u>Claimed Rate</u>	<u>Audited Rate</u>	<u>Audit Adjustment</u>	<u>Audit Source</u>
1998/99	28.67%	13.61%	(15.06%)	This audit
1999/00	30.09%	15.23%	(14.86%)	HFE #1
2000/01	31.67%	15.72%	(15.95%)	HFE #1
2001/02	35.50%	17.30%	(18.20%)	HFE #1
2002/03	32.28%	16.64%	(15.64%)	HFE #2
2003/04	31.11%	18.09%	(13.02%)	HFE #2
2004/05	29.66%	35.86%	6.20%	HFE #2
2005/06	28.90%	36.51%	7.61%	HFE #2
2006/07	39.45%	37.69%	(1.76%)	HFE #3
2007/08	39.45%	45.65%	6.20%	HFE #3
2008/09	42.36%	47.71%	5.35%	HFE #3
2009/10	49.37%	47.43%	(1.94%)	This audit
2010/11	49.12%	51.54%	2.42%	This audit
2011/12	53.12%	53.85%	0.73%	This audit

The auditor used the indirect cost rates from the Health Fee Elimination state mandate audits #1 through 3 for FY 1999-00 through FY 2008-09. There is no procedural objection to this shortcut since the same indirect cost rate calculation process is used for both mandate programs.

The District uses the same Controller’s FAM-29C method as the auditor to calculate the indirect cost rates. The variances between the claimed and audited rate is greatest for FY 1998-99 through FY 2003-04, because the Controller did not allow capital costs or depreciation expense as an overhead allocation cost. This is a statewide appeal issue. The claimed rates are within a few percentage points of the audited rates beginning 2004-05. These smaller differences mostly result from what necessary source documentation is available at the time of claim preparation versus seasoned documentation available at the time of audit.

CCFS-311 Choice: The District indirect cost rates were calculated based on the prior year CCFS-311. This is the same necessary source used by the Controller for the FAM-29C, except that the Controller uses the current year 311. The use of prior year data is consistent over the years and still yields reasonable and representative rates.

Depreciation Expense: Beginning FY 2004-05, the audit used the current year audited financial statement depreciation expense. The current year annual CPA financial statement depreciation information required for the FAM-29C calculation is rarely available when the claim is prepared, so it is consistent to use prior year CCFS-311 data and prior year depreciation cost data. The audit benefits from the fact that the current year CCFS-311 and depreciation expense is always available at the time of the audit, several years after the claim is due and submitted.

Overhead Costs: Other minor sources in variance may result in a difference of opinion as to which accounts are overhead or direct program costs when calculating the indirect cost rate.

There are no regulations or pertinent generally accepted accounting methods for the calculation of the indirect cost rate for mandate programs, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act. The burden of proof is on the Controller to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

### SCO's Comments

The finding and recommendation remain unchanged.

The district stated in its response that "There are no regulations or pertinent generally accepted accounting methods for the calculation of the indirect cost rate for mandate programs, so it is a matter of professional judgment." We disagree. The district believes that it may calculate an indirect cost rate in any manner that it chooses. Section V.B of the parameters and guidelines (Claim Preparation – Indirect Cost Rates) states that "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." The parameters and guidelines were duly adopted at a Commission hearing pursuant to Government Code section 17557.

The district chose the option of using the Controller's FAM-29C methodology for all fiscal years of the audit period. The SCO developed Form FAM-29C to be consistent with the OMB A-21 cost accounting principles as they apply to mandated cost programs. It follows, then, that the district should comply with the Controller's claiming instructions applicable to the development of indirect cost rates using that methodology. However, the district did not follow the SCO's claiming instructions. In addition, neither this district nor any other district

requested that the Commission review the SCO's claiming instructions applicable to the audit period pursuant to Title 2, CCR, Section 1186. We recalculated indirect cost rates under the FAM-29C methodology using the applicable SCO claiming instructions and the correct district financial information included in its California Community Colleges Annual Financial Budget Report – Expenditures by Activity Report (CCFS-311) and in its annual audited financial statements.

The indirect cost rates used by the district for FY 1999-2000 through FY 2001-02 have already been addressed by the Commission on State Mandates in an incorrect reduction claim filed by the district pursuant to our audit of its Health Fee Elimination Program claims for those years (IRC 05-4206-I-10). In its Statement of Decision adopted on March 27, 2015, the Commission found that “the Controller’s... recalculation of costs using the Form FAM-29C is correct as a matter of law and not arbitrary, capricious, or entirely lacking in evidentiary support.” The district also has a pending IRC on file with the Commission related to our audit of its Health Fee Elimination Program claims for FY 2002-03 through FY 2005-06 (IRC 09-4206-I-24 and 10-4206-I-34). The recalculation of indirect costs using the Controller’s FAM-29C methodology is also an issue in that IRC.

The district stated that “The District utilized prior year CCSF-311 reports because the current (annual claim) year CCSF-311 report and CPA audited financial statement depreciation expense are not always available when the annual claims are prepared.” We disagree. Initial claims for this mandated program covering FY 1998-99 through FY 2004-05 were due the SCO on August 1, 2006. The annual claim for FY 2006-07 was due the SCO on January 16, 2007. Claims filed for FY 2006-07 and beyond were due the SCO on February 15 of the following calendar year. Title 5, CCR, section 58305, subdivision (d), states “on or before the 10th day of October, each district shall submit a copy of its adopted annual financial and budget report to the Chancellor.” Based on this requirement, the CFS-311 financial report information was available at the time that the claims were due to the SCO to prepare indirect cost rates using financial data relevant to the proper fiscal year.

We used audited financial statements provided by the district as the source for annual depreciation amounts used in the FAM-29C indirect cost rate calculations for FY 2004-05 and subsequent years. Audited financial statements are based on financial statement data provided by the district to its outside auditors. To issue audited financial statements, the outside auditors verified that the district’s financial statements were materially correct. Therefore, it is not unreasonable to expect that depreciation data relative to June 30 of each year be available for mandated cost claiming purposes by February of the following fiscal year.

**FINDING 9—  
Misstated offsetting  
reimbursements**

The district claimed offsetting reimbursements totaling \$2,343,799 for enrollment fee collection and \$1,723,308 for enrollment fee waivers. We found that offsetting reimbursements were understated by a net of \$50,966 for enrollment fee collection and understated by a net of \$294,087 for enrollment fee waivers. The offsetting reimbursements were misstated primarily because the district misstated salaries and benefits and related indirect costs as identified in Findings 1 through 8. In addition, the district did not report the correct amounts that it received from the CCCCCO for enrollment fee collection or enrollment fee waivers in any fiscal year of the audit period.

*Enrollment Fee Collection*

For the audit period, the district claimed offsetting reimbursements for enrollment fee collection related to the offset of 2% of revenues from enrollment fees. We obtained a report from the CCCCCO confirming enrollment fee collection offsets paid to the district totaling \$2,827,290 during the audit period. We limited the application of offsetting reimbursements received by the district to allowable direct and indirect costs for enrollment fee collection activities.

Allowable direct and indirect costs applicable for the audit period related to enrollment fee collection activities totaled \$2,417,477. The offsets applicable to the audit totaled \$2,394,765. The district claimed \$2,343,799. Consequently, the district understated offsetting reimbursements by \$50,966 (overstated by \$1,197,409 and understated by \$1,248,375).

The following table summarizes the misstated enrollment fee collection offsetting reimbursements by fiscal year:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO	Allowable Direct and Related Indirect Costs	Offsets Claimed (A)	Offset Applicable to Audit (B)	Audit Adjustment (B-A)
1998-99	\$ (128,171)	\$ 104,627	\$ (53,581)	\$ (104,627)	\$ (51,046)
1999-2000	(118,401)	109,757	(45,682)	(109,757)	(64,075)
2000-01	(117,028)	119,041	(27,062)	(117,028)	(89,966)
2001-02	(126,761)	128,747	(21,054)	(126,761)	(105,707)
2002-03	(123,847)	140,046	(19,975)	(123,847)	(103,872)
2003-04	(191,777)	181,639	(37,237)	(181,639)	(144,402)
2004-05	(250,864)	159,477	(84,495)	(159,477)	(74,982)
2005-06	(249,888)	158,068	(80,315)	(158,068)	(77,753)
2006-07	(219,078)	142,378	(83,949)	(142,378)	(58,429)
2007-08	(204,099)	168,958	(66,743)	(168,958)	(102,215)
2008-09	(222,030)	212,568	(62,968)	(212,568)	(149,600)
2009-10	(276,868)	249,886	(847,985)	(249,886)	598,099
2010-11	(262,478)	264,992	(861,788)	(262,478)	599,310
2011-12	(336,000)	277,293	(50,965)	(277,293)	(226,328)
	<u>\$ (2,827,290)</u>	<u>\$ 2,417,477</u>	<u>\$ (2,343,799)</u>	<u>\$ (2,394,765)</u>	<u>\$ (50,966)</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs totaled \$432,525 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (128,171)	\$ (104,627)	\$ (23,544)
1999-2000	(118,401)	(109,757)	(8,644)
2000-01	(117,028)	(117,028)	-
2001-02	(126,761)	(126,761)	-
2002-03	(123,847)	(123,847)	-
2003-04	(191,777)	(181,639)	(10,138)
2004-05	(250,864)	(159,477)	(91,387)
2005-06	(249,888)	(158,068)	(91,820)
2006-07	(219,078)	(142,378)	(76,700)
2007-08	(204,099)	(168,958)	(35,141)
2008-09	(222,030)	(212,568)	(9,462)
2009-10	(276,868)	(249,886)	(26,982)
2010-11	(262,478)	(262,478)	-
2011-12	(336,000)	(277,293)	(58,707)
	<u>\$ (2,827,290)</u>	<u>\$ (2,394,765)</u>	<u>\$ (432,525)</u>

#### *Enrollment Fee Waivers*

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCO confirming enrollment fee waivers offsets paid to the district totaling \$2,543,368 for the audit period. We limited the application of offsetting reimbursements received by the district to allowable direct and indirect costs applicable to enrollment fee waivers activities.

Allowable direct and indirect costs applicable to the audit period related to enrollment fee waivers activities totaled \$2,017,395; therefore, this amount represents offsets applicable to the audit period. The district claimed \$1,723,308. Consequently, the district understated offsetting reimbursements by \$294,087 (overstated by \$106,336 and understated by \$400,423)

The following table summarizes the misstated enrollment fee waiver offsetting reimbursements by fiscal year:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO	Allowable Direct and Related Indirect Costs	Offsets Claimed (A)	Offset Applicable to Audit (B)	Audit Adjustment (B-A)
1999-2000	\$ (193,050)	\$ 36,096	\$ (58,469)	\$ (36,096)	\$ 22,373
2000-01	(159,694)	46,950	(67,685)	(46,950)	20,735
2001-02	(140,909)	48,166	(68,779)	(48,166)	20,613
2002-03	(127,407)	108,627	(88,409)	(108,627)	(20,218)
2003-04	(134,614)	134,369	(112,898)	(134,369)	(21,471)
2004-05	(215,974)	171,386	(142,907)	(171,386)	(28,479)
2005-06	(198,445)	196,002	(143,145)	(196,002)	(52,857)
2006-07	(213,245)	155,380	(190,406)	(155,380)	35,026
2007-08	(202,544)	162,933	(170,522)	(162,933)	7,589
2008-09	(199,796)	230,473	(185,167)	(199,796)	(14,629)
2009-10	(219,894)	314,284	(214,047)	(219,894)	(5,847)
2010-11	(251,975)	345,360	(238,220)	(251,975)	(13,755)
2011-12	(285,821)	413,550	(42,654)	(285,821)	(243,167)
	<u>\$ (2,543,368)</u>	<u>\$ 2,363,576</u>	<u>\$ (1,723,308)</u>	<u>\$ (2,017,395)</u>	<u>\$ (294,087)</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs totaled \$525,973 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (193,050)	\$ (36,096)	\$ (156,954)
2000-01	(159,694)	(46,950)	(112,744)
2001-02	(140,909)	(48,166)	(92,743)
2002-03	(127,407)	(108,627)	(18,780)
2003-04	(134,614)	(134,369)	(245)
2004-05	(215,974)	(171,386)	(44,588)
2005-06	(198,445)	(196,002)	(2,443)
2006-07	(213,245)	(155,380)	(57,865)
2007-08	(202,544)	(162,933)	(39,611)
2008-09	(199,796)	(199,796)	-
2009-10	(219,894)	(219,894)	-
2010-11	(251,975)	(251,975)	-
2011-12	(285,821)	(285,821)	-
	<u>\$ (2,543,368)</u>	<u>\$ (2,017,395)</u>	<u>\$ (525,973)</u>

The parameters and guidelines (section VII-Offsetting Savings and Reimbursements state:

Any offsetting savings 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 services fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

Enrollment Fee Collection Program:

The cost of the Enrollment Fee Collection program are subject to an offset of two percent (2%) of the revenue from enrollment fees (Ed. Code, 76000, subd.(c))

Enrollment Fee Waiver Program:

The costs of the Enrollment Fee Waiver program are subject to the following offsets:

July 1, 1999 to July 4, 2000:

- For low income students<sup>2</sup> or recipients of public assistance<sup>3</sup>, or dependents or surviving spouses of National Guard soldiers killed in the line of duty<sup>4</sup> as defined:
  - an offset identified in Education Code section 76300, subdivision (m), that requires the community college Board of Governors, from funds in the annual budget act, to allocated to community college two percent (2%) of the fees waived, under subdivision (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and
- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined), or dependents or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived:
  - from funds provided in the annual State Budget Act, the board of governors shall allocate to community college districts, pursuant to this subdivision, an amount equal to seven (7%) of the fee waivers provided, pursuant to subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].<sup>5</sup>

Beginning July 5, 2000:

- For low-income students (as defined), or recipient of public assistance (as defined) or dependent or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived (as defined):
  - an offset identified in Education Code section 76300, subdivision (m), that requires the Community College Board of Governors, from funds in the annual budget act, to allocate to community colleges two (2%) of the fees waived, under subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents of California National Guard soldiers killed in the line of duty as defined] of section 76300;

- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined) for whom fees are waived:
  - requires the Board of Governors to allocate from funds in the annual State Budget Act ninety-one cents (\$0.91) per credit unit waived pursuant to subdivisions (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or California National Guard soldiers killed in the line of duty as defined].
- Any budget augmentation received under the Board Financial Assistance Program Administrative Allowance, or any other state budget augmentation received for administering the fee waiver program.

Note – Footnotes 2 through 5 are included in the parameters and guidelines to provide additional clarification.

### 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 the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its mandated cost claims based on information provided by the CCCCCO.

### District's Response

The offsetting amounts are not actually “reimbursements,” rather they are funds provided by the state to implement the program and are based on statutory rates and not actual cost. The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00 only).

The District claimed offsetting reimbursements totaling \$2,343,799 for enrollment fee collection and \$1,723,308 for enrollment fee waivers. The audit determined that the offsetting reimbursements were understated by a net of \$50,966 for enrollment fee collection and understated by a net of \$294,087 for enrollment fee waivers. The audited offsetting revenue data is based on information obtained by the auditor from the Chancellor's Office developed after the end of each fiscal year. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information or state revenue reports, which would be a continuing source of minor differences.

The audited amount of offsetting program revenues for enrollment fee collection is \$2,827,290, of which only \$2,394,765 could be applied since only that audited amount of direct and indirect costs remained from the previous findings, leaving \$432,525 (about 15%) that could not be applied. The audited amount of offsetting program revenues for enrollment fee waiver is \$2,543,368, of which only \$2,017,395 could be applied since only that audited amount of direct and indirect costs

remained from the previous findings, leaving \$525,973 (about 21%) that could not be applied. If the incorrect reduction claim results in increases to any of the costs for the previous eight findings, the unused revenue offsets will continue to reduce those costs.

The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. There is no dispute at this time of these audited potential revenue offset amounts. However, the revenue offsets should only be offset to the relevant mandated activity costs, rather than to the total audited costs. Specifically, in Finding 2 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for online transaction percentages. However, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit applies the offset to all enrollment fee collection costs, in-person and online computer generated. The audited revenue offset should be reduced by the same percentage each fiscal year that the cost multiplier is reduced for the percentage of online transactions costs. For example, for FY 2011-12, the District reduced the reported offsetting revenue to \$50,965, an amount proportional to only those enrollment fee collections made in-person and not online. The audit report should be changed to make a similar reduction to the offsetting revenues for each fiscal year that included online enrollment fee collection in order to properly match revenues and costs as required by generally accepted accounting principles.

#### SCO's Comments

The finding and recommendation remain unchanged.

The district did not dispute the "potential" revenue offset amounts. However, the district stated its belief that the audited revenue offsets within Finding 2 should be reduced by the same percentage of online transaction costs "in order to properly match revenues and costs." In essence, the district believes that offsets should only be based on enrollment fees collected through "in-person" transactions. We disagree.

The "matching principle" that the district referred to in its response is used by accountants for accrual accounting purposes in order to recognize expenditures or expenses in the proper period in which they were incurred for proper reporting within financial statements. The matching principal is not used to match revenues with associated expenditures.

The revenues received by the district from the CCCCCO were based on 2% of the revenue from enrollment fees received by the district from students and were intended to cover the costs incurred by the district to implement the *program* of calculating and collecting enrollment fees from students. The specific program costs subject to mandate reimbursement are those identified in Section IV.A of the parameters and guidelines (Reimbursable Activities – Enrollment Fee Collection). The costs claimed by the district under this section of the parameters and guidelines included the one-time activities of preparing policies and procedures and staff training as well as five of the six ongoing activities for calculating and collecting enrollment fees from students.

However, the proration of the student multiplier to reflect the payment of enrollment fees online only applied to reimbursable Activity 2

(Calculating and Collecting the Fee) and Activity 4 (Updating Written and Computer Records). To determine the allowable costs, we applied the time increments required to perform these activities by the number of students appearing in person to pay their enrollment fees based on the applicable productive hourly rates of district staff who performed these activities.

Based on the results of our audit, the district has already been fully reimbursed for the costs to implement the program of calculating and collecting fees from students for FY 1998-99 through FY 1999-2000, for FY 2003-04 through FY 2009-10, and for FY 2011-12 through the receipt of offsetting revenues from the CCCCO. Further, our audit report identifies that the district has received offsetting revenues beyond the actual costs that it incurred to perform these reimbursable activities.

**FINDING 10—  
Misstated productive  
hourly rates for the  
Calculate and Collect  
Enrollment Fees and  
Waive Student Fees  
cost components**

For the audit period, the district calculated average productive hourly rates separately for employees involved in calculating and collecting enrollment fees (Activities 1 through 5) and for employees involved in waiving student fees (Activities 7 through 12). However, the district misstated (overstated and understated) the average productive hourly rates used in its claims for the audit period.

*Productive Hourly Rates Claimed*

The district calculated its average productive hourly rates during the audit period using a straight average methodology. In its calculations, the district did not weigh the extent of involvement of the various employee classifications that performed the reimbursable activities. Instead, all employee classifications were weighted at the same level, as if they all performed the reimbursable activities to the same extent. For example, by calculating average productive hourly rates using a straight average methodology, the involvement of Supervisors was weighted at the same level as other district staff who performed most of the reimbursable activities. We believe that using a straight average methodology to compute an average productive hourly rate for district staff that performed the reimbursable activities at widely varying levels may not provide a reasonable result.

During our observations of the reimbursable activities being performed at the district, we noticed that the district used Student Hourly Workers to perform some of the reimbursable activities. However, Student Hourly Workers were not included in the district's average productive hourly rate calculations for enrollment fee collection activities in its claims for FY 2001-02 through FY 2005-06 and FY 2008-09 through FY 2011-12 or for enrollment fee waivers activities in its claims for FY 2001-02 and FY 2008-09.

*Allowable Productive Hourly Rates*

We worked with the district to obtain additional payroll reports that were not originally provided with its claims. We requested that the district provide actual salary and benefit reports for five years: FY 2006-07 and FY 2008-09 through 2011-12. The district provided three out of the five years requested (FY 2009-10 through FY 2011-12). The district was unable to provide payroll reports for FY 2006-07 and FY 2008-09 because the district used a different software system during those years. However, we ultimately determined that the summaries provided with the district's claims were sufficient for these two years.

We recalculated productive hourly rates using actual salaries and benefits and actual productive hour information provided by the district. We noted the following issues:

- The summary used in the claim For FY 2008-09 contained mathematical errors. We informed the district of the errors and made adjustments as necessary.
- For FY 2009-10, only six months of salary data was available because of the software system change.
- For FY 2010-11, we noted that the district did not exclude overtime (object code 2360) from its calculation of productive hourly rates.

For the audit period, the district used 1,800 standard productive hours to compute productive hourly rates. We recalculated weighted average productive hourly rates based on the supporting documentation that the district provided. We also recalculated average productive hourly rates separately for enrollment fee collection and enrollment fee waivers activities based on the level of involvement of student employees and hourly workers, full time classified staff, and supervisors performing the reimbursable activities. The level of effort spent by the various employee classifications that we used in our calculations was based on our discussions with district staff concerning the procedures in place to conduct the reimbursable activities and our observations of district staff actually performing the reimbursable activities.

*Enrollment Fee Collection – Calculating and Collecting Student Enrollment Fees (Activities 1 through 6)*

As noted above, the district's average productive hourly rate calculations for Calculating and Collecting Student Enrollment Fee activities excluded student employees and hourly staff who performed the reimbursable activities. District representatives explained that the student employees and hourly workers were excluded from the district's claims because they did not receive a time survey form to complete. Student employees also were excluded because a significant portion of their wages were paid out of a Federal Work Study (FWS) program. In addition, the district did not weight its average productive hourly rates to the extent that the various employee classifications performed the reimbursable activities. Instead, all employee classifications were weighted at the same level as if they all performed the reimbursable activities to the same extent, which does not provide a reasonable result.

We segregated the various employee classifications to identify the weight of involvement represented by the straight average methodology for student employees/hourly staff, classified staff, and supervisory staff in the Admissions and Records Office and Cashier’s Office. We determined that an adjustment for the weight of involvement was necessary based on the results of our observations of the reimbursable activities performed by district staff and the district’s procedures in place during the audit period.

During our observations of Activities 1 through 4 being performed at the college campuses, we found that student employees and hourly staff performed approximately 70% of the reimbursable activities pertaining to the collection of enrollment fees. For Activities 5 and 6, we noted that these activities consisted of a three step process at both college campuses. The student employees and hourly staff performed the first step by collecting delinquent fees at the front windows (Activity 5), and accepted students’ Requests for Refund forms for students who paid their enrollment fees and were later granted a BOGG fee waiver (Activity 6).

The following table summarizes the weight of staff involvement represented by the straight average methodology used to claim productive hourly rates for the collecting enrollment fees cost component:

Weight of Involvement Represented by the Straight Average Methodology				
Fiscal Year	Student Employees/ Hourly Staff	Classified Staff	Supervisory Staff	
1998-99	8.11%	70.27%	21.62%	100.0%
1999-2000	2.44%	78.05%	19.51%	100.0%
2000-01	6.67%	73.33%	20.00%	100.0%
2001-02	0.00%	75.61%	24.39%	100.0%
2002-03	2.50%	72.50%	25.00%	100.0%
2003-04	2.44%	73.17%	24.39%	100.0%
2004-05	2.44%	73.17%	24.39%	100.0%
2005-06	0.00%	82.86%	17.14%	100.0%
2006-07	20.00%	67.50%	12.50%	100.0%
2007-08	59.68%	32.26%	8.06%	100.0%
2008-09	0.00%	77.78%	22.22%	100.0%
2009-10	0.00%	77.27%	22.73%	100.0%
2010-11	0.00%	79.17%	20.83%	100.0%
2011-12	0.00%	71.43%	28.57%	100.0%

We determined the following level of involvement by district staff to perform the reimbursable activities based on our observations of the reimbursable activities being performed:

- Student Employees/Hourly Workers – We allocated a 50% weight of involvement for the student employees and hourly worker classifications during the audit period.
- Classified Salaried Staff – We allocated a 30% weight of involvement for the various classified salaried staff classifications during the audit period.
- Supervisory Staff – We allocated a 20% weight of involvement for the Supervisory staff classifications during the audit period.

We made adjustments to the claimed productive hourly rates for individual staff members when the salary and benefit documentation provided by the district supported different rates than what was claimed.

We provided the district with our analysis and requested that they advise us of any issues involving the weight of involvement percentages that we calculated, any variances in the level of effort for the different colleges in the district, and/or the different years during the audit period.

District representatives explained that costs for Student Employees were paid out of an FWS program. However, all staff performing the reimbursable activities should be included in the district's claims regardless of the source of funds used for salaries and benefits.

The following table summarizes the changes that we made to average productive hourly rates for enrollment fee collection activities by fiscal year:

Fiscal Year	Enrollment Fee Collection		
	Claimed Average Productive Hourly Rate	Audited Average Productive Hourly Rate	Audit Adjustment
	1998-99	\$ 25.99	\$ 16.01
1999-2000	28.43	17.08	(11.35)
2000-01	29.65	18.85	(10.80)
2001-02	32.38	18.51	(13.87)
2002-03	36.88	21.27	(15.61)
2003-04	39.61	29.98	(9.63)
2004-05	42.71	24.51	(18.20)
2005-06	43.80	24.76	(19.04)
2006-07 <sup>1</sup>	35.10	23.68	(11.42)
2007-08 <sup>3</sup>	22.93	24.81	1.88
2008-09 <sup>1,2</sup>	50.47	26.79	(23.68)
2009-10	50.35	31.87	(18.48)
2010-11 <sup>4</sup>	49.88	32.93	(16.95)
2011-12	51.48	36.28	(15.20)

Notes:

- <sup>1</sup> For FY 2006-07 and FY 2008-09, the district did not support the claimed rates with payroll reports. We used the summaries used in the claims which were prepared by the district's mandated cost consultant.
- <sup>2</sup> The summary used in the claim for FY 2008-09 contained addition errors. We made adjustments accordingly.
- <sup>3</sup> The district included 37 Student Workers, which represented a 60.65% involvement in the reimbursable activities using the straight average methodology. We adjusted the weight of involvement to 50% based on our observations, as noted above.
- <sup>4</sup> For FY 2010-11, we noted that the district did not exclude overtime from its calculation of productive hourly rates for several staff members.

*Enrollment Fee Waivers–Waiving Student Fees (Activities 7 through 12)*

The district indicated that the FWS program funded 75% of student hourly worker’s wages, as identified by object code 2700. We found that some students used in the average productive hourly rate calculations for enrollment fee waivers activities were funded by the program for the entire year, while others were funded by FWS for only part of the year. Therefore, we adjusted the actual salary and benefits paid to Student Employees whose salary was identified by object code 2700.

The district’s average productive hourly rates for the Waive Student Fees cost component excluded certain staff who performed the reimbursable activities (a Financial Aid Coordinator, several Financial Aid Assistants, and several Financial Aid Outreach Assistants). Even though the district’s average productive hourly rate calculations included staff who worked in the EOPS Department and Administrative Assistants, we did not exclude these employees from the average calculations for enrollment fee waivers activities. We did this in recognition of the fact that certain district employees not in the Financial Aid Department may answer questions related to BOGG fee waivers.

The district also did not weight its average productive hourly rates to the extent that the various employee classifications performed the reimbursable activities. Instead, all employee classifications were weighted at the same level, as if they all performed the reimbursable activities to the same extent, which is not a reasonable result. We segregated the various employee classifications to identify the weight of involvement represented by the straight average methodology for student employees and hourly staff, Financial Aid classified staff, Supervisory staff, and EOPS staff.

The following table summarizes the weight of staff involvement represented by the straight average methodology to claim productive hourly rates for the waiving student fees cost component:

Fiscal Year	Weight of Involvement Represented by the Straight Average Methodology			
	Student Employees/ Hourly Staff	Financial Aid Staff	Supervisory / EOPS Staff	
1999-2000	12.00%	48.00%	40.00%	100.0%
2000-01	4.00%	52.00%	44.00%	100.0%
2001-02	0.00%	59.26%	40.74%	100.0%
2002-03	3.85%	61.54%	34.61%	100.0%
2003-04	6.67%	60.00%	33.33%	100.0%
2004-05	6.67%	60.00%	33.33%	100.0%
2005-06	3.13%	62.50%	34.37%	100.0%
2006-07	20.00%	53.33%	26.67%	100.0%
2007-08	12.00%	64.00%	24.00%	100.0%
2008-09	0.00%	76.19%	23.81%	100.0%
2009-10	4.35%	60.87%	34.78%	100.0%
2010-11	4.55%	63.64%	31.81%	100.0%
2011-12	4.35%	56.52%	39.13%	100.0%

We determined, based on the district’s procedures in place, that an adjustment for the weight of involvement was not necessary for the student employees/hourly staff. However, we identified Financial Aid classified staff in the districts payroll reports that should have been included in the average productive hourly rate calculations. Therefore, the weight of involvement increased for this group, while the weight of involvement for the supervisory and EOPS staff decreased. After including additional Financial Aid staff, we determined the following level of involvement by district staff to perform the reimbursable activities:

Fiscal Year	Adjusted Weight of Involvement			Total
	Student Employees/ Hourly Staff	Financial Aid Staff	Supervisory / EOPS Staff	
1999-2000	12.00%	50.00%	38.00%	100.0%
2000-01	4.00%	53.85%	42.15%	100.0%
2001-02	0.00%	62.96%	37.04%	100.0%
2002-03	3.85%	65.38%	30.77%	100.0%
2003-04	6.67%	64.52%	28.81%	100.0%
2004-05	6.67%	61.29%	32.04%	100.0%
2005-06	3.13%	63.64%	33.23%	100.0%
2006-07	20.00%	54.84%	25.16%	100.0%
2007-08	12.00%	70.97%	17.03%	100.0%
2008-09	0.00%	77.27%	22.73%	100.0%
2009-10	4.35%	62.50%	33.15%	100.0%
2010-11	4.55%	70.37%	25.08%	100.0%
2011-12	4.35%	57.14%	38.51%	100.0%

In addition, we made adjustments to the claimed productive hourly rates for individual staff members when the salary and benefit documentation provided by the district supported different rates than what was claimed.

The following table summarizes the changes that we made to average productive hourly rates for enrollment fee waivers activities by fiscal year:

Fiscal Year	Enrollment Fee Waivers		
	Claimed	Audited	Audit Adjusment
	Average	Average	
	Productive	Productive	
Hourly	Hourly		
	Rate	Rate	
1999-2000	\$ 30.70	\$ 31.58	\$ 0.88
2000-01	35.59	36.31	0.72
2001-02	37.34	37.67	0.33
2002-03	42.07	40.69	(1.38)
2003-04	41.60	41.41	(0.19)
2004-05	43.10	42.00	(1.10)
2005-06	47.54	46.91	(0.63)
2006-07 <sup>1</sup>	41.66	41.58	(0.08)
2007-08	41.42	41.38	(0.04)
2008-09 <sup>1,2</sup>	53.69	50.40	(3.29)
2009-10	53.06	54.06	1.00
2010-11 <sup>3</sup>	51.69	51.54	(0.15)
2011-12	54.08	54.58	0.50

Notes:

<sup>1</sup> For FY 2006-07 and FY 2008-09, the district did not support the claimed rates with payroll reports. We used the summaries used in the claims, which were prepared by the district's mandated cost consultant.

<sup>2</sup> The summary used in the claim for FY 2008-09 contained addition errors. We made adjustments accordingly.

<sup>3</sup> For FY 2010-11, we noted that the district did not exclude overtime from its calculation of productive hourly rates for several staff.

The parameters and guidelines (section V–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) state that, for salaries and benefits, claimants are required to:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The SCO's claiming instructions state that one of three options may be used to compute productive hourly rates:

- Actual annual productive hours for each employee,
- The weighted-average annual productive hours for each job title, or
- 1,800 annual productive hours for all employees. (The 1,800 annual productive hours excludes time for paid holidays, vacation earned, sick leave taken, informal time off, jury duty, and military leave taken.)

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time the actual cost was incurred for the event or activity in question.” (See Finding 1 for the specific language).

#### 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 productive hourly rates are calculated in accordance with the guidance provided in the SCO’s claiming instructions.

#### District’s Response

The draft audit report concludes that the District erred by not weighting the productive hourly rates for the twelve program activities in Findings 2 and 6. The District calculated its average productive hourly rates using a straight average methodology, but for several years, did not include federally funded work-study students in the average and did not weight the relevant time (percentage) involvement of the various employee classifications that performed the reimbursable activities

For enrollment fee collection, Finding 2, the auditor’s weighting method resulted in a reduction of about one-third in the claimed average productive hourly rate for most activities, mostly as a result of including the federal work study student staff. The auditor requested that the District provide support or rebuttal for the auditor’s observed and weighted averages. The District declined since there is no requirement in the parameters and guidelines to use percentage-weighted productive hourly rates and the audited weighting was based on the objectionable observation process used for Finding 2. For enrollment fee waiver process, Finding 6, the audited weighting was not significantly different from the claimed average weighting.

The District does not dispute these findings at this time.

#### SCO’s Comments

The district did not dispute these findings at this time.

### **OTHER ISSUE— SB 858 One-time money allocations**

The district’s response included comments related to payments reported for FY 1998-99 and FY 1999-2000.

#### District’s Response

By e-mail to the District dated August 24, 2015, the auditor transmitted an updated “Summary of Program Costs” to include two “AB 1610 payments” of \$779,913 in FY 1998-99 and \$318,607 in FY 1999-2000 made to the district on January 8, 2015, which are described in the draft audit report at Footnote 4 on page 18. AB 1610 payments, an allocation of one-time money, were made to districts in January 2011. No AB 1610 allocation was made to this District’s Enrollment Fee Collection and Waiver annual claims receivable, those funds were applied to other mandate program receivables.

Based on the timing of the referenced “payments,” these allocations are probably SB 858 allocations from the 2014 State Budget. The Education Trailer Bill, Chapter 32, Statutes of 2014 (SB 858), added Government Code 17581.8, to provide \$49.5 million in one-time funding to pay down the community college mandates receivables. The legislation directed the Controller to apply the amounts to annual claim and interest amounts due districts “in chronological order beginning with the earliest claim,” and report these amounts to the districts. This is similar to the process used for AB 1610 funds in January 2011, except the allocated amounts have not yet been reported to the districts.

However, note that the FY 2015-16 Education Trailer Bill, Chapter 13/2015 (AB 104), Section 43 added Government Code section 17581.9 to modify historical Controller audit and payment procedures. The claims “paid” by these funds are still subject to audit. In previous years, the Controller was permitted to audit the annual claims funded by these monies and demand payment if it was not possible to offset other mandate claims for amounts due the state. However, Section 17581.9, subdivision (d), established a new limitation:

“Notwithstanding Section 12419.5 and any amounts that are paid in satisfaction of outstanding claims for reimbursement of state-mandated local program costs, the Controller may audit any claim as allowed by law, and may recover any amount owed by school districts or community college districts pursuant to an audit only by reducing amounts owed by the state to school districts or community college districts for any other mandate claims. Under no circumstances shall a school district or community college district be required to remit funding back to the state to pay for disallowed costs identified by a Controller audit of claimed reimbursable state-mandated local program costs. The Controller shall not recover any amount owed by a school district or community college district pursuant to an audit of claimed reimbursable state-mandated local program costs by reducing any amount owed a school district or community college district for any purpose other than amounts owed for any other mandate claims.”

Section 42 of AB 104 also amended Government Code section 17581.8, the FY 2014-15 one-time money, to retroactively include the same audit protection language. Thus, it appears that audit adjustments can continue to be applied as “payments” to other actual cost claims, but any audit adjustments to actual cost claims “paid” by Sections 17581.8 and 17581.9 cannot result in a demand for cash payments to the State. The audit report (page 3) states that the District may remit these overpayment amounts to the State. However, such a remittance would be a cash payment to the State contrary to Section 17581.8.

#### SCO’s Comments

The district is correct that the payments of \$779,913 for FY 1998-99 and \$318,607 for FY 1999-2000 were incorrectly shown in the draft audit report as payments made pursuant to funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610). Based on corrected information provided by the SCO’s Division of Accounting and Reporting, the two payments in question were made pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). In addition, we have updated the payment information for FY 1999-2000 to reflect payments made pursuant to Senate Bill No. 858 to be \$340,538, an increase of \$21,931. We noted the correct information in Footnote 4 appearing at the end of the

Summary of Program Costs schedule. In addition, we revised the language in the Conclusion section of this final audit report relating to FY 1998-99 and FY 1999-2000, by removing the cash repayment option relating to SB 858 payments and noting only that the State will apply any overpaid amounts for those years against any balances of unpaid mandated program claims due the district as of June 20, 2014.

**OTHER ISSUE—  
Documentation  
Standards**

District's Response

Please see the Attachment for the district's general statement regarding documentation standards.

SCO's Comments

In its response, the district referred to its "provided source documents." However, as noted throughout the audit report, the district did not provide any source documents to support costs claimed for the entire audit period. The definitions of source documents and corroborating documents are contained within the first two paragraphs of Section IV – Reimbursable Activities in the parameters and guidelines. Based on those definitions, the district only provided corroborating documents to support costs claimed and has misclassified those as source documents.

The district correctly noted that the parameters and guidelines were adopted January 26, 2006, seven years after the first year of the claiming period. The district stated that "districts were not on notice of the activities approved for reimbursement that should be documented until the eighth year of the eligibility period." We disagree. The program's statement of decision for the legislatively mandated program was adopted on April 24, 2003. On page 22 of that document, the Commission states that it agreed that the test claim legislation imposes a partial reimbursable state-mandated program on community college districts for the following activities:

- Calculating and collecting the student enrollment fee for each student except for nonresidents, and except for special part-time students...;
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h);
- Waiving fees for students who apply for and are eligible for BOGG fee waivers;
- Reporting to the CCCCCO the number and amounts provided for BOGG fee waivers; and
- Adopting procedures that will document all financial assistance provided on behalf of students...and including in the procedures the rules for retention of support documentation...

Therefore, community college districts were "on notice" regarding the mandated program reimbursable activities as early as April 24, 2003.

The district's comments also focused on documentation provided for claims filed under the initial filing period of FY 1998-99 through FY 2005-06. The audit period includes district filed annual claims for the mandated program for an additional six fiscal years beyond the initial filing period. However, none of the claims filed by the district for the 14 years in the audit period include actual cost documentation that is in compliance with the documentation requirements stated in the parameters and guidelines. Throughout the audit period, we gained an understanding of the different processes relevant to reimbursable activities and expanded audit procedures as necessary to determine the allowable portion of claimed costs.

**OTHER ISSUE—  
Public Records Act  
request**

The district's response included a public records request.

District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings applicable to the audit procedures and findings.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO'S Comments

The SCO responded to the district's request separately from this report.

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

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**FOOTHILL-DE ANZA  
Community College District**

12345 El Monte Road  
Los Altos Hills, CA 94022

Send CERTIFIED MAIL - RETURN RECEIPT REQUESTED

September 28, 2015

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

Dear Mr. Spano:

Re: Enrollment Fee Collection and Waivers  
FY 1998-99 through FY 2011-12  
Foothill-De Anza Community College District

Dear Mr. Spano:

This letter is the response of the Foothill-De Anza Community College District to the draft audit report dated September 15, 2015, for the above referenced program and fiscal years, transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

A total of 99% of the amounts claimed for reimbursement for the 14-year audit period have been disallowed by the audit. An audit appeal will be needed since most of the adjustments are based on Controller audit policies the propriety of which can only be determined by appeal to the Commission on State Mandates.

**DOCUMENTATION STANDARDS**

Before responding to the specific findings, a general statement regarding the documentation of staff time spent on implementing the mandate program is needed. The majority of the direct costs claimed are the staff time, and most of these costs are disallowed by the audit. The draft audit report essentially asserts that the provided

source documents are inappropriately or insufficiently documented. The report cites the parameters and guidelines as the legal standard for source documentation. The parameters and guidelines state:

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 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 cost 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 Civil Code 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.

It should be remembered that the parameters and guidelines were adopted January 26, 2006, and the first claiming instructions were issued April 3, 2006, which is seven years after the first fiscal year in the audit period. Thus districts were not on notice of the activities approved for reimbursement that should be documented until the eighth year of the eligibility period. It would seem patently unreasonable to require the scope of contemporaneous documentation of daily staff time desired by the Controller for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate where the desired information is not maintained in the regular course of business. The District agrees with the audit report recommendation that claimants maintain records that document specific daily time spent on mandate-related activities, but it would be a more realistic standard only for fiscal years after the period of the initial fiscal year claims.

None of the governmental entities that establish the accounting standards and reporting requirements for community college districts publish any standards or reporting requirements for state mandate cost accounting. Nor does the Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years, publish time-keeping forms for use by claimants to record staff time spent on mandates. In the absence of governmental standards, districts must retroactively rely upon documentation produced in the regular course of business as

well as additional forms designed, usually by mandate consultants, for the collection of staff mandate time not otherwise available from regular business records. Uniform compliance would be more likely if the Controller published forms for this purpose, as the Controller has done for other programs within the Controller's payment and audit jurisdiction.

This District utilized forms prepared by its consultant to document staff time spent on the mandates. These forms are in the nature of certified declarations that are within the scope of the parameters and guidelines documentation standards. Where these forms or other documentation was apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed the claimed costs for insufficient documentation. In some cases, average staff time per activity was claimed, and disallowed. The auditor then substituted audited average staff time based on personal observation of the activities as currently implemented. By substituting their own time observations for some of the activities, Controller staff is validating the concept of using average times as an acceptable method for the calculation of the mandate costs. The difference becomes one of fact, how much time to allow for each activity. Also, where the District's reported time and workload statistics were accepted by the auditor for some activities, the Controller is validating the District's good faith method and the mandate consultant's forms as an acceptable method for estimating average time. Since all of these choices are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

Two general comments regarding the efforts by District staff to provide source documentation beyond that which was used to prepare the annual claims. First, the draft audit report contains phrases such as "the district did not provide . . ." in reference to documentation requested by the auditor. It must be remembered that the audit period includes 14 fiscal years and retention rules for different types of documentation are generally three or five years in the usual course of business. Further, it often appeared that the auditor was requesting a "second piece of paper" to corroborate the source of the claimed staff time, often without specifying the type of additional corroboration, that is, what additional piece of paper, is required. The audit does not indicate what additional source document should be reasonably available, or whether it actually exists, in the usual course of business at this or any other college district, or is strictly required by any published mandate cost accounting standard. So, it would be more appropriate to state in some of these instances that the District staff could not, rather than did not, provide a second piece of paper that was beyond a usual record retention period or never even existed.

#### AUDIT FINDINGS

##### **Finding 1 – Enrollment Fee Collection: Training Cost Component – unallowable one-time costs**

The draft audit report states that the District claimed \$44,591 in salaries and benefits for the activity of staff training for staff who implemented the program on the procedures for the collection of enrollment fees, of which \$10,682 is allowable and \$33,909 (861 hours) is unallowable. Costs were disallowed for FY 1999-00 through FY 2005-06 because they were based on estimates of time to perform the reimbursable activity. The auditors did not review costs claimed for other years as the costs were below their materiality threshold.

The audit report states:

We attempted to verify the reasonableness of the costs claimed. The Cashier's Office Supervisors explained that new staff typically receive on-the-job training. We requested that the district provide us with a list of employees who received such training, which employee classification(s) provided the training, and how long the training lasted. The district did not provide any additional information for us to consider.

It is not clear how the name of the employees trained, from as long as 14 years ago, would improve the determination of how much time the supervisors spent training new staff. The duration of training is indicated by the hours claimed for the staff conducting the training. The nature of the on-the-job training does not lend itself to agendas or formal plans. This is an example of the pointless pursuit of a second piece of paper that may have never existed to corroborate a good faith estimate staff declarations.

The audit report finding does not distinguish between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the fourteen fiscal years in the audit period. However, it should be considered that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections as may have been updated by the Board of Governors.

It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years either for individual job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

The audit report also disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The audit does not indicate how this documentation was not "actual cost documentation." This staff time should either be reinstated or reevaluated

to compare the hours claimed with changes to state laws and District procedures, as well as addressing the eligibility of time reported by supervisors for training new staff.

**Finding 2- Enrollment Fee Collection: Calculating and Collecting Enrollment Fees cost component – overstated ongoing costs**

The District claimed \$18,528,202 in salaries and benefits for the staff time to calculate and collect enrollment fees. The cost of staff time to implement this mandate component (Activities 1 through 6) is based on average times to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee). The audit report adjusts all three components.

The draft audit report states that \$1,760,241 is allowable and \$16,767,961 is unallowable because the District estimated the amount of time required to perform the reimbursable activities and did not provide any "source" documentation based on actual data. The audit report also replaces the number of students used in the District calculation with student enrollment data obtained by the auditor from the Chancellor's Office and further reduces that number for the number of students who paid their enrollment fees online rather than in-person. The collective effect of the disallowances is an 85% reduction of the 473,263 claimed mandate program hours to 71,510. There is a 91% reduction to the \$18,528,202 in claimed costs to \$1,760,241. Based on the audited net enrollment of 1,728,766 for the audit period, the implied audited average time for all six activities per enrollment is an improbable 2.5 minutes and \$1.02 per enrollment.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant staff who implemented the mandate responded to six time surveys conducted over the 14-year audit period. Each person estimated their average individual times required to perform each of the five reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the auditor for activities 1 through 4 and accepted for activity 5 even though the same forms and time survey methods were used.

For activities 1 through 4, collecting the enrollment fee, the District claimed average times per student transaction of 14.70 to 23.80 minutes over the 14 years. The auditor decided that the good faith time estimates reported by District staff were overstated. The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor observed 541 transactions at the cashier's office over several days, of which 141 involved the payment of enrollment fees encompassing Activities 1 through 4, totaling 366.18 minutes. The average observed time to perform all four activities was 2.60 minutes, or 0.65 minutes per activity.

This 82% to 89% reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited net enrollment transactions are 1,728,766 over the 14-year period, of which 141 student transactions were observed in 2013. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and the District procedures changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample according to the Controller's own published standards.

A review of the Controller's website indicates that this stopwatch observation method is being used for audits of this program for other districts. This may make the method a standard of general application without appropriate state agency rulemaking and is therefore unenforceable (Government Code Section 11340.5). The process is not an exempt audit guideline (Government Code Section 11340.9 (e)). State agencies are prohibited from enforcing underground regulations. If a state agency issues, enforces, or attempts to enforce a rule without following the Administrative Procedure Act, when it is required to, the rule is called an "underground regulation." Further, the audit adjustment is a financial penalty against the District, and since the adjustment is based on an underground regulation, the process cannot be used for the audit adjustment (Government Code Section 11425.50 (c)).

For activity 5, the District claimed average times from the six surveys ranging from 4.90 to 10.70 minutes. The audit report states that the auditor observed and documented the collection of delinquent fees at the front windows, except for the Cashier's Supervisors involvement. Based on the procedures in place and the information gathered during the discussions with staff, the auditor found that the time claimed appears to be reasonable. In addition, the high-low range of staff responses was "tighter," about 60% (23.80 /14.70 minutes) for activities 1-4, than the range for activity 5 which has a high-low range of about 120% (10.70/4.90 minutes). Regardless, the auditor accepted the activity 5 staff reported data, but not the data for activities 1-4.

The District did not claim any costs for activity 6. However the auditor observed and documented staff processing refunds for students who established fee waiver eligibility after paying their enrollment fees and established an average of 8.35 minutes for the process which was multiplied by workload data supplied by staff during the audit.

#### B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For four of the activities the workload multipliers rely upon enrollment statistics with relevant adjustments. As a matter of Controller policy, the audit utilized data obtained from the Chancellor's Office which the auditor modified for different categories of special admission students. The District does not dispute these statistics at this time.

C. Electronic and information technology for enrollment fee collection

During the audit period the District began an internet online method to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the number of in-person fee transactions to represent the number of the students who paid the enrollment fees online. However, the audit findings do not replace the staff time lost from these eliminated transactions with the staff time to operate the online payment collection system. Thus, no costs are recognized in the audit for the online transactions because these costs are not identified in the parameters and guidelines as a reimbursable activity. It appears that this action is a matter of Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

For the FY 2011-12 annual claim, the District reduced the enrollment statistic by a percentage for online transactions. The FY 2010-11 and FY 2011-12 annual claims included costs of \$13,624, a total of 188 hours for three employees, for developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection. While not specifically identified in the parameters and guidelines as a reimbursable activity, nor need it be, the District believes that the costs claimed were appropriate to operating an online system for students to pay their enrollment fees. Similar costs were not claimed for prior years when the online payment system started because FY 2011-12 was the first annual claim in which the District reduced the number of in-person statistics.

The draft audit states that the entire amount is unallowable primarily because the time was not "supported." The District provided documentation using the same consultant forms that were acceptable for activity 5 that are in the form of declaration that are acceptable as source documentation for annual claims.

D. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates because the District did not weight the average rates for each activity by relevant staff participating percentages by job title. This is discussed at Finding 10.

**Finding 3 - Enrollment Fee Waivers: Preparing Policies and Procedures Cost Component – unallowable one-time costs**

The District claimed \$40,257 during the audit period to prepare policies and procedures for determining which students are eligible for a waiver of the enrollment fees. The audit report states that \$17,201 is allowable and \$23,056 is unallowable.

Costs claimed for six years (FY 1999-00 through FY 2003-04 and FY 2011-12) were determined to be allowable because they were below the threshold of materiality for testing. Costs claimed for two years (FY 2005-06 and FY 2009-10) are allowable because they were incurred during the years the state BOGG Manual was updated. The draft audit report states that the costs claimed for those years (\$3,615 and \$5,554) appear reasonable for updating policy and procedures. Costs claimed for five years (FY 2004-05, 2006-07 through FY 2008-09, and FY 2010-11) are disallowed because the costs were based on "estimates of time" spent by staff that occurred in years which there were no changes made in state law.

It should be noted that the documentation source (staff declarations) is the same for all fiscal years. In other words, what the Controller staff calls "estimates" were acceptable to the auditor for some years, but not others. The years for which these "estimates" were allowed, the audit declared the amounts to be reasonable based on staff interviews. Note that the allowed amounts (\$3,615 and \$5,554) are larger than the amounts for four of the five years that were disallowed. Thus, it appears it is not that the amounts reported each year are unreasonable, but it is just that some years do not have changes in state law or regulations.

The parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. When there is a need to update a policy or procedure, this is a new one-time activity. There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report. Regardless, there have been numerous changes in state law as a result of changes in the enrollment fee waiver eligibility, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors. Further, the change in state law or the state manual may occur in the year prior to the implementation at the districts.

This mandate activity was not observable by the auditor. The District policies and program procedures are the work product for this activity and were available to the auditor to evaluate the hours claimed. This staff time should either be reinstated or reevaluated to compare the hours claimed with changes to state laws and District accounting software.

**Finding 4 - Enrollment Fee Waiver: Staff Training Cost Component – unallowable one-time costs**

The District claimed \$32,474 for the one-time activity of staff training for staff that implement the program to determine which students are eligible for waiver of the enrollment fee. The audit determined that \$18,555 is allowable and \$13,919 is unallowable. Costs claimed for ten of the thirteen years (FY 1999-00 through FY 2007-08 and FY 2011-12) were allowed because they were below the threshold of materiality

for testing. Costs claimed for FY 2008-09 through FY 2010-11 were disallowed as costs claimed for staff that were already claimed in prior years or because certain staff claimed did not appear in the payroll report in the claimed year.

As in Finding 1, the audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the audit period. The content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The name of the supervisors or managers conducting the training would appear in the claims for several years either for individual on-the-job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

The audit report also disallowed claimed time for lack of supporting documentation. The audit report states that the District did not provide additional information for consideration by the auditor. The District provided documentation in the form of declarations, which are acceptable source documentation and were acceptable for other findings, notably in Finding 7. The audit does not indicate how this documentation was not actual cost documentation. This staff time should either be reinstated or reevaluated to compare the hours claimed with changes to state laws and District procedures, as well as addressing the eligibility of time reported by supervisor for training new staff.

**Finding 5- Enrollment Fee Waivers: Adopting Procedures, Recording and Maintaining Records cost component – unallowable ongoing costs**

The District claimed \$144,899 in salaries and benefits for the staff time (3,443 hours over 12 years) to adopt procedures, recording, and maintaining waiver records and statistics, of which \$71,228 was allowed and \$73,671 was not allowed. Staff annually reported time spent implementing the mandate using survey forms developed by the District's mandated cost consultant. Based on discussions with staff and review of documentation maintained in the usual course of business, and the "reasonableness of the time estimates recorded by staff," the audit approved 1,312 hours, of which 290 hours are for the Web Coordinator, 96 hours are allowable for the Financial Aid Directors, 545 hours for the Financial Aid Outreach Coordinators, and 381 hours for the Financial Aid Coordinators. The disallowed staff time was for related similar activities that the auditor determined were not specifically reimbursable. The District does not dispute this adjustment at this time.

**Finding 6- Enrollment Fee Waivers: Waiving Student Fees Cost Component – misstated ongoing costs**

The District claimed \$1,324,094 in salaries and benefits for the ongoing staff time spent waiving enrollment fees for students who are eligible for BOGG fee waivers. The cost of staff time to implement this mandate component (Activities 7 through 12) is generally based on average times to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic (e.g., the number of students requesting waivers of the enrollment fee). The audit report adjusts all three components.

The audit report determined that \$1,476,296 is allowable, finding that salaries and benefits were misstated by \$152,202. The audit report states that the amounts were misstated because the District estimated the amount of time required to perform the reimbursable activities. The audit report also replaces the number of students used in the District calculation with student waiver statistics obtained by the auditor from the Chancellor's Office. Based on the audited number of waived students (295,112) for the 13-year audit period (FY1998-99 excluded), and the allowed number of hours (31,393), the implied audited average time for all waiver activities per student applicant is an implausible 6.4 minutes at the cost of \$5.00 per waiver.

A. Average activity time

Using the certification forms, the staff who implemented the mandate responded to six annual surveys conducted for the 13-year audit period. Each person estimated their individual average times required to perform each of the six reimbursable activities. These individual averages were combined and averaged for each activity. These averages were rejected by the auditor for all six activities.

For activities 7 through 11, the waiver application processing, the District claimed average times per student transaction of 9.40 to 12.70 minutes over the audit period. The auditor decided that the good faith time estimates reported by staff were "overstated." The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities and observed staff work over several days:

- For the "front counter" student interaction, the auditor observed 79 in-person transactions at the financial aid office of which 55 were relevant transactions, totaling 127.47 minutes, for an average time of 2.32 minutes;
- For the evaluation of the applications, the auditor observed 109 transactions, totaling 180.52 minutes, for an average time of 1.66 minutes;
- For processing multiple site waivers, the auditor observed 30 transactions, totaling 52.72 minutes, for an average time of 1.88 minutes;
- For filing waiver paper applications, the auditor observed the alphabetical filing of 100 applications, totaling 54.22 minutes, for an average time of 0.54 minutes per application;

- For the additional processing of the BOGG-C waivers qualified by the FAFSA process, the auditor observed the "batch processing" of 84,117 applications in 889 minutes, or about .01 minutes per application; and,
- For the "Friday Recalculation" batch process, applicable beginning FY 2004-05, the auditor allowed 15.60 hours per year, which resulted in per student averages ranging from .02 to .04 minutes.

All these findings combined resulted in audited total averages ranging from 6.40 to 6.44 minutes for activities 7 through 11.

This 32% (6.42 audited average minutes divided by 9.40 claimed average minutes) to 49% (6.42 audited/12.70 claimed) reduction in time allowed for all transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 295,112 over the 13-year period, of which 55 in-person transaction, 109 application evaluations, and the filing of 100 applications were observed. The audit report does not state that the procedures observed necessarily matched the entire scope of the parameters and guidelines and the District procedures changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For activity 12, appealing a denied BOGG waiver, the District claimed staff time cost of \$4,839 (116.37 hours) for FY 2006-07 and FY 2007-08 only, with average times per student of 2.60 and 2.50 minutes, respectively, for 2,720 students for both years. The audit report defaults to total disallowance of costs for this activity based on lack of documentation. It appears that the auditor did not observe this process during the week of fieldwork. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

District staff explained that the district has no written appeal process for denied BOGG fee waiver applications. According to the Financial Aid Director, there were very few denials. The denials usually resulted because the student's and/or parent(s)' income exceeded the eligibility threshold. If the waiver was denied, students were instructed to apply for financial aid using the FAFSA website. However, staff indicated that they did make exceptions for the BOGG C based on professional judgment. In this case, staff who processed the BOGG fee waiver application requested additional supporting documentation from the student, such as proof of a drastic change in income based on the previous year's tax return or proof of any special circumstance and/or the need for a BOGG fee waiver. The Director of Financial Aid ultimately approved or denied the BOGG fee waiver based on the special circumstance or need.

The audit report later concludes:

For Activity 12 (appeals of denied BOGG fee waiver applications) we did not apply any time increments to the number of students who appealed denied BOGG fee waiver applications. As noted previously, the district does not have a written process in place to review denied BOGG fee waiver applications. Rather than conduct a review of denied BOGG fee waivers, district staff instructs students to apply for financial aid. While the district may review denied BOGG fee waivers based on special circumstances, the district does not have a count of the BOGG fee waivers that were granted based on special circumstances.

The audit report incorrectly concludes that the District does not have an "appeal process." There is no requirement in the parameters and guidelines for a "formal" or written appeal process. District staff described the process to remedy the denied applications. The District reported 2,720 such transactions for two years of the audit period which is an amount sufficient for the auditor to generate an opinion of the average time it takes to resolve the waiver eligibility issues, as was done for other findings in this audit. The claimed costs should be allowed as reasonable.

B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For activities 7 through 11, the draft audit report replaces the workload data reported by the District and substitutes the workload data the auditor obtained from the Chancellor's Office which removes the number of unduplicated BOGG recipients. These changes made by the auditor are not disputed at this time.

For activity 12, appeals of denied BOGG fee waiver applications, the District reported 2,720 waiver applications requiring some sort of review function within the scope of the parameters and guidelines. The audited multiplier is zero even though the District statistics were not evaluated and the audit report incorrectly defaults to total disallowance of this activity based on lack of documentation.

C. Electronic and information technology for enrollment fee collection

There is no online process for a student to complete all the steps of the BOGG application and obtain certification, although the process does utilize information technology services. The District claimed \$446 in salaries and benefits in FY 2011-12, for 7 hours of staff time to develop, maintain, and use hardware and software for the purpose of the process of waiver of enrollment fees. The audit disallows this time because it was based on estimates. These activities may be similar to those allowed in Finding 5. Regardless, the amount here is not significant and the District does not dispute it at this time.

D. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates for some of the years because the District did not weight the average rates for each activity by relevant staff participating percentages by job title. This is discussed at Finding 10.

**Finding 7- Enrollment Fee Waivers: Reporting to the CCCCCO the Number and Amounts Provided for BOGG Fee Waivers Cost Component – misstated ongoing costs**

The District claimed \$92,528 in salaries and benefits for staff time spent reporting BOGG waiver statistics to the Chancellor's Office. The audit report determined that \$96,945 is allowable, finding that salaries and benefits were misstated by \$4,417. Staff annually reported their time spent implementing the mandate using survey forms developed by the District's mandated cost consultant. Based on discussions with staff, review of documentation maintained in the usual course of business, and observation of staff performing some of the claimed functions, the audit approved 1,821 hours, of which 393 hours are for the information technology staff, 248 hours for the Financial Aid Directors, 32 hours for the Financial Aid Outreach Coordinators, and 1,149 hours for the Financial Aid Coordinators. The District does not dispute this adjustment at this time.

**Finding 8 - Misstated Indirect Costs**

An indirect cost rate is applied to all reimbursable direct costs to allocate administrative and other costs to the direct mandate program costs. The two sources of the total adjustment amount each year are the amount of direct costs previously adjusted to which the indirect cost rate is applied and the calculation of the indirect cost rate. The District claimed indirect costs during the audit period totaling \$7,865,154 (\$7,237,702 for enrollment fee collection activities and \$627,452 for enrollment fee waivers activities). The audit determined that for enrollment fee collection activities \$622,535 is allowable and \$6,615,167 is unallowable. For enrollment fee waiver activities, the audit found that \$683,351 is allowable and indirect costs were understated by the net amount of \$55,899.

Direct Cost Adjustments

The District claimed indirect costs during the audit period totaling \$7,237,702 for enrollment fee collection activities. The audit concluded that \$622,535 is allowable. Of this reduction amount, 91% is attributable to reduction in direct costs from Findings 1 and 2. The District claimed indirect costs \$627,452 for enrollment fee waiver activities. The audit determined that \$683,351 is allowable. Of this increase, 84% is attributable to the increase in direct costs from Findings 3 through 7, but mostly it is the increase the audited number of BOGG waivers in Finding 6.

### Calculation of the Rates

Of the total audited reduction to the indirect costs, the audit report states \$84,407 (\$71,814 and \$12,593), about 1% of the claimed indirect costs, is the result of differences in the calculation of the annual indirect cost rates.

<u>Fiscal Year</u>	<u>Claimed Rate</u>	<u>Audited Rate</u>	<u>Audit Adjustment</u>	<u>Audit Source</u>
1998/99	28.67%	13.61%	<15.06%>	This audit
1999/00	30.09%	15.23%	<14.86%>	HFE #1
2000/01	31.67%	15.72%	<15.95%>	HFE #1
2001/02	35.50%	17.30%	<18.20%>	HFE #1
2002/03	32.28%	16.64%	<15.64%>	HFE #2
2003/04	31.11%	18.09%	<13.02%>	HFE #2
2004/05	29.66%	35.86%	6.20%	HFE #2
2005/06	28.90%	36.51%	7.61%	HFE #2
2006/07	39.45%	37.69%	< 1.76%>	HFE #3
2007/08	39.45%	45.65%	6.20%	HFE #3
2008/09	42.36%	47.71%	5.35%	HFE #3
2009/10	49.37%	47.43%	< 1.94%>	This audit
2010/11	49.12%	51.54%	2.42 %	This audit
2011/12	53.12%	53.85%	0.73 %	This audit

The auditor used the indirect cost rates from the Health Fee Elimination state mandate audits #1 through #3 for FY 1999-00 through FY 2008-09. There is no procedural objection to this shortcut since the same indirect cost rate calculation process is used for both mandate programs.

The District uses the same Controller's FAM-29C method as the auditor to calculate the indirect cost rates. The variances between the claimed and audited rate is greatest for FY 1998-99 through FY 2003-04, because the Controller did not allow capital costs or depreciation expense as an overhead allocation cost. This is a statewide appeal issue. The claimed rates are within a few percentage points of the audited rates beginning 2004-05. These smaller differences mostly result from what necessary source documentation is available at the time of claim preparation versus seasoned documentation available at the time of audit.

CCFS-311 Choice: The District indirect cost rates were calculated based on the prior year CCFS-311. This is the same necessary source used by the Controller for the FAM-29C, except that the Controller uses the current year 311. The use of prior year data is consistent over the years and still yields reasonable and representative rates.

Depreciation Expense: Beginning FY 2004-05, the audit used the current year audited financial statement depreciation expense. The current year annual CPA financial statement depreciation information required for the FAM-29C calculation is rarely

available when the claim is prepared, so it is consistent to use prior year CCFS-311 data and prior year depreciation cost data. The audit benefits from the fact that the current year CCFS-311 and depreciation expense is always available at the time of the audit, several years after the claim is due and submitted.

Overhead Costs: Other minor sources in variance may result in a difference of opinion as to which accounts are overhead or direct program costs when calculating the indirect cost rate.

There are no regulations or pertinent generally accepted accounting methods for the calculation of the indirect cost rate for mandate programs, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act. The burden of proof is on the Controller to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

#### **Finding 9 - Misstated offsetting reimbursement**

The offsetting amounts are not actually "reimbursements," rather they are funds provided by the state to implement the program and are based on statutory rates and not actual cost. The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00 only).

The District claimed offsetting reimbursements totaling \$2,343,799 for enrollment fee collection and \$1,723,308 for enrollment fee waivers. The audit determined that the offsetting reimbursements were understated by a net of \$50,966 for enrollment fee collection and understated by a net of \$294,087 for enrollment fee waivers. The audited offsetting revenue data is based on information obtained by the auditor from the Chancellor's Office developed after the end of each fiscal year. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information or state revenue reports, which would be a continuing source of minor differences.

The audited amount of offsetting program revenues for enrollment fee collection is \$2,827,290, of which only \$2,394,765 could be applied since only that audited amount of direct and indirect costs remained from the previous findings, leaving \$432,525 (about 15%) that could not be applied. The audited amount of offsetting program revenues for enrollment fee waiver is \$2,543,368, of which only \$2,017,395 could be applied since only that audited amount of direct and indirect costs remained from the previous findings, leaving \$525,973 (about 21%) that could not be applied. If the

incorrect reduction claim results in increases to any of the costs for the previous eight findings, the unused revenue offsets will continue to reduce those costs.

The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. There is no dispute at this time of these audited potential revenue offset amounts. However, the revenue offsets should only be offset to the relevant mandated activity costs, rather than to the total audited costs. Specifically, in Finding 2 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for online transaction percentages. However, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit applies the offset to all enrollment fee collection costs, in-person and online computer generated. The audited revenue offset should be reduced by the same percentage each fiscal year that the cost multiplier is reduced for the percentage of online transactions costs. For example, for FY 2011-12, the District reduced the reported offsetting revenue to \$50,965, an amount proportional to only those enrollment fee collections made in-person and not online. The audit report should be changed to make a similar reduction to the offsetting revenues for each fiscal year that included online enrollment fee collection in order to properly match revenues and costs as required by generally accepted accounting principles.

**Finding 10- Misstated productive hourly rates for Calculating and Collecting Enrollment Fees and Waiving Student Fees cost components**

The draft audit report concludes that the District erred by not weighting the productive hourly rates for the twelve program activities in Findings 2 and 6. The District calculated its average productive hourly rates using a straight average methodology, but for several years, did not include federally funded work-study students in the average and did not weight the relevant time (percentage) involvement of the various employee classifications that performed the reimbursable activities

For enrollment fee collection, Finding 2, the auditor's weighting method resulted in a reduction of about one-third in the claimed average productive hourly rate for most activities, mostly as a result of including the federal work study student staff. The auditor requested that the District provide support or rebuttal for the auditor's observed and weighted averages. The District declined since there is no requirement in the parameters and guidelines to use percentage-weighted productive hourly rates and the audited weighting was based on the objectionable observation process used for Finding 2. For enrollment fee waiver process, Finding 6, the audited weighting was not significantly different from the claimed average weighting.

The District does not dispute these findings at this time.

### **SB 858 One-time Money Allocations**

By e-mail to the District dated August 24, 2015, the auditor transmitted an updated "Summary of Program Costs" to include two "AB 1610 payments" of \$779,913 in FY 1998-99 and \$318,607 in FY 1999-2000 made to the district on January 8, 2015, which are described in the draft audit report at Footnote 4 on page 18. AB 1610 payments, an allocation of one-time money, were made to districts in January 2011. No AB 1610 allocation was made to this District's Enrollment Fee Collection and Waiver annual claims receivable, those funds were applied to other mandate program receivables.

Based on the timing of the referenced "payments," these allocations are probably SB 858 allocations from the 2014 State Budget. The Education Trailer Bill, Chapter 32, Statutes of 2014 (SB 858), added Government Code 17581.8, to provide \$49.5 million in one-time funding to pay down the community college mandates receivables. The legislation directed the Controller to apply the amounts to annual claim and interest amounts due districts "in chronological order beginning with the earliest claim," and report these amounts to the districts. This is similar to the process used for AB 1610 funds in January 2011, except the allocated amounts have not yet been reported to the districts.

However, note that the FY 2015-16 Education Trailer Bill, Chapter 13/2015 (AB 104), Section 43 added Government Code section 17581.9 to modify historical Controller audit and payment procedures. The claims "paid" by these funds are still subject to audit. In previous years, the Controller was permitted to audit the annual claims funded by these monies and demand payment if it was not possible to offset other mandate claims for amounts due the state. However, Section 17581.9, subdivision (d), established a new limitation:

"Notwithstanding Section 12419.5 and any amounts that are paid in satisfaction of outstanding claims for reimbursement of state-mandated local program costs, the Controller may audit any claim as allowed by law, and may recover any amount owed by school districts or community college districts pursuant to an audit only by reducing amounts owed by the state to school districts or community college districts for any other mandate claims. Under no circumstances shall a school district or community college district be required to remit funding back to the state to pay for disallowed costs identified by a Controller audit of claimed reimbursable state-mandated local program costs. The Controller shall not recover any amount owed by a school district or community college district pursuant to an audit of claimed reimbursable state-mandated local program costs by reducing any amount owed a school district or community college district for any purpose other than amounts owed for any other mandate claims."

Section 42 of AB 104 also amended Government Code section 17581.8, the FY 2014-15 one-time money, to retroactively include the same audit protection language.

Thus, it appears that audit adjustments can continue to be applied as "payments" to other actual cost claims, but any audit adjustments to actual cost claims "paid" by Sections 17581.8 and 17581.9 cannot result in a demand for cash payments to the State. The audit report (page 3) states that the District may remit these overpayment amounts to the State. However, such a remittance would be a cash payment to the State contrary to Section 17581.8.

**Public Records Request**

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings applicable to the audit procedures and findings.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. McElroy", with a long horizontal flourish extending to the right.

Kevin McElroy, Vice Chancellor, Business Services  
Foothill-De Anza Community College District

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