

YOSEMITE 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 4, 2015

Lynn Martin, Ph.D., Chair, Board of Trustees
Yosemite Community College District
2201 Blue Gum Avenue
Modesto, CA 95358

Dear Dr. Martin:

The State Controller's Office audited the costs claimed by the Yosemite 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 \$3,983,405 for the mandated program. Our audit found that \$284,795 is allowable (\$288,511 less a \$3,716 penalty for filing late claims) and \$3,698,610 is unallowable. The costs are unallowable primarily because the district claimed estimated costs that were not supported by source documentation; claimed unsupported costs; claimed ineligible time; misstated student enrollment numbers; misstated Board of Governors Grant fee waiver numbers; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$818,951. The amount paid exceeds allowable costs by \$534,156.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on the 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.

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

JEFFERY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Joan E. Smith, Ed.D., Chancellor
Yosemite Community College District
Carrie Sampson, Executive Assistant, Fiscal Services
Yosemite Community College District
Teresa Scott, Executive Vice Chancellor
Yosemite Community College District
Mario Rodriguez, Assistant Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Christine Atalig, Specialist
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Chris Ferguson, Principal Program Budget Analyst
Education Systems Unit
California Department of Finance
Keith Nezaam, Staff Finance Budget Analyst
Education Systems Unit
California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	4
Restricted Use	4
Schedule—Summary of Program Costs	5
Findings and Recommendations	15
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Yosemite 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 \$3,983,405 for the mandated program. Our audit found that \$284,795 is allowable (\$288,551 less a \$3,716 penalty for filing late claims) and \$3,698,610 is unallowable. The costs are unallowable primarily because the district claimed estimated costs that were not supported by source documentation; claimed unsupported costs; claimed ineligible time; misstated student enrollment numbers; misstated Board of Governors Grant (BOGG) fee waiver numbers; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$818,951. The amount paid exceeds allowable costs by \$534,156.

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 BOGG fee waivers, 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 *California Code of Regulations* 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
- Chapters 63 and 308, Statutes of 1996
- 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 Community Colleges Chancellor the number of, and amounts provided for BOGG fee waivers.
- Adopting procedures that document all financial assistance provided on behalf of students pursuant to Chapter 9 of Title 5, *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 district's certification of need for financial assistance.

The program's parameters and guidelines establish the State mandate and define the 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.
- Tested transactions selected through auditor judgment for the relevant cost elements.

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 Yosemite Community College District claimed \$3,983,405 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$284,795 is allowable (\$288,511 less a \$3,716 penalty for filing late claims) and \$3,698,610 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$152,404 (\$17,246 as a regular mandated cost payment on September 13, 2012, and \$135,158 on January 8, 2015, from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$29,764 is allowable. The State will apply \$122,640 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 1999-2000 claim, the State paid the district \$193,400 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$32,705 is allowable. The State will apply \$160,695 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2000-01 claim, the State paid the district \$207,524 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$38,965 is allowable. The State will apply \$168,559 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2001-02 claim, the State paid the district \$175,162 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$44,071 is allowable. The State will apply \$131,091 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2002-03 through FY 2008-09 claims, the State made no payments to the district. Our audit found that \$108,949 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$108,949, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$90,461. Our audit found that \$3,145 is allowable. The State will offset \$87,316 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2010-11 and FY 2011-12 claims, the State made no payments to the district. Our audit found that \$42,740 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$42,740, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on September 30, 2015. Teresa M. Scott, Executive Vice Chancellor, responded by letter dated October 12, 2015 (Attachment), disagreeing with the audit results, except for Finding 5. This final audit report includes the district's response.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

November 4, 2015

**Schedule 1—
Summary of Program Costs
July 1, 1998, through June 30, 2012**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 133,421	\$ 66,315	\$ (67,106)	Finding 1
Total direct costs	133,421	66,315	(67,106)	
Indirect costs	44,096	8,707	(35,389)	Finding 3
Total direct and indirect costs	177,517	75,022	(102,495)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(25,113)	(45,258)	(20,145)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total program costs	<u>\$ 152,404</u>	29,764	<u>\$ (122,640)</u>	
Less amount paid by the State ⁴		(152,404)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (122,640)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 148,560	\$ 66,814	\$ (81,746)	Finding 1
Total direct costs	148,560	66,814	(81,746)	
Indirect costs	48,534	9,327	(39,207)	Finding 3
Total direct and indirect costs	197,094	76,141	(120,953)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(24,559)	(43,436)	(18,877)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	<u>172,535</u>	<u>32,705</u>	<u>(139,830)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	63,866	17,340	(46,526)	Finding 2
Total direct costs	63,866	17,340	(46,526)	
Indirect costs	20,865	2,421	(18,444)	Finding 3
Total direct and indirect costs	84,731	19,761	(64,970)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(63,866)	(122,531)	(58,665)	Finding 4
Adjustment for unused portion of offsets ²	-	102,770	102,770	
Total enrollment fee waivers	<u>20,865</u>	<u>-</u>	<u>(20,865)</u>	
Total program costs	<u>\$ 193,400</u>	32,705	<u>\$ (160,695)</u>	
Less amount paid by the State		(193,400)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (160,695)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 162,039	\$ 73,445	\$ (88,594)	Finding 1
Total direct costs	162,039	73,445	(88,594)	
Indirect costs	50,119	9,004	(41,115)	Finding 3
Total direct and indirect costs	212,158	82,449	(129,709)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(26,474)	(43,484)	(17,010)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	185,684	38,965	(146,719)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	70,611	18,216	(52,395)	Finding 2
Total direct costs	70,611	18,216	(52,395)	
Indirect costs	21,840	2,233	(19,607)	Finding 3
Total direct and indirect costs	92,451	20,449	(72,002)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(70,611)	(134,522)	(63,911)	Finding 4
Adjustment for unused portion of offsets ²	-	114,073	114,073	
Total enrollment fee waivers	21,840	-	(21,840)	
Total program costs	\$ 207,524	\$ 38,965	\$ (168,559)	
Less amount paid by the State		(207,524)		
Allowable costs claimed in excess of (less than) amount paid		\$ (168,559)		
<u>July 1, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 179,507	\$ 81,951	\$ (97,556)	Finding 1
Total direct costs	179,507	81,951	(97,556)	
Indirect costs	55,611	9,859	(45,752)	Finding 3
Total direct and indirect costs	235,118	91,810	(143,308)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(23,029)	(47,739)	(24,710)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	212,089	44,071	(168,018)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	74,591	19,558	(55,033)	Finding 2
Total direct costs	74,591	19,558	(55,033)	
Indirect costs	23,108	2,353	(20,755)	Finding 3
Total direct and indirect costs	97,699	21,911	(75,788)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(74,591)	(131,942)	(57,351)	Finding 4
Adjustment for unused portion of offsets ²	-	110,031	110,031	
Total enrollment fee waivers	23,108	-	(23,108)	
Total program costs	<u>\$ 235,197</u>	44,071	<u>\$ (191,126)</u>	
Less amount paid by the State		(175,162)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (131,091)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 199,277	\$ 82,241	\$ (117,036)	Finding 1
Total direct costs	199,277	82,241	(117,036)	
Indirect costs	53,546	9,704	(43,842)	Finding 3
Total direct and indirect costs	252,823	91,945	(160,878)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(24,001)	(52,805)	(28,804)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	228,822	39,140	(189,682)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	82,314	41,419	(40,895)	Finding 2
Total direct costs	82,314	41,419	(40,895)	
Indirect costs	22,118	4,887	(17,231)	Finding 3
Total direct and indirect costs	104,432	46,306	(58,126)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(82,314)	(143,315)	(61,001)	Finding 4
Adjustment for unused portion of offsets ²	-	97,009	97,009	
Total enrollment fee waivers	22,118	-	(22,118)	
Total program costs	<u>\$ 250,940</u>	39,140	<u>\$ (211,800)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 39,140</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 184,256	\$ 76,108	\$ (108,148)	Finding 1
Total direct costs	184,256	76,108	(108,148)	
Indirect costs	48,551	14,118	(34,433)	Finding 3
Total direct and indirect costs	232,807	90,226	(142,581)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(46,626)	(79,623)	(32,997)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	186,181	10,603	(175,578)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	131,710	43,586	(88,124)	Finding 2
Total direct costs	131,710	43,586	(88,124)	
Indirect costs	34,706	8,085	(26,621)	Finding 3
Total direct and indirect costs	166,416	51,671	(114,745)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(131,710)	(166,996)	(35,286)	Finding 4
Adjustment for unused portion of offsets ²	-	115,325	115,325	
Total enrollment fee waivers	34,706	-	(34,706)	
Total program costs	\$ 220,887	10,603	\$ (210,284)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 10,603		
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 173,411	\$ 85,436	\$ (87,975)	Finding 1
Total direct costs	173,411	85,436	(87,975)	
Indirect costs	60,486	30,936	(29,550)	Finding 3
Total direct and indirect costs	233,897	116,372	(117,525)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(82,891)	(103,019)	(20,128)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	151,006	13,353	(137,653)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	122,798	44,975	(77,823)	Finding 2
Total direct costs	122,798	44,975	(77,823)	
Indirect costs	42,832	16,285	(26,547)	Finding 3
Total direct and indirect costs	165,630	61,260	(104,370)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(122,798)	(227,160)	(104,362)	Finding 4
Adjustment for unused portion of offsets ²	-	165,900	165,900	
Total enrollment fee waivers	42,832	-	(42,832)	
Total program costs	<u>\$ 193,838</u>	13,353	<u>\$ (180,485)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 13,353</u>		
 <u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 224,411	\$ 74,314	\$ (150,097)	Finding 1
Total direct costs	224,411	74,314	(150,097)	
Indirect costs	81,641	24,695	(56,946)	Finding 3
Total direct and indirect costs	306,052	99,009	(207,043)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(78,790)	(106,542)	(27,752)	Finding 4
Adjustment for unused portion of offsets ²	-	7,533	7,533	
Total enrollment fee collection	227,262	-	(227,262)	
 <i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	1,797	1,797	-	
Waive student fees	74,238	49,065	(25,173)	Finding 2
Report BOGG fee waiver data to CCCCCO	141	141	-	
Total direct costs	76,176	51,003	(25,173)	
Indirect costs	27,713	16,948	(10,765)	Finding 3
Total direct and indirect costs	103,889	67,951	(35,938)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(76,176)	(208,412)	(132,236)	Finding 4
Adjustment for unused portion of offsets ²	-	140,461	140,461	
Total enrollment fee waivers	27,713	-	(27,713)	
Total program costs	<u>\$ 254,975</u>	-	<u>\$ (254,975)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 140	\$ 140	\$ -	
Calculate and collect enrollment fees	246,972	82,784	(164,188)	Finding 1
Total direct costs	247,112	82,924	(164,188)	
Indirect costs	101,489	28,783	(72,706)	Finding 3
Total direct and indirect costs	348,601	111,707	(236,894)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(100,448)	(96,163)	4,285	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	248,153	15,544	(232,609)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	36	36	-	
Waive student fees	87,743	86,649	(1,094)	Finding 2
Report BOGG fee waiver data to CCCCCO	443	443	-	
Total direct costs	88,222	87,128	(1,094)	
Indirect costs	36,233	30,242	(5,991)	Finding 3
Total direct and indirect costs	124,455	117,370	(7,085)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(88,222)	(241,102)	(152,880)	Finding 4
Adjustment for unused portion of offsets ²	-	123,732	123,732	
Total enrollment fee waivers	36,233	-	(36,233)	
Total costs	284,386	15,544	(268,842)	
Less late filing penalty ³	-	(1,554)	(1,554)	
Total program costs	<u>\$ 284,386</u>	13,990	<u>\$ (270,396)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 13,990</u>		
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 218,702	\$ 57,685	\$ (161,017)	Finding 1
Total direct costs	218,702	57,685	(161,017)	
Indirect costs	85,316	23,795	(61,521)	Finding 3
Total direct and indirect costs	304,018	81,480	(222,538)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(80,784)	(81,162)	(378)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	223,234	318	(222,916)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	71,817	65,458	(6,359)	Finding 2
Total direct costs	71,817	65,458	(6,359)	
Indirect costs	28,016	27,001	(1,015)	Finding 3
Total direct and indirect costs	99,833	92,459	(7,374)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(71,817)	(227,719)	(155,902)	Finding 4
Adjustment for unused portion of offsets ²	-	135,260	135,260	
Total enrollment fee waivers	28,016	-	(28,016)	
Total costs	251,250	318	(250,932)	
Less late filing penalty ³	-	(32)	(32)	
Total program costs	\$ 251,250	286	\$ (250,964)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 286		
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 313,683	\$ 70,276	\$ (243,407)	Finding 1
Total direct costs	313,683	70,276	(243,407)	
Indirect costs	133,691	28,919	(104,772)	Finding 3
Total direct and indirect costs	447,374	99,195	(348,179)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(80,892)	(81,381)	(489)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	366,482	17,814	(348,668)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	173,730	143,093	(30,637)	Finding 2
Total direct costs	173,730	143,093	(30,637)	
Indirect costs	74,044	58,883	(15,161)	Finding 3
Total direct and indirect costs	247,774	201,976	(45,798)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(173,730)	(228,686)	(54,956)	Finding 4
Adjustment for unused portion of offsets ²	-	26,710	26,710	
Total enrollment fee waivers	74,044	-	(74,044)	
Total costs	440,526	17,814	(422,712)	
Less late filing penalty ³	-	(1,781)	(1,781)	
Total program costs	\$ 440,526	16,033	\$ (424,493)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 16,033		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 415,054	\$ 66,748	\$ (348,306)	Finding 1
Total direct costs	415,054	66,748	(348,306)	
Indirect costs	176,896	26,673	(150,223)	Finding 3
Total direct and indirect costs	591,950	93,421	(498,529)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(88,129)	(89,927)	(1,798)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	503,821	3,494	(500,327)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	313,073	145,557	(167,516)	Finding 2
Total direct costs	313,073	145,557	(167,516)	
Indirect costs	133,432	58,165	(75,267)	Finding 3
Total direct and indirect costs	446,505	203,722	(242,783)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(337,197)	(250,256)	86,941	Finding 4
Adjustment for unused portion of offsets ²	-	46,534	46,534	
Total enrollment fee waivers	109,308	-	(109,308)	
Total costs	613,129	3,494	(609,635)	
Less late filing penalty ³	-	(349)	(349)	
Total program costs	\$ 613,129	3,145	\$ (609,984)	
Less amount paid by the State		(90,461)		
Allowable costs claimed in excess of (less than) amount paid		\$ (87,316)		
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 380,331	\$ 62,341	\$ (317,990)	Finding 1
Total direct costs	380,331	62,341	(317,990)	
Indirect costs	155,669	25,977	(129,692)	Finding 3
Total direct and indirect costs	536,000	88,318	(447,682)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(79,410)	(79,410)	-	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	456,590	8,908	(447,682)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	309,353	175,466	(133,887)	Finding 2
Total direct costs	309,353	175,466	(133,887)	
Indirect costs	126,618	73,117	(53,501)	Finding 3
Total direct and indirect costs	435,971	248,583	(187,388)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(375,411)	(293,166)	82,245	Finding 4
Adjustment for unused portion of offsets ²	-	44,583	44,583	
Total enrollment fee waivers	60,560	-	(60,560)	
Total program costs	<u>\$ 517,150</u>	8,908	<u>\$ (508,242)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 8,908</u>		
<u>July 1, 2011, through June 30, 2012</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculate and collect enrollment fees	\$ 137,454	\$ 76,696	\$ (60,758)	Finding 1
Total direct costs	137,454	76,696	(60,758)	
Indirect costs	59,421	37,136	(22,285)	Finding 3
Total direct and indirect costs	196,875	113,832	(83,043)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(29,076)	(80,000)	(50,924)	Finding 4
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	167,799	33,832	(133,967)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waive student fees	202,844	150,854	(51,990)	Finding 2
Total direct costs	202,844	150,854	(51,990)	
Indirect costs	87,690	73,044	(14,646)	Finding 3
Total direct and indirect costs	290,534	223,898	(66,636)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(290,534)	(309,620)	(19,086)	Finding 4
Adjustment for unused portion of offsets ²	-	85,722	85,722	
Total enrollment fee waivers	-	-	-	
Total program costs	<u>\$ 167,799</u>	33,832	<u>\$ (133,967)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 33,832</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
Summary: July 1, 1998, through June 30, 2012				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 140	\$ 140	\$ -	
Calculate and collect enrollment fees	3,117,078	1,023,154	(2,093,924)	
Total direct costs	3,117,218	1,023,294	(2,093,924)	
Indirect costs	1,155,066	287,633	(867,433)	
Total direct and indirect costs	4,272,284	1,310,927	(2,961,357)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(790,222)	(1,029,949)	(239,727)	
Adjustment for unused portion of offsets ²	-	7,533	7,533	
Total enrollment fee collection	3,482,062	288,511	(3,193,551)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	36	36	-	
Adopt procedures, record and maintain records	1,797	1,797	-	
Waive student fees	1,778,688	1,001,236	(777,452)	
Report BOGG fee waiver data to CCCCCO	584	584	-	
Total direct costs	1,781,105	1,003,653	(777,452)	
Indirect costs	679,215	373,664	(305,551)	
Total direct and indirect costs	2,460,320	1,377,317	(1,083,003)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(1,958,977)	(2,685,427)	(726,450)	
Adjustment for unused portion of offsets ²	-	1,308,110	1,308,110	
Total enrollment fee waivers	501,343	-	(501,343)	
Total costs	3,983,405	288,511	(3,694,894)	
Less late filing penalty ³	-	(3,716)	(3,716)	
Total program costs	<u>\$ 3,983,405</u>	<u>\$ 284,795</u>	<u>\$ (3,698,610)</u>	
Less amount paid by the State		<u>(818,951)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (534,156)</u>		

¹ See the Findings and Recommendations section.

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

³ The district's claims included \$40,000 in late penalties (\$10,000 per year for FY 2006-07 through FY 2009-10). The SCO will assess the penalty on allowable costs for claims filed after the filing deadline specified in the Controller's claiming instructions. The FY 2006-07 through FY 2009-10 claims were annual reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17568, equal to \$10,000 of allowable costs, not to exceed \$10,000.

⁴ Payments from funds appropriated under Chapter 3V, Statutes of 2014 (Senate Bill No. 858) totaled \$135,158 for FY 1998-99, \$193,400 for FY 1999-2000, \$207,524 for FY 2000-01, and \$175,162 for FY 2001-02.

Findings and Recommendations

**FINDING 1—
Enrollment Fee
Collection: Calculate
and Collect
Enrollment Fees cost
component –
overstated ongoing
costs**

The district claimed \$3,117,078 in salaries and benefits to calculate and collect enrollment fees during the audit period. We found that \$1,023,154 in salaries and benefits is allowable and \$2,093,924 is unallowable. The costs were overstated because the district estimated the amount of time required to perform the reimbursable activities and claimed unsupported costs. 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 the district provided to us. We also adjusted the average productive hourly rates (PHR) the district claimed based on salary and benefit information provided to us by the district.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1998-99	\$ 133,421	\$ 66,315	\$ (67,106)
1999-2000	148,560	66,814	(81,746)
2000-01	162,039	73,445	(88,594)
2001-02	179,507	81,951	(97,556)
2002-03	199,277	82,241	(117,036)
2003-04	184,256	76,108	(108,148)
2004-05	173,411	85,436	(87,975)
2005-06	224,411	74,314	(150,097)
2006-07	246,972	82,784	(164,188)
2007-08	218,702	57,685	(161,017)
2008-09	313,683	70,276	(243,407)
2009-10	415,054	66,748	(348,306)
2010-11	380,331	62,341	(317,990)
2011-12	137,454	76,696	(60,758)
Total, salaries and benefits	<u>\$ 3,117,078</u>	<u>\$ 1,023,154</u>	<u>\$ (2,093,924)</u>

The program’s 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 program's parameters and guidelines (section IV–Reimbursable Activities) 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, time logs, sign-in sheets, invoices, and receipts.

The parameters and guidelines also state that salaries and benefits are reimbursable if claimants report each employee implementing the reimbursable activities by name, job classification, and PHR, and provide a description of the specific reimbursable activities performed, and the hours devoted to those activities.

Salaries and Benefits

For FY 1998-99 through FY 2006-07, and FY 2008-09 through FY 2011-12, the district claimed salaries and benefits for the six 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. The district only claimed salaries and benefits for Activities 1 through 4 in its FY 2007-08 claim. Employees estimated the average time in minutes it took them to perform the 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 employees' 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 it verified the average time increments for reasonableness.

For FY 2005-06, the district claimed salaries and benefits totaling \$224,411 for Activities 1 through 6. However, we found that costs totaling \$9,283 were not supported by the documentation provided with the district's claim for that year. The time increments, student multiplier, and productive hourly information included in the documentation provided with the district's claim only supported claimed salaries and benefits costs totaling \$215,128.

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

Reimbursable Activity	FY 1998-99 through		FY 2007-08	FY 2008-09	FY 2009-10 through	
	FY 2005-06	FY 2006-07			FY 2011-12	
1 Referencing Students Accounts	2.40	2.50	2.50	2.50		4.80
2 Calculating the Fee	3.40	3.30	3.30	3.30		3.10
3 Answering Questions	2.50	2.50	2.50	2.50		4.10
4 Updating Records	2.20	2.20	2.20	2.20		3.40
Claimed for Activities 1-4	10.50	10.50	10.50	10.50		15.40
5 Collecting Delinquent Fees	3.60	3.50	-	3.50		6.00
6 Providing Refunds	2.50	2.50	-	2.50		3.80
Total Time Increments Claimed for Activities 1-6	16.60	16.50	10.50	16.50		25.20

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 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 observed district staff in the Business Office that collects 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 PHRs 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: 10.5 minutes for its FY 1998-99 through FY 2008-09 claims, and 15.4 minutes for its FY 2009-10 through FY 2011-12 claims. 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 observed district staff in the Business Services Office performing the reimbursable activities as well as other non-mandated activities. Over seven days, we observed 518 payment transactions processed by district staff. Of these, 62 involved the payment of enrollment fees encompassing Activities 1 through 4, totaling 143.23 minutes. The average time to perform all four activities was 2.31 minutes, or .58 minutes per activity.

Multiplier Calculation

Claimed Costs

For Activities 1 through 4, the district claimed costs by multiplying the number of students by a uniform time allowance and an annual average PHR. For FY 1998-99 through FY 2011-12, the district used the number of total enrolled students as the multiplier for Activities 1 and 3. In determining student enrollment, the district used the “Student Headcount by Unit Load” summary report obtained from the California Community College Chancellor’s Office (CCCCO) website (also known as Data Mart). As a result, the district did not deduct ineligible non-resident and special admit students (students who attend a community college while in high school pursuant to Education Code section 76001). In addition, this report includes duplicated students by term.

For FY 1998-99 through FY 2011-12, the district used the number of total enrolled students less the number of Board of Governors Grant (BOGG) fee waivers granted as the multiplier for Activities 2 and 4.

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 CCCCCO, less non-resident students and special admit students. 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 CCCCCO’s MIS data element STD 7, codes A through G. The CCCCCO 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 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 number of students who paid their enrollment fees using the district’s online system rather than in person from FY 2003-04 through FY 2011-12. For FY 1998-99, the district only accepted in-person payments. The district was not able to provide online payment information for 1999-2000 through FY 2002-03.

We calculated online payment percentages for those years by using the information provided by the district for FY 2003-04 through FY 2011-12, which showed that the percentage of students paying their enrollment fees online increased by an average of 3% for each year of the eight-year period. Accordingly, we used the 3% average to determine the percentage of students making online payments for FY 1999-2000 through FY 2002-03.

Productive Hourly Rates

We found that the district understated the average PHRs used for Activities 1 through 4 for all years of the audit period. The district provided actual salary and benefit information for staff applicable to FY 2004-05 through FY 2011-12. Therefore, we tested the PHR information provided and found that the district understated its PHR averages for those years. As explained in Finding 5 (Misstated 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. For FY 1998-99 through FY 2003-04, we calculated the average PHR increase applicable for FY 2004-05 through FY 2011-12 and adjusted the average rates accordingly.

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 3.60 minutes for its FY 1998-99 through FY 2005-06 claims, 3.50 minutes for its FY 2006-07 and FY 2008-09 claims, and 6.00 minutes for its FY 2009-10 through FY 2011-12 claims. The district did not claim any costs for Activity 5 in its claim for FY 2007-08.

District staff provided us with an explanation of the district's process for collecting delinquent enrollment fees. Based on our observations and staff's explanation of the process, we found the time claimed to be reasonable.

Multiplier Calculation

For Activity 5, the district provided, and we accepted (based on reasonableness), the number of delinquent student accounts collected for FY 1998-99 through FY 2006-07 and FY 2008-09 through FY 2011-12. The district did not include costs for collecting delinquent student accounts in its claims for FY 2007-08.

Productive Hourly Rates

Consistent with the information presented for Activities 1 through 4, the district understated the average productive hourly rates in its claims during the audit period for Activity 5. As explained in Finding 5 (Misstated 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. For FY 1998-99 through FY 2003-04, we calculated the average PHR increase applicable for FY 2004-05 through FY 2011-12 and adjusted the average rates accordingly.

Activity 6 - Providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected.

Time Increments

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable Activity 6. Based on these certifications, the district developed time allowances per refund of 2.50 minutes for its FY 1998-99 through FY 2008-09 claims and 3.80 minutes for its FY 2008-09 through FY 2011-12 claims. The district did not claim any costs for Activity 6 in its claim for FY 2007-08.

District staff provided us with an explanation of the district's refund process. Based on our observations and staff's explanation of the process, we found the time claimed to be reasonable.

Multiplier Calculation

For Activity 6, the district provided and we accepted (based on reasonableness), the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees for FY 1998-99 through FY 2006-07 and FY 2008-09 through FY 2011-12. The district did not include costs for this activity in its claims for FY 2007-08.

Productive Hourly Rates

As explained in Finding 5 (Misstated 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. For FY 1998-99 through FY 2003-04, we calculated the average PHR increase applicable for FY 2004-05 through FY 2011-12 and adjusted the average rates accordingly.

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 through
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2011-12
1 Referencing Students Accounts	2.40	2.50	2.50	2.50	4.80
2 Calculating the Fee	3.40	3.30	3.30	3.30	3.10
3 Answering Questions	2.50	2.50	2.50	2.50	4.10
4 Updating Records	2.20	2.20	2.20	2.20	3.40
Subtotal, Activities 1-4	10.50	10.50	10.50	10.50	15.40
5 Collecting Delinquent Fees	3.60	3.50	-	3.50	6.00
6 Providing Refunds	2.50	2.50	-	2.50	3.80
Total Time Increments Claimed for Activities 1-6	16.60	16.50	10.50	16.50	25.20

Reimbursable Activity	Allowable				
	FY 1998-99 through				FY 2009-10 and
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010-11
1 Referencing Students Accounts	0.58	0.58	0.58	0.58	0.58
2 Calculating the Fee	0.58	0.58	0.58	0.58	0.58
3 Answering Questions	0.58	0.58	0.58	0.58	0.58
4 Updating Records	0.57	0.57	0.57	0.57	0.57
Subtotal, Activities 1-4	2.31	2.31	2.31	2.31	2.31
5 Collecting Delinquent Fees	3.60	3.50	-	3.50	6.00
6 Providing Refunds	2.50	2.50	-	2.50	3.80
Total Time Increments Allowable for Activities 1-6	8.41	8.31	2.31	8.31	12.11

Calculation of Multiplier Adjustment

The following table summarizes the claimed, allowable, and adjustment amounts to 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	725,877	659,228	(66,649)
2	292,361	321,720	29,359
3	725,877	659,228	(66,649)
4	292,361	321,720	29,359
5	119,871	119,871	-
6	27,747	27,747	-
Total	2,184,094	2,109,514	(74,580)

Calculation of Hours Adjustments

We multiplied the allowable minutes per reimbursable activity by the multiplier (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	35,001	6,373	(28,628)
2	16,167	3,110	(13,057)
3	33,967	6,373	(27,594)
4	11,697	3,056	(8,641)
5	7,763	7,519	(244)
6	1,247	1,235	(12)
Total Hours	<u>105,842</u>	<u>27,666</u>	<u>(78,176)</u>

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 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 the CCCC's MIS data element STD 7, codes A through G. The CCCC 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 times 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 CCCC based on data the district reported. 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.

We applied the audited average productive hourly rates to the allowable hours per reimbursable activity. We found that \$1,023,154 in salaries and benefits is allowable and \$2,093,924 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	\$ 1,052,093	\$ 243,167	\$ (808,926)
2	466,600	112,689	(353,911)
3	1,010,357	243,167	(767,190)
4	344,381	110,745	(233,636)
5	208,550	267,808	59,258
6	35,097	45,578	10,481
Total	<u>\$ 3,117,078</u>	<u>\$ 1,023,154</u>	<u>\$ (2,093,924)</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

It should be noted that the audit period dates back to 1998 through 2012. A 16-year period which by audit standards is unquestionably an unreasonable delay to perform an audit. Processes change, technology changes, facilities and staffing change. In addition to the unreasonable amount of time that lapsed between the time the claims were filed to the time when the audit began in 2013, the program's parameters and guidelines were not even established and provided by the state until 2006.

The Yosemite Community College District in good faith and practicing due diligence contracted with expert consultants in the area of State Mandated Cost claims to compile the claims. The District did this to be sure that the District did not misinterpret the guidelines and filed complete and accurate claims. The fact that the state waited 16 years to review and audit claims is unconscionable.

The District claimed \$3,117,078 in salaries and benefits for the enrollment fees cost component during the audit period. 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 (not adjusted by the audit), then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee).

The draft audit states that \$1,023,154 is allowable and \$2,093,924 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 Chancellors Office and reduces the number of students who paid their enrollment fees online rather than in person. The collective effect of these adjustments is an 74% reduction of the 105,842 claimed mandate program hours to 27,666. There is a similar magnitude of reduction of the \$3,117,078 in claimed costs. Based on the audited net enrollment of 560,041 for the audit period, the imputed audited average time for, all six activities is an improbable 2.9 minutes and 96 cents per enrollment.

A. Average activity time

Using certification forms developed by the District’s mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 16-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities.

These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 1 through 4 and accepted for Activities 5 and 6 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 15.7 to 27.7 minutes over the 16 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 308 transactions at the Bursar’s Office over ten days, of which 60 involved the payment of enrollment fees encompassing Activities 1 through 4. The average observed time to perform all four activities was 3.44 minutes, or 0.86 minutes per activity. This 78 to 88 reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. However, the auditor’s observation sample size is statistically meaningless. The audited net enrollment transactions are 560,041 over the 16-year period, of which 308 student transactions were observed during the audit period. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these District procedures have 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 5, collecting delinquent fees, the District claimed for four of the years a time average of 3 minutes or 6 minutes per student derived from two staff surveys. The audit concludes from discussion with program staff that the District performed relevant ongoing activities to collect the enrollment fees and allowed the claimed average times.

For Activity 6, providing a refund when fee waiver eligibility is established after enrollment fee collection, the District claimed average times ranging from 2 minutes to 4.6 minutes per student over 11 years. The audit report allows these claimed averages as reasonable based on observations and the program staffs explanation of the process.

B. Workload multipliers

For Activities 1 through 4, collecting the enrollment fee, the combined average staff time for each activity is multiplied by a specific enrollment statistic to determine the claimable staff time. Both the District and the auditor used this method. The draft audit report rejects the Chancellor's MIS enrollment data reported by the District and substitutes modified MIS enrollment data the auditor obtained from the Chancellor's Office. The audited workload multipliers remove the number of duplicated students, nonresident students, and special admit students. The District does not dispute these statistics.

These audit statistics are further reduced for the percentage of online enrollment fee collections. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no online fee collection, so it was not a factor for the annual claim workload statistics. The District workload multipliers treated all enrollment fee collection transactions as an "in-person" transaction at the cashier's office. However, commencing FY 2002-03, the District began to establish an automated process that later evolved into internet online method to collect the enrollment fee. At the auditor's request, the District surveyed the number of online and total payment transactions for FY 2009-10 and FY 2010-11. The survey indicated that by the end of the audit period about 80 [sic] of the transactions were performed online. In the absence of documentation available in the usual course of business to determine the online percentage for each previous year, the audit reduced the online percentage by 9 each year retroactive to FY 2002-03. This method appears reasonable given the documentation constraints. However, the audit findings do not replace the time lost from these eliminated online transactions with the costs to operate the online payment collection process. Thus, no costs are recognized in the audit for the online transactions.

For Activity 5, collecting delinquent enrollment fees, the auditor accepted the number of delinquent fees processed based on the District source data and because the claimed multiplier represents less than one percent of the allowable enrollment statistics.

For Activity 6, providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected, the District provided and the auditor accepted the number of refunds processed, for the stated reason that the statistic represents one percent of the allowable enrollment statistic.

SCO's Comments

The finding and recommendation remain unchanged.

The district's characterization of the timing surrounding our audit of the district's mandated cost claims is not factually correct. The State Controller's Office (SCO) did not wait 16 years to review and audit the district's claims. The district filed its initial claims for the mandated program on August 9, 2006. In contrast, the district's filed its claim for FY 2011-12, the last year of the audit period, on February 15, 2013. Our audit of the district's Enrollment Fee Collection and Waivers Program claims began on November 5, 2013, when the SCO sent a letter to the district stating our intent to audit its reimbursement claims filed for

FY 1998-99 through FY 2011-12, a 14-year audit period. Therefore, our audit of the district's claims began slightly more than seven years after the district filed its initial claims for the mandated program and slightly less than nine months after the district filed its FY 2011-12 claim.

The district also referenced auditing standards related to the timing of the audit. We noted in the audit report that we conducted the audit using generally accepted government auditing standards. Those standards contain requirements and guidance dealing with ethics, independence, auditor's professional judgment and competence, quality control, performance of the audit, and reporting. The standards do not address when an audit should commence. The timing of our audits is governed by Government Code section 17558.5, subsection (a), which states:

A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced.

When the audit was initiated, an initial payment only had been made for FY 1998-99 (September 13, 2012, payment) and FY 2009-10 (September 27, 2011 payment). However, the district amended its FY 2009-10 claim on February 13, 2012. Government Code section 17558.5 requires audits to be initiated the latter of three years after the initial payment date or amended claim date. Based on the date of the initial payments and filing of the amended claims, the SCO had the authority to initiate an audit on or before September 13, 2015, for FY 1998-99, and on or before February 13, 2015, for FY 2009-10. For the other years, the statutory period to initiate an audit had not started. As noted above, our audit of the district's claim began on November 5, 2013.

The rest of the district's response for Finding 1 addressed two specific issues:

- Average activity time
- Workload multipliers

We noted that the statistics cited by the district in this part of its response do not relate to this audit. Instead, all of the statistics related to time increments, student enrollment, and the significance of the audit adjustments relate to the SCO's audit of the Enrollment Fee Collection and Waivers Program claims filed by Sierra Joint Community College District. That final audit report was issued on March 12, 2015 and is available for viewing on the SCO website (www.sco.ca.gov).

Otherwise, we have addressed our comments to the general issues raised by the district in its response.

Average activity time

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 Business Services 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 an average of 10.5 to 15.4 minutes for Activities 1 through 4 over the 14-year audit period. The district's average estimates of 10.5 minutes were in its claims for FY 1998-99 through FY 2008-09 and 15.4 minutes for FY 2009-10 through FY 2011-12. During the audit exit conference, district representatives stated their belief that the time required to perform the reimbursable activities had decreased over time as district processes and computer equipment had improved. However, the size of the district's time estimates went in the opposite direction. Our observations supported that the estimated average time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 1 through 4 as high as 15.4 minutes, we observed an average time of 2.31 minutes for all four activities, or about 0.58 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 seven days at the Business Services Office observing students paying a variety of fees owed to the district. We observed 518 transactions processed by district staff, 62 of which involved the payment of enrollment fees encompassing Activities 1 through 4. The district stated that it conducted 560,041 student enrollment transactions during the 16-year audit period and that our sample, therefore, "does not constitute a representative "time study sample." However, the audit period covered 14 years, not 16 years, and the district did not provide any source documentation to support the time required to perform these transactions. 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 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. 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.

Workload multipliers

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

The district acknowledged that it treated all workload multipliers as in-person transactions and that our method of determining the percentage of enrollment fee transactions conducted online from FY 2002-03 through FY 2011-12 appears reasonable. 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 collection process. Thus, no costs are recognized in the audit for the online transactions.” We agree. The district is responsible for preparing actual cost documentation supporting the mandated costs it incurred. However, the district did not include any costs in its claims for operating its online payment collection process nor provide any support based on actual cost documentation during the course of the audit.

**FINDING 2—
Enrollment Fee
Waivers: Waive
Student Fees cost
component –
overstated ongoing
costs**

The district claimed \$1,778,688 in salaries and benefits to waive student fees during the audit period, in accordance with Education Code section 76300, subdivisions (g) and (h), for students who apply for and are eligible for BOGG fee waivers. We found that \$1,001,236 in salaries and benefits is allowable and \$777,452 in salaries and benefits is unallowable. The costs are overstated because the district estimated the amount of time required to perform the reimbursable activities and claimed unsupported costs. We adjusted variations in the number of students used in the district’s calculations based on data the district reported to the CCCCCO. In addition, we adjusted the average productive hourly rates the district claimed based on salary and PHR information the district provided to us.

The following table summarizes the overstated ongoing costs related to The Waiving Student Enrollment Fees cost component by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1999-2000	\$ 63,866	\$ 17,340	\$ (46,526)
2000-01	70,611	18,216	(52,395)
2001-02	74,591	19,558	(55,033)
2002-03	82,314	41,419	(40,895)
2003-04	131,710	43,586	(88,124)
2004-05	122,798	44,975	(77,823)
2005-06	74,238	49,065	(25,173)
2006-07	87,743	86,649	(1,094)
2007-08	71,817	65,458	(6,359)
2008-09	173,730	143,093	(30,637)
2009-10	313,073	145,557	(167,516)
2010-11	309,353	175,466	(133,887)
2011-12	202,844	150,854	(51,990)
Total, salaries and benefits	<u>\$ 1,778,688</u>	<u>\$ 1,001,236</u>	<u>\$ (777,452)</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 waiver (Cal. Code Regs., tit. 5, §§ 58612, 58613, 58620).
 - 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 the actual cost was incurred for the event or activity in question.” See Finding 1 for the specific language.

The parameters and guidelines also state that salaries and benefits are reimbursable if claimants report each employee implementing the reimbursable activities by name, job classification, and PHR; and provide a description of the specific reimbursable activities performed and the hours devoted to these activities.

Salaries and Benefits

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 for and are eligible for BOGG fee waivers. For FY 1999-00 through FY 2003-04, FY 2005-06, FY 2007-08, FY 2009-10 through FY 2011-12, the district claimed salaries and benefits for five of the six reimbursable activities (activities 7 through 11) under the Waive Student Fees cost component. For FY 2004-05, FY 2006-07, and FY 2008-09, the district claimed salaries and benefits for all six reimbursable activities (activities 7 through 12) under the Waive Student Fees cost component. The district claimed salaries and benefits using time allowances developed from estimated time it took staff to complete various activities through the use of employees' annual survey forms.

District employees estimated the average time in minutes it took them to perform the various reimbursable activities claimed 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 claimed, all of the employees' time estimates were added together and the total was divided by the number of employees that 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.

For FY 2005-06, the district claimed salaries and benefits totaling \$74,238 for Activities 7, 8, 9, 11, and 12. However, we found that costs totaling \$21,414 were not supported by the documentation provided with the district's claim for that year. The time increments, student multiplier, and productive hourly information included in the documentation provided with the district's claim only supported salaries and benefits costs claimed totaling \$52,824.

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 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 observed district staff at 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.

Activity 7: Answering student's questions

We observed staff at the front counters of the Financial Aid Office answer questions from students regarding their BOGG fee waiver applications.

Activity 8: Receiving enrollment fee waiver applications

We observed staff at the front counters of the Financial Aid Office review paper BOGG fee waiver applications received from students.

District staff received paper BOGG fee waiver applications at the Financial Aid Office front counters. In addition to paper applications, staff also received student information in digital form from students who submitted a U.S. Department of Education's FAFSA.

Activity 9: Evaluating waiver applications and verifying documentation

We observed staff at the front counters of the Financial Aid Office receive waiver applications and verify additional supporting documentation brought in by students. Additionally, we observed district staff at the back counter of the Financial Aid Office manually process BOGG fee waiver applications.

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

We observed staff at the front counters of the Financial Aid Office advising students of additional information, in the case of incomplete applications, during the evaluation process (Activity 9) mentioned above. 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.

Also, we observed staff at the back counters of the Financial Aid Office process and print letters which are sent to students via regular mail to inform them about their incomplete application.

Activity 11: Copying all documentation and file the information for further review, in the case of an approved application

We observed staff at the back counters of the Financial Aid Office scan, index, and stamp each application that was processed.

In addition, we observed staff run a report which created emails sent to students to notify them about their BOGG fee waiver eligibility status. Also, the system created a small percentage of letters that had to be printed and sent to students by regular mail.

Activity 12: Appealing a denied BOGG fee waiver application

The district does not have a written appeal process for denied BOGG fee waivers because students do not appeal denied BOGG fee waivers very often. However, students can appeal a denied BOGG fee waiver by providing additional information. Students can request the district to review their application with the new information provided. In special circumstances the district will review the additional information.

Activities 7 through 11

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; 13.0 minutes for its FY 1999-2000 through FY 2004-05 claims, 13.6 minutes for its FY 2005-06 through FY 2007-08 claims; 16.6 minutes for its FY 2008-09 claim, and 30.7 minutes for its FY 2009-10 through FY 2011-12 claims. Based on our observations, we found that the time allowances claimed for these years were overstated.

Allowable

We held discussions with various district representatives during the course of the audit in order to determine the procedures district staff followed to perform the reimbursable activities. We observed district staff in the Financial Aid office performing the reimbursable activities and other non-mandated activities. We documented the average time increments spent by district staff to perform reimbursable activities based on our observations. Over several days, we observed district staff at the front and back counters of the Financial Aid Offices process enrollment fee waiver transactions encompassing Activities 7 through 11.

For front-counter activities, we observed a total of 67 BOGG fee related inquires, totaling 231.47 minutes. The average time it took staff to perform the front-counter activities was 3.45 minutes.

For back-counter activities, we observed the following activities being performed:

- Staff reviewed and processed 136 BOGG fee waivers totaling 157.60 minutes. The average time to review and process a BOGG fee waiver at the back counter was 1.16 minutes.
- Staff processed and printed 79 letters that were sent to students via regular mail, totaling 55.80 minutes. The average time to process and print a letter to notify students about their incomplete application was 0.71 minutes.
- Staff scanned and indexed 88 applications, totaling 142.33 minutes. The average time to scan and index an application was 1.62 minutes.
- Staff ran a report that included 239 accounts to notify students about their BOGG fee waiver eligibility status, totaling 27.72 minutes. The average time to notify students about their BOGG fee waiver eligibility status was 0.12 minutes.

Based on our observations of Activities 7 through 11, it took district staff an average of 3.61 minutes to process BOGG fee waivers at the back counter for the audit period.

Therefore, after combining the front- and back-counter activities, the total time to process BOGG fee waivers averaged 7.06 minutes based on our observations.

Activity 12

Time Increments

The district only included costs for performing Activity 12 in its claims for FY 2005-06, FY 2006-07 and FY 2008-09. Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activity. Based on these certifications, the district developed time allowances of 2.2 minutes per student to perform the activity. Based on the district's explanation of how the activity is performed, we found that the time allowance claimed for these three years appeared to be reasonable.

Calculation of Time Increments Adjustment

The following tables summarize the minutes-per-student claimed and allowable for reimbursable Activities 7 through 12:

Reimbursable Activity	Claimed					
	FY 1999-2000 Through	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10 through
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2011-12
7 Answer questions	4.40	4.70	4.70	4.70	4.70	6.70
8 Receive applications	1.00	1.00	1.00	1.00	1.00	4.00
9 Evaluate applications	1.60	1.30	1.30	1.30	1.30	7.00
10 Incomplete applications - notification	-	-	3.00	3.00	3.00	9.00
11 Approved applications	6.00	6.60	6.60	6.60	6.60	4.00
12 Review waiver denials appealed by students	-	2.20	2.20	-	2.20	-
Total	13.00	15.80	18.80	16.60	18.80	30.70

Reimbursable Activity	Allowable				
	FY 1999-2000 Through	FY 2005-06 Through	FY 2007-08	FY 2008-09	FY 2009-10 through
	FY 2004-05	FY 2006-07	FY 2007-08	FY 2008-09	FY 2011-12
7 Answer questions	1.42	1.42	1.42	1.42	1.42
8 Receive applications	1.41	1.41	1.41	1.41	1.41
9 Evaluate applications	1.41	1.41	1.41	1.41	1.41
10 Incomplete applications - notification	1.41	1.41	1.41	1.41	1.41
11 Approved applications	1.41	1.41	1.41	1.41	1.41
12 Review waiver denials appealed by students	-	2.20	-	2.20	-
Total	7.06	9.26	7.06	9.26	7.06

Multiplier Calculation

Claimed

For Activities 7 through 12, 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 PHR. For FY 1999-2000 through FY 2004-05, FY 2006-07, and FY 2008-09 through FY 2011-12, the district used the number of students who requested a BOGG fee waiver for Activities 7 through 9, and the number of approved BOGG fee waivers for Activity 11. For FY 2005-06 and FY 2007-08, the district used the number of students who requested a BOGG fee waiver for Activities 7 through 9 and 11. For FY 2006-07 and FY 2008-09, the district used the same number of BOGG fee waivers for Activity 10 (Incomplete Applications) and Activity 12 (Appeals for Denied Applications).

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 the number of incomplete applications at the end of each year, as claimed by the district.

For Activity 10, (incomplete BOGG fee waiver applications), we applied the time increments to the number of incomplete BOGG fee waiver applications claimed by the district and included the number of students who received BOGG fee waivers, according to statistics provided by the CCCCCO. This represented the maximum number of incomplete applications that may have been processed by district staff throughout the year.

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 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 Activity 12 (appeals of denied BOGG fee waiver applications), the district provided, and we accepted, the number of appeals processed for FY 2006-07 and FY 2008-09. The district did not provide the number of appeals processed for FY 2005-06.

Calculation of Multiplier Adjustment – Number of BOGG Fee Waivers

The following table summarizes the claimed, allowable, and adjusted multiplier for each reimbursable activity (Activities 7 through 12) that took place at the district during the audit period:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	328,576	281,578	(46,998)
8	328,576	281,578	(46,998)
9	328,576	281,578	(46,998)
10	35,749	281,578	245,829
11	149,522	245,829	96,307
12	14,442	14,442	-
Total	<u>1,185,441</u>	<u>1,386,583</u>	<u>201,142</u>

Productive Hourly Rates

We found that the district misstated the average PHRs for Activities 7 through 12. The district understated its average PHRs for FY 1999-2000 through FY 2003-04 and FY 2005-06 through FY 2011-12. The district overstated its average PHRs for FY 2004-05. For FY 2004-05 through FY 2008-09, FY 2010-11, and FY 2011-12, the district provided actual salary and benefit information for staff; therefore, we tested the PHR information for those years. Based on the result of our testing, we found that the district understated its PHR averages for those years. Therefore, we calculated a PHR average increase for those years of which we applied to FY 1999-2000 through FY 2003-04 and FY 2009-10. As a result, we recalculated the annual average PHRs based on actual salary and benefit information provided by the district and calculation analysis conducted by the auditor. See Finding 5 for a detailed analysis of the claimed and allowable PHRs.

Calculation-of-Hours Adjustment

We multiplied the allowable minutes per reimbursable activity by the multiplier (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	27,665	6,664	(21,001)
8	9,157	6,617	(2,540)
9	15,013	6,617	(8,396)
10	3,918	6,617	2,699
11	13,777	5,777	(8,000)
12	769	530	(239)
	<u>70,299</u>	<u>32,822</u>	<u>(37,477)</u>

Calculation of Costs by Reimbursable Activity

We applied the audited PHRs to the allowable hours per reimbursable activity. We found that salaries and benefits totaling \$1,001,236 are allowable and \$777,452 are 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
7	\$ 667,234	\$ 203,934	\$ (463,300)
8	237,628	202,499	(35,129)
9	392,113	202,499	(189,614)
10	117,074	202,499	85,425
11	344,054	173,132	(170,922)
12	20,585	16,673	(3,912)
	<u>\$ 1,778,688</u>	<u>\$ 1,001,236</u>	<u>\$ (777,452)</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 District claimed \$1,071,867 in salaries and benefits for 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 based on average time to implement each activity, multiplied by the average productive hourly rate (not adjusted by the audit) for the relevant positions, then multiplied by the relevant workload statistic.

The audit determined that \$1,391,959 is allowable, which exceeds claimed costs by \$320,092, attributable to a significant audited increase in the number of waivers processed. The audit reduces some of the reported average staff times to implement the mandate 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 replaces the number of students used in the District calculation with student enrollment waiver data obtained by the auditor from the Chancellor's Office. The collective effect of these adjustments is a 30 increase to the 31,625 claimed mandate program hours to 41,051. There is a similar increase of the \$1,071,867 in claimed costs to \$1,391,959. However, based on the audited number of waivers of 143,479 for the audit period, the imputed audited average time for all six activities is an unlikely 17.2 minutes and \$9.70 per waiver.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 12-year audit period (FY 1998-99 is not included in this part of the mandate). Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 7 through 11 and no staff time was allowed for Activity 12.

For Activities 7 through 11, processing the enrollment fee waiver application, the District claimed average times per student transaction of 24 to 36.9 minutes over the 12 years. The auditor decided that the good faith time estimates reported by District staff are not acceptable source documentation of actual costs and rejected the time estimates for the five activities. The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor also observed at the Financial Aid offices:

for activities 7 through 11, 74 transactions at the "front-counter" over several days. The average observed time to perform all five front-counter activities was 6.75 minutes.

for back-counter work for Activity 10, staff contacting 22 students to request additional information for an average of 9.46 minutes per student contact.

for back-counter work for Activity 11, staff completing 1,258 waivers in four batch processes by retrieving student's information from the FAFSA system, for an average time of 0.21 minutes. Also, staff filing 228 paper applications, for an average per application of 0.86 minutes.

The audited average time to perform all five activities (7 through 11) was 17.3 minutes, or 3.46 minutes per activity. This 28 to 53 reduction in audited time allowed is a significant source of claimed cost reduction, which is only mitigated by the increase in workload statistics below. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 143,479 over the 12-year period, of which 96 transactions were observed. The audit report does not state that the front-and back-counter procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have 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 average times per student of 7 minutes to 11.9 minutes for ten fiscal years in the audit period. The auditor was unable to observe this process during the week of fieldwork because no appeals were received. Without this observation, the audit report defaults to total disallowance of this activity. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

District staff indicated that students can be denied a BOGG fee waiver application based on household size, and residency. If students are denied because of the income requirement, staff encourages students to complete the FAFSA for potential BOGG C eligibility. Also, staff indicated that students can submit a petition to appeal a BOGG fee waiver in the case that an event in the life of the student occurred and the student can provide supporting documentation. Students can submit; IRS Tax Documentation, special conditions request, special circumstances petition, and any additional supporting documentation. Staff reviews the appealed BOGG fee waiver and supporting documentation to determine the eligibility status using professional judgment.

This should be sufficient to render a judgment on whether the time claimed was reasonable as the audit report does for other activities the auditor was unable to directly observe.

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 duplicated BOGG recipients. These corrections made by the auditor are not disputed at this time. For Activity 12, the audited multiplier is zero because the auditor did not observe the appeal process, which will be a subject of the incorrect reduction claim.

SCO's Comments

The finding and recommendation remain unchanged.

We noted that none of the statistics cited in the district's response for Finding 2 relate to this audit. Instead, all of the finding amounts and other statistics included in the district's response for Finding 2 relate to the SCO's audit of the Enrollment Fee Collection and Waivers Program

claims filed by Sierra Joint Community College District. That final audit report was issued on March 12, 2015 and is available for viewing on the SCO website (www.sco.ca.gov).

We addressed the central issues raised by the district in its response.

The district's response addressed two specific issues:

- Average activity time
- Workload multipliers

The district stated that its "good faith estimates" were not accepted by the SCO auditor as acceptable source documentation. We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances being claimed for these activities were overstated. 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 average estimated time allowances or verified that its average time estimates were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, costs were not supported in compliance with the documentation requirements as identified in the parameters and guidelines.

As the mandated activities took place at the district during the audit period, we assessed the reasonableness of the average time estimates used by the district to claim costs for the audit period. District employees completed certified survey forms provided by its mandated cost consultant during the audit period for waiving student fees activities. The district's based its average time estimates on the results of these survey forms. 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 reimbursable activities and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's average certified estimates ranged from 13.0 to 30.7 minutes for Activities 7 through 11 over the 13-year audit period for enrollment fee waivers (this cost component was not reimbursable for FY 1998-99). Our observations supported that the average estimated time allowances claimed for these activities were overstated. For example, while the district claimed average time to perform Activities 7 through 11 as high as 30.7 minutes, we observed an average time of 7.06 minutes for all five activities for the audit period.

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 nine 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 143,479 waiver transactions during the 12-year audit period [the audit period for enrollment fee waivers was 13 years, not 12 years] and that our sample, therefore, "does not constitute a representative "time study sample." 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 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. 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.

The district's response for this finding ends with an analysis of costs claimed for reimbursable Activity 12 (appealing a denied BOGG fee waiver application). As the response was based on audited information from another district, the response was factually incorrect. The response states that no costs were allowable for Activity 12. However, the district claimed costs totaling \$20,585 for Activity 12 and our audit found that \$16,673 is allowable.

**FINDING 3—
Overstated indirect
costs**

The district claimed indirect costs during the audit period totaling \$1,834,281 (\$1,155,066 for enrollment fee collection activities and \$679,215 for enrollment fee waivers activities). For enrollment fee collection activities, we found that \$287,633 is allowable and \$867,433 is unallowable. For enrollment fee waivers activities, we found that \$373,664 is allowable and \$305,551 is unallowable. The costs are unallowable because of the unallowable salaries and benefits identified in Findings 1 and 2 and misstated indirect cost rates for every year of the audit period.

Indirect Cost Rates Claimed

FY 1998-99 through FY 2011-12, the district claimed indirect costs using the SCO's FAM-29C methodology. For FY 1998-99 through FY 2003-04 and FY 2009-10, the district did not provide documentation showing how the indirect cost rates were calculated for those years.

Indirect Cost Rates Allowable

For FY 1998-99 through FY 2003-04, we calculated the indirect cost rates for those years using the SCO's FAM-29C methodology and current-year financial information contained in the district's CCFS-311 Annual Financial and Budget Reports (Expenditures by Instructional Activity).

For FY 2004-05, FY 2005-06, and FY 2006-07, we used the audited indirect cost rates from our audit of the district's Health Fee Elimination Program claims for those years published on April 30, 2009. In that audit, we noted that the district claimed indirect costs based on indirect cost rates prepared using the SCO's FAM-29C methodology. However, the district did not allocate direct and indirect costs as specified in the claiming instructions; therefore, we recalculated the rates consistent with the SCO's claiming instructions. The audited indirect cost rates for those years are the subject of an IRC filed with the Commission on October 5, 2009. That IRC has not yet been heard by the Commission.

For FY 2007-08, the district calculated its indirect cost rate based on the prior year's CCFS-311 financial information. Also, the district incorrectly classified Capital Outlay costs and Community Relations costs as indirect costs. We re-calculated the allowable indirect cost rate consistent with the SCO's claiming instructions based on actual costs that the district identified in its FY 2007-08 CCFS-311 report.

FY 2008-09, the district incorrectly classified Community Relations costs as indirect costs. Therefore, we re-calculated the indirect cost rate consistent with the SCO's FAM-29C methodology.

For FY 2009-10, we used the audited indirect cost rate from our review of the district's Health Fee Elimination Program claim which was issued on July 29, 2013. We noted that the district's indirect cost rate calculation and claimed costs did not comply with the parameters and guidelines and the SCO's claiming instructions for the following reasons:

- The district calculated its FY 2009-10 indirect cost rate based on actual costs from its CCFS-311 financial report from FY 2008-09 rather than FY 2009-10.
- The district incorrectly identified Community Relations costs as indirect costs.
- The district calculated indirect costs claimed by applying its indirect cost rate, based on salaries and benefits, to total direct costs.

We re-calculated the allowable indirect cost rate based on actual costs that the district identified in its FY 2009-10 CCFS-311 report and FY 2009-10 independent audit report.

For FY 2010-11 and FY 2011-12, the district calculated its indirect cost rates based on the prior year's CCFS-311 financial information and prior year's accumulated depreciation amounts for Capital Assets from its independent audit reports. In addition, the district incorrectly identified Community Relations costs as indirect costs. We re-calculated the allowable indirect cost rates for both years using SCO's FAM-29C methodology based on actual costs that the district identified in the applicable CCFS-311 report and independent audit report.

Based on our calculations, the district overstated its indirect cost rates for FY 1998-99 through FY 2003-04, FY 2005-06, FY 2006-07, and FY 2008-09 through FY 2010-11. Also, the district understated its indirect cost rates for FY 2004-05, FY 2007-08, and FY 2011-12.

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

<u>Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Difference</u>
1998-99	33.05%	13.13%	(19.92%)
1999-2000	32.67%	13.96%	(18.71%)
2000-01	30.93%	12.26%	(18.67%)
2001-02	30.98%	12.03%	(18.95%)
2002-03	26.87%	11.80%	(15.07%)
2003-04	26.35%	18.55%	(7.80%)
2004-05	34.88%	36.21%	1.33%
2005-06	36.38%	33.23%	(3.15%)
2006-07	41.07%	34.71%	(6.36%)
2007-08	39.01%	41.25%	2.24%
2008-09	42.62%	41.15%	(1.47%)
2009-10	42.62%	39.96%	(2.66%)
2010-11	43.93%	41.67%	(2.26%)
2011-12	43.23%	48.42%	5.19%

Enrollment Fee Collection

The district claimed \$1,155,066 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that indirect costs were overstated by the net amount of \$867,433 (\$78,706 due to indirect cost rate adjustments and \$788,727 due to the unallowable salaries and benefits identified in Finding 1). The district overstated the indirect cost rate for FY 1998-99 through FY 2003-04, FY 2005-06, FY 2006-07, and FY 2008-09 through FY 2010-11. In addition, the district overstated indirect costs for the audit period because of unallowable salaries and benefits identified in Finding 1.

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

Fiscal Year	Enrollment Fee Collection				
	Allowable S&B Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Adjusted Indirect Costs
1998-99	\$ 66,315	13.13%	\$ 8,707	\$ 44,096	\$ (35,389)
1999-2000	66,814	13.96%	9,327	48,534	(39,207)
2000-01	73,445	12.26%	9,004	50,119	(41,115)
2001-02	81,951	12.03%	9,859	55,611	(45,752)
2002-03	82,241	11.80%	9,704	53,546	(43,842)
2003-04	76,108	18.55%	14,118	48,551	(34,433)
2004-05	85,436	36.21%	30,936	60,486	(29,550)
2005-06	74,314	33.23%	24,695	81,641	(56,946)
2006-07	82,924	34.71%	28,783	101,489	(72,706)
2007-08	57,685	41.25%	23,795	85,316	(61,521)
2008-09	70,276	41.15%	28,919	133,691	(104,772)
2009-10	66,748	39.96%	26,673	176,896	(150,223)
2010-11	62,341	41.67%	25,977	155,669	(129,692)
2011-12	76,696	48.42%	37,136	59,421	(22,285)
Total	<u>\$ 1,023,294</u>		<u>\$ 287,633</u>	<u>\$ 1,155,066</u>	<u>\$ (867,433)</u>

Enrollment Fee Waivers

The district claimed \$679,215 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waiver activities. We found that indirect costs were overstated by the net amount of \$305,551 (\$27,189 due to indirect cost rate adjustments and \$278,362 due to the unallowable salaries and benefits identified in Finding 2). The district overstated the indirect cost rate for FY 1998-99 through FY 2003-04, FY 2005-06, FY 2006-07, and FY 2008-09 through FY 2010-11. In addition, the district overstated indirect costs for the audit period because of unallowable salaries and benefits identified in Finding 2.

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

Enrollment Fee Waivers					
Fiscal Year	Allowable Salaries and Benefits	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Adjusted Indirect Costs
1999-2000	\$ 17,340	13.96%	\$ 2,421	\$ 20,865	\$ (18,444)
2000-01	18,216	12.26%	2,233	21,840	(19,607)
2001-02	19,558	12.03%	2,353	23,108	(20,755)
2002-03	41,419	11.80%	4,887	22,118	(17,231)
2003-04	43,586	18.55%	8,085	34,706	(26,621)
2004-05	44,975	36.21%	16,285	42,832	(26,547)
2005-06	51,003	33.23%	16,948	27,713	(10,765)
2006-07	87,128	34.71%	30,242	36,233	(5,991)
2007-08	65,458	41.25%	27,001	28,016	(1,015)
2008-09	143,093	41.15%	58,883	74,044	(15,161)
2009-10	145,557	39.96%	58,165	133,432	(75,267)
2010-11	175,466	41.67%	73,117	126,618	(53,501)
2011-12	150,854	48.42%	73,044	87,690	(14,646)
Total	\$ 1,003,653		\$ 373,664	\$ 679,215	\$ (305,551)

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

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 totaling \$1,812,644 for enrollment fee collection activities. The audit concluded that \$181,326 is allowable and \$1,631,318 is unallowable. Most of this 90 reduction is attributable to Finding 1. The District claimed indirect costs \$466,283 for enrollment

fee waiver activities. The audit increased this amount by \$57,263 to \$523,546. Most of this increase is due to the increased audited number of enrollment fee waiver students used in Finding 2. If either of these findings are changed by the incorrect reduction claim, the indirect costs applied will change.

Calculation of the Rates

The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with all of the audited rates.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
1998-99	33.05%	13.13%	-19.92%
1999-00	32.67%	13.96%	-18.71%
2000-01	30.93%	12.26%	-18.67%
2001-02	30.98%	12.03%	-18.95%
2002-03	26.87%	11.80%	-15.07%
2003-04	26.35%	18.55%	-7.80%
2004-05	34.88%	36.21%	1.33%
2005-06	36.38%	33.23%	-3.15%
2006-07	41.07%	34.71%	-6.36%
2007-08	39.01%	41.25%	2.24%
2008-09	42.62%	41.15%	-1.47%
2009-10	42.62%	39.96%	-2.66%
2010-11	43.93%	41.67%	-2.26%
2001-12	43.23%	48.42%	5.19%

Both the District and the auditor used the Controller's FAM-29C methodology to calculate the indirect cost rate each year. Both the District and the Controller used the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311) to calculate the rates. As a source of some minor annual differences, the District used the prior year CCFS311 and the auditor used the current audit year report, which is a choice of consistent methods. Another source of minor differences derives from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method.

As the source of major differences prior to FY 2005-06, the District included capital costs and thereafter used the depreciation costs obtained from the District's CPA audited annual financial statements. The audit excluded the capital costs every year until FY 2004-05 and thereafter also used CPA depreciation expense. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. There are no regulations or pertinent generally accepted industry methods for the calculation of the indirect cost rate, 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. 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 Controller's Mandated Cost Manual for Community Colleges notes that "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, *California Code of Regulations* (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 the California Community Colleges Annual Financial Budget Report – Expenditures by Activity Report (CCFS-311) and in the district's annual audited financial statements.

The district stated that "The District utilized prior year CCSF-311 reports because it was "a choice of consistent methods." However, the method that the district used is irrelevant if it does not conform to the requirements identified in the parameters and guidelines. The parameters and guidelines state that "to be eligible for mandated cost reimbursement, only actual costs may be claimed." Actual costs related to any specific fiscal year are the actual costs incurred for "that year," not some other fiscal year.

The district's CCFS-311 financial reports were available well before the district's mandated cost claims were filed with the SCO. The 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 all of the district’s claims were due to the SCO to prepare indirect cost rates using financial data relevant to the proper fiscal year.

**FINDING 4—
Misstated offsetting
reimbursements**

The district claimed offsetting reimbursements totaling \$790,222 for enrollment fee collection and \$1,958,977 for enrollment fee waivers. We found that offsetting reimbursements were misstated by \$232,194 (overstated by \$4,285 and understated by \$236,479) for enrollment fee collection and misstated by \$581,660 (overstated by \$659,696 and understated by \$78,036) for enrollment fee waivers. The offsetting reimbursements were misstated primarily because of the unallowable salaries and benefits identified in Findings 1 and 2. In addition, offsetting reimbursements were misstated because the district did not report the correct amounts that it received from the California Community Colleges Chancellor’s Office (CCCCO) 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 \$1,029,949 during the audit period. We limited offsetting reimbursements received by the district to allowable direct and indirect costs.

Allowable direct and indirect costs applicable for the audit period related to enrollment fee collection activities totaled \$1,310,927. The offsets applicable to the audit period totaled \$1,022,416. The district claimed \$790,222. Consequently, the district understated offsetting reimbursements by \$232,194 (overstated by \$4,285 and understated by \$236,479).

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

Enrollment Fee Collection Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1998-99	\$ 75,022	\$ (25,113)	\$ (45,258)	\$ (45,258)	\$ (20,145)
1999-2000	76,141	(24,559)	(43,436)	(43,436)	(18,877)
2000-01	82,449	(26,474)	(43,484)	(43,484)	(17,010)
2001-02	91,810	(23,029)	(47,739)	(47,739)	(24,710)
2002-03	91,945	(24,001)	(52,805)	(52,805)	(28,804)
2003-04	90,226	(46,626)	(79,623)	(79,623)	(32,997)
2004-05	116,372	(82,891)	(103,019)	(103,019)	(20,128)
2005-06	99,009	(78,790)	(106,542)	(99,009)	(20,219)
2006-07	111,707	(100,448)	(96,163)	(96,163)	4,285
2007-08	81,480	(80,784)	(81,162)	(81,162)	(378)
2008-09	99,195	(80,892)	(81,381)	(81,381)	(489)
2009-10	93,421	(88,129)	(89,927)	(89,927)	(1,798)
2010-11	88,318	(79,410)	(79,410)	(79,410)	-
2011-12	113,832	(29,076)	(80,000)	(80,000)	(50,924)
Total	\$ 1,310,927	\$ (790,222)	\$ (1,029,949)	\$ (1,022,416)	\$ (232,194)

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$7,533 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (45,258)	\$ (45,258)	\$ -
1999-2000	(43,436)	(43,436)	-
2000-01	(43,484)	(43,484)	-
2001-02	(47,739)	(47,739)	-
2002-03	(52,805)	(52,805)	-
2003-04	(79,623)	(79,623)	-
2004-05	(103,019)	(103,019)	-
2005-06	(106,542)	(99,009)	(7,533)
2006-07	(96,163)	(96,163)	-
2007-08	(81,162)	(81,162)	-
2008-09	(81,381)	(81,381)	-
2009-10	(89,927)	(89,927)	-
2010-11	(79,410)	(79,410)	-
2011-12	(80,000)	(80,000)	-
Total	\$ (1,029,949)	\$ (1,022,416)	\$ (7,533)

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 CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$2,685,427 for the audit period. We also limited offsetting reimbursements received by the district to allowable direct and indirect costs.

Allowable direct and indirect costs applicable to the audit period related to enrollment fee waivers activities totaled \$1,377,317 and the offsets applicable to the audit period also totaled \$1,377,317. The district claimed \$1,958,977. As a result, the district overstated offsetting reimbursements by \$581,660 (overstated by \$659,696 and understated by \$78,036).

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

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1999-2000	\$ 19,761	\$ (63,866)	\$ (122,531)	\$ (19,761)	\$ 44,105
2000-01	20,449	(70,611)	(134,522)	(20,449)	50,162
2001-02	21,911	(74,591)	(131,942)	(21,911)	52,680
2002-03	46,306	(82,314)	(143,315)	(46,306)	36,008
2003-04	51,671	(131,710)	(166,996)	(51,671)	80,039
2004-05	61,260	(122,798)	(227,160)	(61,260)	61,538
2005-06	67,951	(76,176)	(208,412)	(67,951)	8,225
2006-07	117,370	(88,222)	(241,102)	(117,370)	(29,148)
2007-08	92,459	(71,817)	(227,719)	(92,459)	(20,642)
2008-09	201,976	(173,730)	(228,686)	(201,976)	(28,246)
2009-10	203,722	(337,197)	(250,256)	(203,722)	133,475
2010-11	248,583	(375,411)	(293,166)	(248,583)	126,828
2011-12	223,898	(290,534)	(309,620)	(223,898)	66,636
Total	\$ 1,377,317	\$ (1,958,977)	\$ (2,685,427)	\$ (1,377,317)	\$ 581,660

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$1,308,110, as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (122,531)	\$ (19,761)	\$ (102,770)
2000-01	(134,522)	(20,449)	(114,073)
2001-02	(131,942)	(21,911)	(110,031)
2002-03	(143,315)	(46,306)	(97,009)
2003-04	(166,996)	(51,671)	(115,325)
2004-05	(227,160)	(61,260)	(165,900)
2005-06	(208,412)	(67,951)	(140,461)
2006-07	(241,102)	(117,370)	(123,732)
2007-08	(227,719)	(92,459)	(135,260)
2008-09	(228,686)	(201,976)	(26,710)
2009-10	(250,256)	(203,722)	(46,534)
2010-11	(293,166)	(248,583)	(44,583)
2011-12	(309,620)	(223,898)	(85,722)
Total	\$ (2,685,427)	\$ (1,377,317)	\$ (1,308,110)

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 costs 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 or recipients of public assistance, or dependents or surviving spouses of National Guard soldiers killed in the line of duty 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 9h0 [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].

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.

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 recommended 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 statewide statutory rates and not actual cost of the program to the District. The offsetting program revenue amounts are applied to the audited direct and indirect costs. 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 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.

The District claimed offsetting reimbursements totaling \$575,727 for enrollment fee collection and \$1,232,700 for enrollment fee waivers. The draft audit report states that the offsetting reimbursements were misstated by \$152,631 for enrollment fee collection and misstated by \$196,165 for enrollment fee waivers. The audited applicable offsetting revenue amounts exceed the audited direct and indirect costs activity costs in Findings 1, 2, and 3 for most of the 13 years. These become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amounts are \$298,791 for enrollment fee collection and \$60,836 for enrollment fee waivers.

The offsetting revenues were "misstated" because the District amounts did not always match the same revenue amounts as the California Community Colleges Chancellor's Office (CCCCO) for enrollment fee collection or enrollment fee waivers. The audit report amounts are based on a post-facto specific data query to the Chancellor's data using seasoned data not available at the time of the claim preparation. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information and the number of units waived, which would be a continuing source of minor differences.

As a new issue, there is no dispute of these audited potential revenue offset amounts at this time. However, only the relevant revenue offsets should be applied to the relevant mandated activity costs claimed or allowed. Specifically, in Finding 1 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for online transaction percentages retroactive to FY 2002-03. That is, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit incorrectly applies all of the program revenues, that is, the revenues generated by both the in-person and online computer collections, to the audited enrollment fee in-person only collection costs.

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 in order to properly match revenues and costs as required by generally accepted accounting principles.

SCO's Comments

The finding and recommendation remain unchanged.

We noted that none of the statistics cited in the district's response for Finding 4 relate to this audit. Instead, all of the finding amounts and other statistics in the district's response for Finding 4 relate to our audit of the Enrollment Fee Collection and Waivers Program claims filed by Sierra Joint Community College District. That audit report was issued on March 12, 2015 and is available for viewing on the SCO website (www.sco.ca.gov).

We addressed the central issues raised by the district in its response.

The district does not dispute the "potential" revenue offset amounts. However, the district stated its belief that the audited revenue offsets within Finding 1 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 activity of preparing policies and procedures as well as 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 average productive hourly rates of district staff that performed these activities.

**FINDING 5—
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 6) and for employees involved in waiving student fees (Activities 7 through 12). However, the district misstated (understated and overstated) the average productive hourly rates for every year in the audit period.

Productive Hourly Rates Claimed

The district calculated its average productive hourly rates during the audit period using a straight average methodology. The district calculated an average productive hourly rate for the employees involved in enrollment fee collection activities by calculating each employee's productive hourly rate, adding up the total of individual productive hourly rates, and dividing by the number of employees. In its calculations, the district did not weigh the 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 average productive hourly rates for district staff who performed the reimbursable activities at widely varying levels may not provide a reasonable result.

To calculate the productive hourly rate averages for the entire audit period, the district multiplied each employee's salaries and benefits by 1,800 productive hours. However, rather than computing rates based on the actual salaries and benefits paid to individual employees, the district computed productive hourly rates using an average amount based on the salary range of each employee classification. We also found certain district staff included in the district's claims who did not perform the reimbursable activities.

Allowable Productive Hourly Rates

During the course of the audit, we requested source documents containing the actual salary and benefit data for district staff implementing the Enrollment Fee Collection and Waivers Program for each fiscal year of the audit period. Based on the information provided, we concluded that the district's average productive hourly rates were understated for enrollment collection activities and misstated (understated and overstated) for enrollment fee waivers activities.

The district changed computer systems in 2004; therefore, for FY 1998-99 through FY 2003-04, the district provided payroll information retrieved from their prior computer system. The district provided an Excel document that contained salaries and benefits information for various employees. The Excel document contained staff salary and benefit information; however, the information was difficult to retrieve. For FY 2004-05 through FY 2011-12, the district provided payroll information for individual staff members. The data included staff salary and benefit amounts by month; however, the payroll information was not provided for

every staff member claimed. Using the data provided, we were able to test at least 40% of claimed staff (per year) for those years. For FY 2004-05 through FY 2011-12, we made rate adjustments based on the testing results. For FY 1998-99 through FY 2003-04, we made rate adjustments based on averages resulting from tested rates.

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

As noted above, 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 determined the following level of involvement by district staff to perform the reimbursable activities based on our discussions with district staff and our observations of the reimbursable activities being performed:

- Classified salaried staff – we allocated an 80% weight of involvement for the audit period.
- Supervisory staff – we allocated a 20% weight of involvement for the audit period.

As noted above, we worked with district staff to obtain actual salary and benefit information for district staff that performed the reimbursable activities during the audit period.

Staff Excluded Prior to Testing

The district included staff in its claims during the audit period who did not perform the reimbursable activities of collecting enrollment fees from students. We excluded these staff members from the average productive hourly rate calculations:

- FY 2004-05 through FY 2008-09 – the Administrative Secretary and the Business Manager
- FY 2009-10 and FY 2010-11 – one Financial Aid Technician
- FY 2011-12 – one Financial Aid Technician and one Financial Aid Specialist

Support Provided

The district provided support from its payroll system for salaries and benefits amounts paid to staff each year as follows:

- FY 2004-05 – 7 out of 14 eligible staff members selected for testing
- FY 2005-06 – 9 out of 15 eligible staff members selected for testing
- FY 2006-07 – 7 out of 14 eligible staff members selected for testing
- FY 2007-08 – 4 out of 13 eligible staff members selected for testing
- FY 2008-09 – 6 out of 12 eligible staff members selected for testing

- FY 2009-10 and FY 2010-11 – all 4 eligible staff members selected for testing
- FY 2011-12 – 5 out of 6 eligible staff members selected for testing

Support not Provided

We were missing payroll information for certain district staff for six of the seven fiscal years, as noted above. Therefore, in order to properly adjust the productive hourly rates for staff members for whom information was missing, we used the following methodology:

- We used average salary and benefit amounts for certain employee classifications based on the actual information provided for employees within each classification. For example – productive hourly rates for Account Tech I(s) in FY 2004-05 averaged \$29.55 based on actual salary and benefit information provided for two employees within that classification. Therefore, we applied that rate to any other staff members in that classification for whom we did not have actual salary and benefit information from the district's payroll reports.
- For those employee classifications for which we had no verified salary and benefit information, we used average productive hourly rates for employees who had identical salary and benefit amounts as reported in the district's claims. For example, the average productive hourly rate for two employees claimed with salary amounts of \$47,700 per year actually was \$37.18, based on information provided from the district's payroll reports. Therefore, we used the \$37.18 rate for any other employees included in the district's claims whose total salaries and benefits were reported at \$47,700 per year.

Based on the methodology described above, we adjusted the claimed productive hourly rates for district staff as follows:

- For FY 2004-05, we used average verified rates for eight district staff. This included one Account Technician, one Account Technician I, one Account Technician II, one Fiscal Service Technician, and four Fiscal Analysts I(s).
- For FY 2005-06 and FY 2006-07, we used average verified rates for seven district staff. This included one Account Technician, three Account Technician I(s), one Fiscal Service Technician, and two Fiscal Analyst I(s).
- For FY 2007-08, we used average verified rates for nine district staff. This included one Account Technician, four Account Technician I(s), one Fiscal Service technician, and three Fiscal Analyst I(s).
- For FY 2008-09, we used average verified rates for six district staff. This included one Account Technician, three Account technician I(s), and two Fiscal Analyst I(s).
- For FY 2011-12, we used the average verified rate for one Account Technician.

The table below summarizes the changes that we made to average productive hourly rates for enrollment fee collection activities for FY 2004-05 through FY 2011-12. The table also includes our calculation supporting that allowable productive hourly rates exceeded claimed rates by an average of \$8.77 per year. We used this information to adjust claimed rates for FY 1998-99 through FY 2003-04.

Fiscal Year	Claimed	Allowable	Adjustment	Average
2004-05	\$ 24.80	\$ 40.81	\$ 16.01	\$ 8.77
2005-06	30.28	36.73	6.45	
2006-07	31.74	36.51	4.77	
2007-08	33.91	43.53	9.62	
2008-09	38.59	44.33	5.74	
2009-10	33.60	42.34	8.74	
2010-11	35.33	43.62	8.29	
2011-12	34.46	45.03	10.57	

PHR Analysis for FY 1998-99 through FY 2003-04

For FY 1998-99 through FY 2003-04, we did not test the rates because, as noted previously, the payroll information was not readily available. Therefore, we used the adjustment results from the years tested (FY 2004-05 through FY 2011-12) to calculate average productive hourly rates. As noted in the table above, productive hourly rates increased by an average of \$8.77 for those years. Therefore, we applied the \$8.77 increase to the claimed productive hourly rates for FY 1998-99 through FY 2003-04.

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

Fiscal Year	Claimed	Rate Increase	Allowable
1998-99	\$ 21.42	\$ 8.77	\$ 30.19
1999-2000	23.01	8.77	31.78
2000-01	24.04	8.77	32.81
2001-02	24.62	8.77	33.39
2002-03	25.14	8.77	33.91
2003-04	25.14	8.77	33.91

We found that the district understated the average productive hourly rates used in its claims for enrollment fee collection activities for all fiscal years of the audit period.

The following table summarizes the changes that we made to average productive hourly rates for enrollment fee collection activities for all years of the audit period:

Fiscal Year	Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Adjustment Average Productive Hourly Rate
1998-99	\$ 21.42	\$ 30.19	\$ 8.77
1999-2000	23.01	31.78	8.77
2000-01	24.04	32.81	8.77
2001-02	24.62	33.39	8.77
2002-03	25.14	33.91	8.77
2003-04	25.14	33.91	8.77
2004-05	24.80	40.81	16.01
2005-06	30.28	36.73	6.45
2006-07	31.74	36.49	4.75
2007-08	33.91	43.28	9.37
2008-09	38.59	44.33	5.74
2009-10	33.60	42.34	8.74
2010-11	35.33	43.62	8.29
2011-12	34.46	45.03	10.57

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

Based on our discussions with district staff and our observations of the reimbursable activities being performed, we noted that there was no need to weight the involvement of district staff to perform the reimbursable activities related to waiving student fees, as the staff involved all performed the activities to the same extent.

Staff Excluded Prior to Testing

For FY 2009-10 through FY 2011-12, the district included one Accounting Assistant who did not perform the reimbursable activities. For FY 2004-05 through FY 2008-09, the district claimed two staff members who were not working for the district during the fiscal year claimed. Therefore, we excluded them prior to testing.

Support Provided

The district provided support from its payroll system for salaries and benefits amounts paid to staff each year as follows:

- FY 2004-05, FY 2005-06, and 2006-07 – 3 out of 5 eligible staff selected for testing
- FY 2007-08 – 5 out of 6 eligible staff selected for testing
- FY 2008-09 – 2 out of 4 eligible staff selected for testing

- FY 2009-10 – support for 1 employee; however, that employee did not perform mandate-related activities
- FY 2010-11 – support for the only staff eligible for testing
- FY 2011-12 – 1 out of 2 eligible staff selected for testing

The table below summarizes the changes that we made to average productive hourly rates for enrollment fee collection activities for FY 2004-05 through FY 2011-12. The table also includes our calculation supporting that allowable productive hourly rates exceeded claimed rates by an average of \$3.60 per year. We used this information to adjust claimed rates for FY 1998-99 through FY 2003-04.

Fiscal Year	Claimed	Allowable	Adjustment	Average
2004-05	\$ 20.52	\$ 20.23	\$ (0.29)	} \$ 3.60
2005-06	21.38	21.16	(0.22)	
2006-07	23.21	27.38	4.17	
2007-08	25.74	25.74	-	
2008-09	34.00	34.77	0.77	
2010-11	30.10	40.63	10.53	
2011-12	29.27	39.54	10.27	

PHR Analysis for FY 1998-99 through FY 2003-04

For FY 1999-2000 through FY 2003-04 and FY 2009-10 we did not test the rates; therefore, we used the adjustment results from the years tested (FY 2004-05 through FY 2008-09, FY 2010-11, and 2011-12) to calculate average productive hourly rates for those years. As shown in the table above, we applied the \$3.60 rate increase to the claimed productive hourly rates for FY 1999-2000 through FY 2003-04 and FY 2009-10.

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

Fiscal Year	Claimed	Rate Increase	Allowable
1999-2000	\$ 18.46	\$ 3.60	\$ 22.06
2000-01	19.24	3.60	22.84
2001-02	19.57	3.60	23.17
2002-03	20.17	3.60	23.77
2003-04	20.17	3.60	23.77
2009-10	30.10	3.60	33.70

We found that the district misstated (understated and overstated) the average productive hourly rates used in its claims for enrollment fee waivers activities for all fiscal years of the audit period except FY 2007-08.

The following table summarizes the changes that we made to average productive hourly rates for enrollment fee waivers activities for all years of the audit period:

Fiscal Year	Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Adjustment Average Productive Hourly Rate
1999-2000	\$ 18.46	\$ 22.06	\$ 3.60
2000-01	19.24	22.84	3.60
2001-02	19.57	23.17	3.60
2002-03	20.17	23.77	3.60
2003-04	20.17	23.77	3.60
2004-05	20.52	20.23	(0.29)
2005-06	21.38	21.16	(0.22)
2006-07	23.21	27.38	4.17
2007-08	25.74	25.74	-
2008-09	34.00	34.77	0.77
2009-10	30.10	33.70	3.60
2010-11	30.10	40.63	10.53
2011-12	29.27	39.54	10.27

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).

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 productive hourly rates were described as “misstated” by the Controller because the District opted to average the productive hourly rate by calculating each employee’s productive hourly rate, adding up the total individual productive hourly rates, and dividing by the number of employees. If in the future, the District decides to stop participating in the Mandated Cost Block Grant and returns to completing annual claims, then at that point the District will use the productive hourly rate calculation methodology preferred by the State Controller.

SCO's Comments

The district did not dispute the audit finding.

**OTHER ISSUE—
Documentation
Standards**

District's Response

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

SCO's Comments

The district correctly notes 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 was adopted on April 24, 2003. On page 22 of that document, it states that the Commission on State Mandates agreed that the test claim legislation imposes a partially reimbursable State-mandated program on community college districts for the following activities:

- Calculating and collecting the student enrollment fee for each student except for non-residents, 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” that the mandated program existed 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 2004-05. The audit period includes district-filed annual claims for the mandated program for an additional seven fiscal years beyond the initial filing period. However, none of the claims filed by the district for any of the fourteen years in the audit period include any 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 the reimbursable activities and expanded audit procedures as necessary to determine the allowable portion of claimed costs.

**OTHER ISSUE—
Public Records Act
Request**

District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. 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 Public Records Act request separately from the audit report.

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



Yosemite Community College District

P.O. Box 4065 / Modesto, CA 95352 / 2201 Blue Gum Avenue
Phone (209) 575-6530 / FAX (209) 575-6562

October 12, 2015

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

Dear Mr. Spano:

**Re: Enrollment Fee Collection and Waivers
FY 1998-99 through FY 2011-12
Yosemite Community College District**

This letter is the response of the Yosemite Community College District to the draft audit report dated September 30, 2015, received by e-mail on September 30, 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.

Ninety-three percent of the amounts claimed for reimbursement for all fiscal years audited 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 to implement the mandate program is needed. The majority of the direct costs claimed is the staff time, and most of that cost is 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 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.

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.

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 cost accounting 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 were 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 are 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.

AUDIT FINDINGS

FINDING 1 Enrollment fee Collection: Calculating and Collecting Enrollment Fees Cost Component- overstated ongoing costs

It should be noted that the audit period dates back to 1998 through 2012. A 16-year period which by audit standards is unquestionably an unreasonable delay to perform an audit. Processes change, technology changes, facilities and staffing change. In addition to the

unreasonable amount of time that lapsed between the time the claims were filed to the time when the audit began in 2013, the program's parameters and guidelines were not even established and provided by the state until 2006.

The Yosemite Community College District in good faith and practicing due diligence contracted with expert consultants in the area of State Mandated Cost claims to compile the claims. The District did this to be sure that the District did not misinterpret the guidelines and filed complete and accurate claims. The fact that the state waited 16 years to review and audit claims is unconscionable.

The District claimed \$3,117,078 in salaries and benefits for the enrollment fees cost component during the audit period. 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 (not adjusted by the audit), then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee).

The draft audit states that \$1,023,154 is allowable and \$2,093,924 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 Chancellors Office and reduces the number of students who paid their enrollment fees online rather than in person. The collective effect of these adjustments is an 74% reduction of the 105,842 claimed mandate program hours to 27,666. There is a similar magnitude of reduction of the \$3,117,078 in claimed costs. Based on the audited net enrollment of 560,041 for the audit period, the imputed audited average time for, all six activities is an improbable 2.9 minutes and 96 cents per enrollment.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 16-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities.

These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 1 through 4 and accepted for Activities 5 and 6 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 15.7 to 27.7 minutes over the 16 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 308 transactions at the Bursar's Office over ten days, of which 60 involved the payment of enrollment fees encompassing Activities 1 through 4. The average observed time to perform all four activities was 3.44 minutes, or 0.86 minutes per activity.

This 78 to 88 reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited net enrollment transactions are 560,041 over the 16-year period, of which 308 student transactions were observed during the audit period. The audit report does

not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these District procedures have 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 5, collecting delinquent fees, the District claimed for four of the years a time average of 3 minutes or 6 minutes per student derived from two staff surveys. The audit concludes from discussion with program staff that the District performed relevant ongoing activities to collect the enrollment fees and allowed the claimed average times.

For Activity 6, providing a refund when fee waiver eligibility is established after enrollment fee collection, the District claimed average times ranging from 2 minutes to 4.6 minutes per student over 11 years. The audit report allows these claimed averages as reasonable based on observations and the program staffs explanation of the process.

B. Workload multipliers

For Activities 1 through 4, collecting the enrollment fee, the combined average staff time for each activity is multiplied by a specific enrollment statistic to determine the claimable staff time. Both the District and the auditor used this method. The draft audit report rejects the Chancellor's MIS enrollment data reported by the District and substitutes modified MIS enrollment data the auditor obtained from the Chancellor's Office. The audited workload multipliers remove the number of duplicated students, nonresident students, and special admit students. The District does not dispute these statistics.

These audit statistics are further reduced for the percentage of online enrollment fee collections. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no online fee collection, so it was not a factor for the annual claim workload statistics. The District workload multipliers treated all enrollment fee collection transactions as an "in-person" transaction at the cashier's office. However, commencing FY 2002-03, the District began to establish an automated process that later evolved into internet online method to collect the enrollment fee. At the auditor's request, the District surveyed the number of online and total payment transactions for FY 2009-10 and FY 2010-11. The survey indicated that by the end of the audit period about 80 of the transactions were performed online. In the absence of documentation available in the usual course of business to determine the online percentage for each previous year, the audit reduced the online percentage by 9 each year retroactive to FY 2002-03. This method appears reasonable given the documentation constraints. However, the audit findings do not replace the time lost from these eliminated online transactions with the costs to operate the online payment collection process. Thus, no costs are recognized in the audit for the online transactions.

For Activity 5, collecting delinquent enrollment fees, the auditor accepted the number of delinquent fees processed based on the District source data and because the claimed multiplier represents less than one percent of the allowable enrollment statistics.

For Activity 6, providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected, the District provided and the auditor accepted the number of refunds processed, for the stated reason that the statistic represents one percent of the allowable enrollment statistic.

FINDING 2 Enrollment Fee Waivers: Waiving Student Fees cost component

The District claimed \$1,071,867 in salaries and benefits for 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 based on average time to implement each activity, multiplied by the average productive hourly rate (not adjusted by the audit) for the relevant positions, then multiplied by the relevant workload statistic.

The audit determined that \$1,391,959 is allowable, which exceeds claimed costs by \$320,092, attributable to a significant audited increase in the number of waivers processed. The audit reduces some of the reported average staff times to implement the mandate 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 replaces the number of students used in the District calculation with student enrollment waiver data obtained by the auditor from the Chancellor's Office. The collective effect of these adjustments is a 30 increase to the 31,625 claimed mandate program hours to 41,051. There is a similar increase of the \$1,071,867 in claimed costs to \$1,391,959. However, based on the audited number of waivers of 143,479 for the audit period, the imputed audited average time for all six activities is an unlikely 17.2 minutes and \$9.70 per waiver.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 12-year audit period (FY 1998-99 is not included in this part of the mandate). Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 7 through 11 and no staff time was allowed for Activity 12.

For Activities 7 through 11, processing the enrollment fee waiver application, the District claimed average times per student transaction of 24 to 36.9 minutes over the 12 years. The auditor decided that the good faith time estimates reported by District staff are not acceptable source documentation of actual costs and rejected the time estimates for the five activities. The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor also observed at the Financial Aid offices:

for activities 7 through 11, 74 transactions at the "front-counter" over several days. The average observed time to perform all five front-counter activities was 6.75 minutes.

for back-counter work for Activity 10, staff contacting 22 students to request additional information for an average of 9.46 minutes per student contact.

for back-counter work for Activity 11, staff completing 1,258 waivers in four batch processes by retrieving student's information from the FAFSA system, for an average time of 0.21 minutes. Also, staff filing 228 paper applications, for an average per application of 0.86 minutes.

The audited average time to perform all five activities (7 through 11) was 17.3 minutes, or 3.46 minutes per activity. This 28 to 53 reduction in audited time allowed is a significant source of

the claimed cost reduction, which is only mitigated by the increase in workload statistics below. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 143,479 over the 12-year period, of which 96 transactions were observed. The audit report does not state that the front- and back-counter procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have 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 average times per student of 7 minutes to 11.9 minutes for ten fiscal years in the audit period. The auditor was unable to observe this process during the week of fieldwork because no appeals were received. Without this observation, the audit report defaults to total disallowance of this activity. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

District staff indicated that students can be denied a BOGG fee waiver application based on household size, and residency. If students are denied because of the income requirement, staff encourages students to complete the FAFSA for potential BOGG C eligibility. Also, staff indicated that students can submit a petition to appeal a BOGG fee waiver in the case that an event in the life of the student occurred and the student can provide supporting documentation. Students can submit; IRS Tax Documentation, special conditions request, special circumstances petition, and any additional supporting documentation. Staff reviews the appealed BOGG fee waiver and supporting documentation to determine the eligibility status using professional judgment.

This should be sufficient to render a judgment on whether the time claimed was reasonable as the audit report does for other activities the auditor was unable to directly observe.

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 duplicated BOGG recipients. These corrections made by the auditor are not disputed at this time. For Activity 12, the audited multiplier is zero because the auditor did not observe the appeal process, which will be a subject of the incorrect reduction claim.

FINDING 3 Overstated 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.

Direct Cost Adjustments

The District claimed indirect costs totaling \$1,812,644 for enrollment fee collection activities. The audit concluded that \$181,326 is allowable and \$1,631,318 is unallowable. Most of this 90 reduction is attributable to Finding 1. The District claimed indirect costs \$466,283 for

enrollment fee waiver activities. The audit increased this amount by \$57,263 to \$523,546. Most of this increase is due to the increased audited number of enrollment fee waiver students used in Finding 2. If either of these findings are changed by the incorrect reduction claim, the indirect costs applied will change.

Calculation of the Rates

The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with all of the audited rates.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
1998-99	33.05%	13.13%	-19.92%
1999-00	32.67%	13.96%	-18.71%
2000-01	30.93%	12.26%	-18.67%
2001-02	30.98%	12.03%	-18.95%
2002-03	26.87%	11.80%	-15.07%
2003-04	26.35%	18.55%	-7.80%
2004-05	34.88%	36.21%	1.33%
2005-06	36.38%	33.23%	-3.15%
2006-07	41.07%	34.71%	-6.36%
2007-08	39.01%	41.25%	2.24%
2008-09	42.62%	41.15%	-1.47%
2009-10	42.62%	39.96%	-2.66%
2010-11	43.93%	41.67%	-2.26%
2001-12	43.23%	48.42%	5.19%

Both the District and the auditor used the Controller's FAM-29C methodology to calculate the indirect cost rate each year. Both the District and the Controller used the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311) to calculate the rates. As a source of some minor annual differences, the District used the prior year CCFS-311 and the auditor used the current audit year report, which is a choice of consistent methods. Another source of minor differences derives from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method.

As the source of major differences prior to FY 2005-06, the District included capital costs and thereafter used the depreciation costs obtained from the District's CPA audited annual financial statements. The audit excluded the capital costs every year until FY 2004-05 and thereafter also used CPA depreciation expense. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. There are no regulations or pertinent generally accepted industry methods for the calculation of the indirect cost rate, 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 4 Misstated offsetting reimbursements

The offsetting amounts are not actually "reimbursements," rather they are funds provided by the state to implement the program and are based on statewide statutory rates and not actual cost of the program to the District. The offsetting program revenue amounts are applied to the audited direct and indirect costs. 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 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.

The District claimed offsetting reimbursements totaling \$575,727 for enrollment fee collection and \$1,232,700 for enrollment fee waivers. The draft audit report states that the offsetting reimbursements were misstated by \$152,631 for enrollment fee collection and misstated by \$196,165 for enrollment fee waivers. The audited applicable offsetting revenue amounts exceed the audited direct and indirect costs activity costs in Findings 1, 2, and 3 for most of the 13 years. These become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amounts are \$298,791 for enrollment fee collection and \$60,836 for enrollment fee waivers.

The offsetting revenues were "misstated" because the District amounts did not always match the same revenue amounts as the California Community Colleges Chancellor's Office (CCCCO) for enrollment fee collection or enrollment fee waivers. The audit report amounts are based on a post-facto specific data query to the Chancellor's data using seasoned data not available at the time of the claim preparation. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information and the number of units waived, which would be a continuing source of minor differences.

As a new issue, there is no dispute of these audited *potential* revenue offset amounts at this time. *However, only the relevant revenue offsets should be applied to the relevant mandated activity costs claimed or allowed.* Specifically, in Finding 1 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for online transaction percentages retroactive to FY 2002-03. That is, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit incorrectly applies all of the program revenues, that is, the revenues generated by both the in-person and online computer collections, to the audited enrollment fee in-person only collection costs. 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 in order to properly match revenues and costs as required by generally accepted accounting principles.

FINDING 5 Misstated productive hourly rates for the calculate and collect enrollment fees, and waive student fees cost components

The productive hourly rates were described as "misstated" by the Controller because the District opted to average the productive hourly rate by calculating each employee's productive hourly rate, adding up the total individual productive hourly rates, and dividing by the number of employees. If in the future, the District decides to stop participating in the Mandated Cost Block Grant and returns to completing annual claims, then at that point the District will use the productive hourly rate calculation methodology preferred by the State Controller.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. 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 that reads "Teresa M. Scott".

Teresa M. Scott
Executive Vice Chancellor

TMS/cs

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

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