LONG BEACH COMMUNITY COLLEGE DISTRICT

Reissued 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, 2008; and July 1, 2010, through June 30, 2012

BETTY T. YEE
California State Controller

November 2016

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California State Controller

November 16, 2016

Dr. Virginia Baxter, President
Board of Trustees
Long Beach Community College District
4901 East Carson Street
Long Beach, CA 90808

Dear Dr. Baxter:

The State Controller's Office audited the costs claimed by the Long Beach 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, 2008; and July 1, 2010, through June 30, 2012.

This report is a reissue of the September 29, 2016 report to reflect a payment totaling $239,522 pursuant to Senate Bill No. 858 related to the district's claim for fiscal year 2001-02.

The district claimed $3,833,711 for the mandated program. Our audit found that $125,303 is allowable ($126,946 less a $1,643 penalty for filing a late claim) and $3,708,408 is unallowable. The costs are unallowable because the district estimated costs that were not supported by source documentation, overstated time increments, overstated contracted services in calculating and collecting enrollment fees, claimed unallowable one-time costs for preparing policies and procedures and staff training for the enrollment fee waiver, understated salaries and benefits for waiving student fees, overstated indirect costs, misstated offsetting reimbursements, and misstated productive hourly rates. The State paid the district $814,536. The amount paid exceeds allowable costs claimed by $689,233.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ls

cc: Ann-Marie Gabel, Vice President
Administrative Services
Long Beach Community College District
Eloy O. Oakley, Superintendent-President
Long Beach Community College District
John Thompson, Director, Fiscal Services and Payroll
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Attachment—District's Response to Draft Audit Report

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Long Beach 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, 2008; and July 1, 2010, through June 30, 2012.

The district claimed $3,833,711 for the mandated program. Our audit found that $125,303 is allowable ($126,946 less a $1,643 penalty for filing a late claim) and $3,708,408 is unallowable. The costs are unallowable because the district estimated costs that were not supported by source documentation, overstated time increments, overstated contracted services in calculating and collecting enrollment fees, claimed unallowable one-time costs for preparing policies and procedures and staff training for the enrollment fee waiver, understated salaries and benefits for waiving student fees, overstated indirect costs, misstated offsetting reimbursements, and misstated productive hourly rates. The State paid the district $814,536. The amount paid exceeds allowable costs claimed by $689,233.

Background

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

The sections were added and/or amended by:

- Chapters 1, 274 and 1401, Statutes of 1984
- Chapters 920 and 1454, Statutes of 1985
- Chapters 46 and 395, Statutes of 1986
- Chapter 1118, Statutes of 1987
- Chapter 136, Statutes of 1989
- Chapter 114, Statutes of 1991
- Chapter 703, Statutes of 1992
- Chapters 8, 66, 67, and 1124, Statutes of 1993
- Chapters 153 and 422, Statutes of 1994
- 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 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 will 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 which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

The program's parameters and guidelines establish the State mandated 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 this performance 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, 2008; and July 1, 2010, through June 30, 2012.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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. We did

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

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

- 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 Long Beach Community College District claimed $3,833,711 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that $125,303 is allowable ($126,946 less a $1,643 penalty for filing a late claim) and $3,708,408 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district $165,980 ($18,783 as a regular mandated cost payment on September 13, 2012, and $147,197 on January 8, 2015, from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858)). Our audit found that the claimed costs are unallowable. The State will apply $147,197 against any balances of unpaid mandated program claims due the district as of June 20, 2014. The State will offset $18,783 from other mandated program payments due the district or, alternatively, the district may remit this amount to the State.

For the FY 1999-2000 claim, the State paid the district $200,301 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that the claimed costs are unallowable. The State will apply $200,301 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 $208,733 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that the claimed costs are unallowable. The State will apply $208,733 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 $239,522 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that the claimed costs are unallowable. The State will apply $239,522 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2002-03 claim, the State made no payment to the district. Our audit found that $14,782 is allowable ($16,425 less a $1,643 penalty for filing a late claim). The State will pay allowable costs claimed, contingent upon available appropriations.

For the FY 2003-04 through FY 2005-06 claims, the State made no payment to the district. Our audit found that none of the claimed costs are allowable.

For the FY 2006-07 through FY 2007-08, and FY 2010-11 through FY 2011-12 claims, the State made no payments to the district. Our audit found that $110,521 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on August 1, 2016, and an initial final audit report on September 29, 2016. John Thompson, Director, Fiscal Services, responded to the draft report by letter dated August 11, 2016 (Attachment), disagreeing with the audit results. However, for Findings 2, 5, and 8, the district stated that it has no further information at this time. This revised final audit report includes the district's response.

Reason for Reissuance

We revised our audit report to reflect a payment made, totaling $239,522, pursuant to Senate Bill No. 858 (Chapter 32, Statutes of 2014) related to the district's claim for FY 2001-02. The revision is reflected in the Revised Schedule—Summary of Program Costs, which now includes this payment amount. This payment increased the total amount paid by the State from $575,014 to $814,536 for the audit period. The unallowable costs did not change. We advised Anne-Marie Gabel, Vice President, Administrative Services, and Robert Rapoza, Internal Audit Manager, by email on October 12, 2016, of the revision regarding the payment made on the district's FY 2001-02 claim.

Restricted Use

This report is solely for the information and use of the Long Beach 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 16, 2016

Revised Schedule—
Summary of Program Costs
July 1, 1998, through June 30, 2008;
and July 1, 2010, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference[1]
July 1, 1998, through June 30, 1999				
Enrollment fee collection:				
Direct costs - salaries and benefits:				
Staff training	$ 906	$ 906	$ -	
Calculating and collecting enrollment fees	170,545	32,331	(138,214)	Finding 1
Total direct costs	171,451	33,237	(138,214)	
Indirect costs	58,911	5,598	(53,313)	Finding 6
Total direct and indirect costs	230,362	38,835	(191,527)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(45,940)	(44,051)	1,889	Finding 7
Adjustment for unused portion of offsets [2]	-	5,216	5,216	
Total enrollment fee collection	184,422	-	(184,422)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 184,422	-	$ (184,422)	
Less amount paid by the State[4]		(165,980)		
Allowable costs claimed in excess of (less than) amount paid		$ (165,980)		
July 1, 1999, through June 30, 2000				
Enrollment fee collection:				
Direct costs - salaries and benefits:				
Staff training	$ 1,056	$ 1,056	$ -	
Calculating and collecting enrollment fees	189,340	34,616	(154,724)	Finding 1
Total direct costs	190,396	35,672	(154,724)	
Indirect costs	70,066	7,452	(62,614)	Finding 6
Total direct and indirect costs	260,462	43,124	(217,338)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(43,233)	(49,371)	(6,138)	Finding 7
Adjustment for unused portion of offsets [2]	-	6,247	6,247	
Total enrollment fee collection	217,229	-	(217,229)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	62	62	-	
Staff training	181	181	-	
Waiving student fees	14,235	28,215	13,980	Finding 5
Total direct costs	14,478	28,458	13,980	
Indirect costs	5,328	5,945	617	Finding 6
Total direct and indirect costs	19,806	34,403	14,597	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(14,478)	(197,300)	(182,822)	Finding 7
Adjustment for unused portion of offsets [2]	-	162,897	162,897	
Total enrollment fee waivers	5,328	-	(5,328)	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 1999, through June 30, 2000 (continued)				
Total costs, enrollment fee collection and waivers	222,557	-	(222,557)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 222,557	-	$ (222,557)	
Less amount paid by the State[4]		(200,301)		
Allowable costs claimed in excess of (less than) amount paid		$ (200,301)		
July 1, 2000, through June 30, 2001				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 1,350	$ 1,350	$ -	
Calculating and collecting enrollment fees	202,685	35,462	(167,223)	Finding 1
Total direct costs	204,035	36,812	(167,223)	
Indirect costs	76,044	7,314	(68,730)	Finding 6
Total direct and indirect costs	280,079	44,126	(235,953)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(54,419)	(50,502)	3,917	Finding 7
Adjustment for unused portion of offsets [2]	-	6,376	6,376	
Total enrollment fee collection	225,660	-	(225,660)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	65	65	-	
Staff training	28	28	-	
Waiving student fees	15,491	29,435	13,944	Finding 5
Reporting BOGG fee waiver data to CCCCO	1,227	1,227	-	
Total direct costs	16,811	30,755	13,944	
Indirect costs	6,265	6,112	(153)	Finding 6
Total direct and indirect costs	23,076	36,867	13,791	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(16,810)	(275,578)	(258,768)	Finding 7
Adjustment for unused portion of offsets [2]	-	238,711	238,711	
Total enrollment fee waivers	6,266	-	(6,266)	
Total costs, enrollment fee collection and waivers	231,926	-	(231,926)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 231,926	-	$ (231,926)	
Less amount paid by the State[4]		(208,733)		
Allowable costs claimed in excess of (less than) amount paid		$ (208,733)		
July 1, 2001, through June 30, 2002				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 1,607	$ 1,607	$ -	
Calculating and collecting enrollment fees	222,495	33,434	(189,061)	Finding 1
Total direct costs	224,102	35,041	(189,061)	
Indirect costs	86,750	6,388	(80,362)	Finding 6
Total direct and indirect costs	310,852	41,429	(269,423)	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2001, through June 30, 2002 (continued)				
Less offsetting savings and reimbursements:				
Enrollment fee collection	(52,741)	(48,488)	4,253	Finding 7
Adjustment for unused portion of offsets [2]	-	7,059	7,059	
Total enrollment fee collection	258,111	-	(258,111)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	3,136	-	(3,136)	Finding 3
Staff training	97	97	-	
Waiving student fees	16,243	31,555	15,312	Finding 5
Reporting BOGG fee waiver data to CCCCO	1,255	1,255	-	
Total direct costs	20,731	32,907	12,176	
Indirect costs	8,025	5,999	(2,026)	Finding 6
Total direct and indirect costs	28,756	38,906	10,150	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(20,731)	(265,035)	(244,304)	Finding 7
Adjustment for unused portion of offsets [2]	-	226,129	226,129	
Total enrollment fee waivers	8,025	-	(8,025)	
Total costs, enrollment fee collection and waivers	266,136	-	(266,136)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 266,136	-	$ (266,136)	
Less amount paid by the State[4]		(239,522)		
Allowable costs claimed in excess of (less than) amount paid		$ (239,522)		
July 1, 2002, through June 30, 2003				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 1,284	$ 1,284	$ -	
Calculating and collecting enrollment fees	271,436	55,967	(215,469)	Finding 1
Total direct costs	272,720	57,251	(215,469)	
Indirect costs	95,480	10,283	(85,197)	Finding 6
Total direct and indirect costs	368,200	67,534	(300,666)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(48,901)	(51,109)	(2,208)	Finding 7
Adjustment for unused portion of offsets [2]	-	-	-	
Total enrollment fee collection	319,299	16,425	(302,874)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	256	256	-	
Staff training	1,038	1,038	-	
Waiving student fees	22,470	70,575	48,105	Finding 5
Reporting BOGG fee waiver data to CCCCO	1,646	1,646	-	
Total direct costs	25,410	73,515	48,105	
Indirect costs	8,896	13,203	4,307	Finding 6
Total direct and indirect costs	34,306	86,718	52,412	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2002, through June 30, 2003 (continued)				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(25,410)	(278,237)	(252,827)	Finding 7
Adjustment for unused portion of offsets [2]	-	191,519	191,519	
Total enrollment fee waivers	8,896	-	(8,896)	
Total costs, enrollment fee collection and waivers	328,195	16,425	(311,770)	
Less late filing penalty[3]	-	(1,643)	(1,643)	
Total program costs	$ 328,195	14,782	$ (313,413)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 14,782		
July 1, 2003, through June 30, 2004				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 207	$ 207	$ -	
Calculating and collecting enrollment fees	279,301	45,954	(233,347)	Finding 1
Total direct costs	279,508	46,161	(233,347)	
Indirect costs	93,356	7,847	(85,509)	Finding 6
Total direct and indirect costs	372,864	54,008	(318,856)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(95,125)	(71,090)	24,035	Finding 7
Adjustment for unused portion of offsets [2]	-	17,082	17,082	
Total enrollment fee collection	277,739	-	(277,739)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	79	79	-	
Waiving student fees	22,495	91,165	68,670	Finding 5
Total direct costs	22,574	91,244	68,670	
Indirect costs	7,539	15,511	7,972	Finding 6
Total direct and indirect costs	30,113	106,755	76,642	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(22,573)	(317,331)	(294,758)	Finding 7
Adjustment for unused portion of offsets [2]	-	210,576	210,576	
Total enrollment fee waivers	7,540	-	(7,540)	
Total costs, enrollment fee collection and waivers	285,279	-	(285,279)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 285,279	-	$ (285,279)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ -		

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2004, through June 30, 2005				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 75	$ 75	$ -	
Calculating and collecting enrollment fees	256,384	58,031	(198,353)	Finding 1
Total direct costs - salaries and benefits	256,459	58,106	(198,353)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	150,838	-	(150,838)	Finding 2
Total direct costs - contracted services	150,838	-	(150,838)	
Total direct costs	407,297	58,106	(349,191)	
Indirect costs	82,913	18,785	(64,128)	Finding 6
Total direct and indirect costs	490,210	76,891	(413,319)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(152,403)	(85,007)	67,396	Finding 7
Adjustment for unused portion of offsets [2]	-	8,116	8,116	
Total enrollment fee collection	337,807	-	(337,807)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	45	45	-	
Waiving student fees	18,241	89,975	71,734	Finding 5
Reporting BOGG fee waiver data to CCCCO	2,102	2,102	-	
Total direct costs - salaries and benefits	20,388	92,122	71,734	
Direct costs - contracted services				
Waiving student fees	-	1,332	1,332	Finding 2
Total direct costs - contracted services	-	1,332	1,332	
Total direct costs	20,388	93,454	73,066	
Indirect costs	6,592	30,215	23,623	Finding 6
Total direct and indirect costs	26,980	123,669	96,689	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(20,388)	(433,068)	(412,680)	Finding 7
Adjustment for unused portion of offsets [2]	-	309,399	309,399	
Total enrollment fee waivers	6,592	-	(6,592)	
Total costs, enrollment fee collection and waivers	344,399	-	(344,399)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 344,399	-	$ (344,399)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ -		

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2005, through June 30, 2006				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Staff training	$ 127	$ 127	$ -	
Calculating and collecting enrollment fees	275,791	53,359	(222,432)	Finding 1
Total direct costs	275,918	53,486	(222,432)	
Indirect costs	93,426	18,110	(75,316)	Finding 6
Total direct and indirect costs	369,344	71,596	(297,748)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(144,866)	(76,689)	68,177	Finding 7
Adjustment for unused portion of offsets [2]	-	5,093	5,093	
Total enrollment fee collection	224,478	-	(224,478)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	47	47	-	
Staff training	392	392	-	
Waiving student fees	17,915	94,055	76,140	Finding 5
Reporting BOGG fee waiver data to CCCCO	2,207	2,207	-	
Total direct costs	20,561	96,701	76,140	
Indirect costs	6,962	32,743	25,781	Finding 6
Total direct and indirect costs	27,523	129,444	101,921	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(20,561)	(397,036)	(376,475)	Finding 7
Adjustment for unused portion of offsets [2]	-	267,592	267,592	
Total enrollment fee waivers	6,962	-	(6,962)	
Total costs, enrollment fee collection and waivers	231,440	-	(231,440)	
Less late filing penalty[3]	-	-	-	
Total program costs	$ 231,440	-	$ (231,440)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ -		
July 1, 2006, through June 30, 2007				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	$ 198,025	$ 73,011	$ (125,014)	Finding 1
Total direct costs	198,025	73,011	(125,014)	
Indirect costs	64,754	23,115	(41,639)	Finding 6
Total direct and indirect costs	262,779	96,126	(166,653)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(146,652)	(70,143)	76,509	Finding 7
Adjustment for unused portion of offsets [2]	-	-	-	
Total enrollment fee collection	116,127	25,983	(90,144)	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2006, through June 30, 2007 (continued)				
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	22	22	-	
Waiving student fees	106,385	128,376	21,991	Finding 5
Reporting BOGG fee waiver data to CCCCO	1,110	1,110	-	
Total direct costs	107,517	129,508	21,991	
Indirect costs	35,158	41,002	5,844	Finding 6
Total direct and indirect costs	142,675	170,510	27,835	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(107,517)	(415,611)	(308,094)	Finding 7
Adjustment for unused portion of offsets [2]	-	245,101	245,101	
Total enrollment fee waivers	35,158	-	(35,158)	
Total program costs	$ 151,285	25,983	$ (125,302)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 25,983		
July 1, 2007, through June 30, 2008				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Prepare policies and procedures	$ 461	$ 461	$ -	
Calculating and collecting enrollment fees	491,572	61,380	(430,192)	Finding 1
Total direct costs	492,033	61,841	(430,192)	
Indirect costs	174,032	20,945	(153,087)	Finding 6
Total direct and indirect costs	666,065	82,786	(583,279)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(114,397)	(65,415)	48,982	Finding 7
Adjustment for unused portion of offsets [2]	-	-	-	
Total enrollment fee collection	551,668	17,371	(534,297)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	4,236	-	(4,236)	Finding 3
Staff training	7,391	2,565	(4,826)	Finding 4
Adopt procedures, record and maintain records	5,111	5,111	-	
Waiving student fees	181,707	121,274	(60,433)	Finding 5
Reporting BOGG fee waiver data to CCCCO	1,144	1,144	-	
Total direct costs	199,589	130,094	(69,495)	
Indirect costs	70,595	44,063	(26,532)	Finding 6
Total direct and indirect costs	270,184	174,157	(96,027)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(199,589)	(390,731)	(191,142)	Finding 7
Adjustment for unused portion of offsets [2]	-	216,574	216,574	
Total enrollment fee waivers	70,595	-	(70,595)	
Total program costs	$ 622,263	17,371	$ (604,892)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 17,371		

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2010, through June 30, 2011				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Prepare policies and procedures	$ 160	$ 160	$ -	
Staff training	160	160	-	
Calculating and collecting enrollment fees	599,311	65,350	(533,961)	Finding 1
Total direct costs	599,631	65,670	(533,961)	
Indirect costs	229,419	27,457	(201,962)	Finding 6
Total direct and indirect costs	829,050	93,127	(735,923)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(240,207)	(30,824)	209,383	Finding 7
Adjustment for unused portion of offsets [2]	-	-	-	
Total enrollment fee collection	588,843	62,303	(526,540)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	161	161	-	
Staff training	161	161	-	
Adopt procedures, record and maintain records	6,415	6,415	-	
Waiving student fees	194,984	148,385	(46,599)	Finding 5
Reporting BOGG fee waiver data to CCCCO	962	962	-	
Total direct costs	202,683	156,084	(46,599)	
Indirect costs	77,546	65,258	(12,288)	Finding 6
Total direct and indirect costs	280,229	221,342	(58,887)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(280,229)	(432,306)	(152,077)	Finding 7
Adjustment for unused portion of offsets [2]	-	210,964	210,964	
Total enrollment fee waivers	-	-	-	
Total program costs	$ 588,843	62,303	$ (526,540)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 62,303		
July 1, 2011, through June 30, 2012				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Prepare policies and procedures	$ 1,015	$ 1,015	$ -	
Staff training	507	507	-	
Calculating and collecting enrollment fees	291,172	53,977	(237,195)	Fidning 1
Total direct costs	292,694	55,499	(237,195)	
Indirect costs	125,712	24,019	(101,693)	Finding 6
Total direct and indirect costs	418,406	79,518	(338,888)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(41,440)	(74,654)	(33,214)	Finding 7
Adjustment for unused portion of offsets [2]	-	-	-	
Total enrollment fee collection	376,966	4,864	(372,102)	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2011, through June 30, 2012 (continued)				
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Waiving student fees	54,121	187,925	133,804	Finding 5
Total direct costs	54,121	187,925	133,804	
Indirect costs	23,245	81,334	58,089	Finding 6
Total direct and indirect costs	77,366	269,259	191,893	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(77,366)	(473,584)	(396,218)	Finding 7
Adjustment for unused portion of offsets [2]	-	204,325	204,325	
Total enrollment fee waivers	-	-	-	
Total program costs	$ 376,966	$ 4,864	$ (372,102)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 4,864		
Summary: July 1, 1998, through June 30, 2008; and July 1, 2010, through June 30, 2012				
Enrollment fee collection:				
Direct costs - salaries and benefits				
Prepare policies and procedures	$ 1,636	$ 1,636	$ -	
Staff training	7,279	7,279	-	
Calculating and collecting enrollment fees	3,448,057	602,872	(2,845,185)	
Total direct costs - salaries and benefits	3,456,972	611,787	(2,845,185)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	150,838	-	(150,838)	
Total direct costs - contracted services	150,838	-	(150,838)	
Total direct costs	3,607,810	611,787	(2,996,023)	
Indirect costs	1,250,863	177,313	(1,073,550)	
Total direct and indirect costs	4,858,673	789,100	(4,069,573)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(1,180,324)	(717,343)	462,981	
Adjustment for unused portion of offsets [2]	-	55,189	55,189	
Total enrollment fee collection	3,678,349	126,946	(3,551,403)	
Enrollment fee waivers:				
Direct costs - salaries and benefits				
Prepare policies and procedures	8,109	737	(7,372)	
Staff training	9,288	4,462	(4,826)	
Adopt procedures, record and maintain records	11,526	11,526	-	
Waiving student fees	664,287	1,020,935	356,648	
Reporting BOGG fee waiver data to CCCCO	11,653	11,653	-	
Total direct costs - salaries and benefits	704,863	1,049,313	344,450	
Direct costs - contracted services				
Waiving student fees	-	1,332	1,332	
Total direct costs - contracted services	-	1,332	1,332	
Total direct costs	704,863	1,050,645	345,782	
Indirect costs	256,151	341,385	85,234	

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference[1]
Summary: July 1, 1998, through June 30, 2008; and July 1, 2010, through June 30, 2012 (continued)				
Total direct and indirect costs	961,014	1,392,030	431,016	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(805,652)	(3,875,817)	(3,070,165)	
Adjustment for unused portion of offsets [2]	-	2,483,787	2,483,787	
Total enrollment fee waivers	155,362	-	(155,362)	
Total costs, enrollment fee collection and waivers	3,833,711	126,946	(3,706,765)	
Less late filing penalty[3]	-	(1,643)	(1,643)	
Total program costs	$ 3,833,711	125,303	$ (3,708,408)	
Less amount paid by the State[4]		(814,536)		
Allowable costs claimed in excess of (less than) amount paid		$ (689,233)		

[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 $196,272 in late penalties ($18,422 for FY 1998-99, $22,256 for FY 1999-2000, $23,193 for FY 2000-01, $26,614 for FY 2001-02, $32,819 for FY 2002-03, $28,528 for FY 2003-04, $34,440 for FY 2004-05, and $10,000 for FY 2005-06). The SCO assesses the penalty on allowable costs for claims filed after the filing deadline specified in the Controller's claiming instructions. The FY 1998-99, through FY 2004-05 claims were initial reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17561, subdivision (d)(3), equal to 10% of allowable costs, with no maximum penalty. The FY 2005-06 claim was an annual reimbursement claim filed after the filing deadline and subject to the late penalty specified in Government Code section 17568, equal to 10% of allowable costs, not to exceed $10,000.

[4] Payments from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858) totaled $147,197 for FY 1998-99; $200,301 for FY 1999-2000; $208,733 for FY 2000-01; and $239,522 for FY 2001-02.

Findings and Recommendations

FINDING 1—Enrollment Fee Collection: Calculating and Collecting Enrollment Fees—unallowable salaries and benefits—ongoing activities

The district claimed $3,448,057 in salaries and benefits to calculate and collect enrollment fees during the audit period. We found that $602,872 in salaries and benefits is allowable and $2,845,185 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. In addition, the district used student enrollment data that did not agree with data that the district submitted to the California Community Colleges Chancellor's Office (CCCCO), and it did not adjust its enrollment data for the number of students that paid their enrollment fees online rather than in person. We also adjusted the average productive hourly rates (PHRs) 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
1998-99	$ 170,545	$ 32,331	$ (138,214)
1999-2000	189,340	34,616	(154,724)
2000-01	202,685	35,462	(167,223)
2001-02	222,495	33,434	(189,061)
2002-03	271,436	55,967	(215,469)
2003-04	279,301	45,954	(233,347)
2004-05	256,384	58,031	(198,353)
2005-06	275,791	53,359	(222,432)
2006-07	198,025	73,011	(125,014)
2007-08	491,572	61,380	(430,192)
2010-11	599,311	65,350	(533,961)
2011-12	291,172	53,977	(237,195)
Total	$ 3,448,057	$ 602,872	$ (2,845,185)

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, except for nonresidents and special part-time students cited in section 76300, subdivision (f). This includes 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 payment received. **(Activity 2)**

iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**

iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**

v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**

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

The parameters and guidelines (section IV – Reimbursable Activities) state that 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 costs was incurred for the event or activity in question.

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

During the audit period, the district claimed salaries and benefits for the reimbursable activities as follows:

- FY 1998-99 through FY 2005-06 – Activities 1, 3, and 4
- FY 2006-07 – Activities 1 through 6
- FY 2007-08 – Activities 1 through 4
- FY 2010-11 through FY 2011-12 – Activities 1 through 5

The district claimed costs for these activities based on time allowances developed from the estimated time it took staff members to complete various activitie. 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 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.

The following table summarizes the minutes-per-student claimed for reimbursable Activities 1 through 6:

	Claimed Minutes				
Reimbursable Activity	FY 1998-99 through FY 2005-06	FY 2006-07	FY 2007-08	FY 2010-11	FY 2011-12
1 Referencing student accounts	5.10	2.80	2.70	2.80	2.50
2 Calculating the fee	-	2.40	4.20	10.00	4.80
3 Answering questions	5.40	4.60	5.30	6.40	4.50
4 Updating records	4.90	2.20	2.00	2.00	2.00
Subtotal, Activities 1 through 4	15.40	12.00	14.20	21.20	13.80
5 Collecting delinquent fees	-	3.00	-	6.40	6.30
6 Providing refunds	-	4.00	-	-	-
Total, Claimed time increments for Activities 1-6	15.40	19.00	14.20	27.60	20.10

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 Cashier's Office who collect enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

In applying the estimated time allowances, the district did not report the correct number of students related to the various reimbursable activities. We recalculated reimbursable activities using the correct number of students (multiplier). We also made adjustments to the PHRs that the district used in its claims.

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

Time Increments

Using certification forms developed by the district's mandated cost consultant, the district estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed the following time allowances per student: 15.40 minutes for FY 1998-99 through FY 2005-06; 12.00 minutes for FY 2006-07; 14.20 minutes for FY 2007-08; 21.20 minutes for FY 2010-11; and 13.80 minutes for FY 2011-12. Based on our observations, we found that the time allowances claimed for these activities were overstated.

We held discussions with 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 Cashier's Office performing the reimbursable activities and other non-mandate related activities. We documented a total of 408 transactions that were processed by district staff. Of those 408 transactions, 117 were related to reimbursable Activities 1 through 4, totaling 337.51 minutes. The average time to perform all four activities was 2.88 minutes, which is equivalent to 0.72 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 2005-06, the district used the total number of enrolled students as the multiplier for Activities 1, 3, and 4. The district also used the total number of enrolled students as the multiplier for Activities 1 through 4 for FY 2006-07.

For FY 2007-08, FY 2010-11, and FY 2011-12, the district claimed the total number of enrolled students as the multiplier for Activities 1 and 3; and the number of students who paid enrollment fees as the multiplier for Activities 2 and 4. We obtained all enrollment numbers from the district's records during the audit period.

Allowable Costs

We updated the district's calculations of eligible students for Activities 1 and 3 based on the total number of students enrolled as reported to the CCCCO, less non-resident and special admit students. This is the allowable multiplier, which is also known as the district's net student enrollment. For Activities 2 and 4, we updated the district's calculations of eligible students by deducting the number of BOGG recipients from the net student enrollment. We then applied that total to the district's percentage of students who paid their enrollment fees in person to compute the allowable multiplier. In addition, we added any refunds to that multiplier for Activities 2 and 4.

The CCCCO identified enrollment and BOGG recipient data from its Management Information System (MIS) based on student data that the district reported. The CCCCO identified the district's enrollment based on MIS data element STD7, codes A through G. The CCCCO eliminated any duplicate students based on their Social Security numbers. From the district enrollment, CCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. CCCCO data element and code definitions are available at http://extranet.cccco.edu/Divisions/TechResearchInfoSys/MIS/DED.aspx.

The following table summarizes the net student enrollment less the number of BOGG recipients for the audit period:

Fiscal Year	(A) Total Number of Enrolled Students	(B) Total Exclusions	(C) Net Student Enrollment [(A) - (B)]	(D) BOGG Waivers	(E) Net Enrollment less BOGG Waivers [(C) - (D)]
1998-99	53,505	4,562	48,943	12,128	36,815
1999-2000	56,598	4,739	51,859	12,791	39,068
2000-01	58,485	3,313	55,172	12,710	42,462
2001-02	61,292	3,572	57,720	12,975	44,745
2002-03	70,351	3,780	66,571	25,472	41,099
2003-04	65,050	1,831	63,219	28,433	34,786
2004-05	59,738	1,695	58,043	29,673	28,370
2005-06	59,361	1,810	57,551	30,371	27,180
2006-07	59,821	2,041	57,780	29,896	27,884
2007-08	62,606	2,848	59,758	30,084	29,674
2010-11	61,322	2,217	59,105	37,806	21,299
2011-12	59,063	939	58,124	39,224	18,900

The following table calculates the percentage of students who paid their enrollment fees in person, based on the district's enrollment fee report by payment type:

Fiscal Fiscal Year	(A) Phone / Web Payments	(B) U.S. Mail-in Payments	(C) In-Person Cash/Check Payments	(D) In-Person Credit Card Payments	(E) Total Payments [(A) + (B) + (C) + (D)]	(F) Total % for In-Person Payments {[(B) + (C) + (D)] ÷ (E)}
1998-99	-	-	-	-	-	100.00%
1999-2000	-	-	-	-	-	100.00%
2000-01	-	-	-	-	-	100.00%
2001-02	-	-	-	-	-	100.00%
2002-03	-	-	-	-	-	100.00%
2003-04	10,626	720	44,791	6,643	62,780	83.07%
2004-05	18,383	1,798	23,916	623	44,720	58.89%
2005-06	18,776	496	9,060	6,464	34,796	46.04%
2006-07	21,581	449	8,584	6,756	37,370	42.25%
2007-08	24,013	109	8,246	6,378	38,746	38.02%
2010-11	21,690	31	4,497	3,213	29,431	26.30%
2011-12	17,997	83	3,215	2,438	23,733	24.17%

As a result, the following table summarizes the allowable multipliers for Activities 1 through 4:

Fiscal Year	**Activity 1** Referencing Account	**Activity 2** Calculating and Collecting	**Activity 3** Answering Questions	**Activity 4** Updating Records
1998-99	48,943	36,815	48,943	36,815
1999-2000	51,859	39,068	51,859	39,068
2000-01	55,172	42,462	55,172	42,462
2001-02	57,720	44,745	57,720	44,745
2002-03	66,571	41,099	66,571	41,099
2003-04	63,219	28,897	63,219	28,897
2004-05	58,043	16,707	58,043	16,707
2005-06	57,551	12,514	57,551	12,514
2006-07	57,780	14,417	57,780	14,417
2007-08	59,758	11,282	59,758	11,282
2010-11	59,105	5,602	59,105	5,602
2011-12	58,124	4,568	58,124	4,568
Total	693,845	298,176	693,845	298,176

Productive Hourly Rates

The district misstated the average PHRs used for Activities 1 through 4 during the audit period. The district understated its average PHRs for FY 1998-99 through FY 2005-06 and overstated its average PHRs for FY 2006-07 through FY 2007-08, and FY 2010-11 through FY 2011-12. As explained in Finding 8 (Misstated Productive Hourly Rates), we recalculated the average PHRs based on actual salary and benefit information available and used the standard 1,800 productive hours.

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 3.00 minutes for FY 2006-07, 6.40 minutes for FY 2010-11, and 6.30 minutes for FY 2011-12. The district did not claim any costs for Activity 5 in its claim for FY 1998-99 through FY 2005-06, and FY 2007-08. Based on our observations, we found that the time allowances claimed for this activity were overstated.

We observed staff collecting delinquent fees at the front counter of the Cashier's Office during our observations of Activities 1 through 4. We documented a total of four transactions processed by district staff, totaling 7.42 minutes. The average time to perform this activity in person at the front counter was 1.86 minutes per student.

District staff provided an explanation of the district's process for collecting delinquent enrollment fees in a batch. Prior to the fall of 2014, the district ran queries that identified students with balances and then completed a mail merge on a Word document. This process was significantly more time-consuming than it is currently; however, the district is unable to determine how long it took staff to complete this process. Beginning in the fall of 2014, a report was created that would populate a PDF letter with specific information for the student, including a more detailed list of the balance due. For the fall of 2015, the district printed 6,154 letters (for summer and spring); this took approximately 16 hours for data clean-up (i.e., removing parking fees, college service card fees, correcting misapplied payments, etc.). The average time to perform this batch process for Activity 5 is 0.16 minutes per student.

In summary, the allowable time increment for Activity 5 is 2.02 minutes per delinquent account.

Multiplier Calculation

For Activity 5, the district provided the number of delinquent student accounts collected for FY 2006-07, FY 2010-11, and FY 2011-12. The district did not include costs for collecting delinquent student accounts in its claims for FY 1998-99 through FY 2005-06, and FY 2007-08.

The district provided additional records to support the number of accounts that are still receivable for FY 2003-04 (1,972), FY 2004-05 (2,387), FY 2005-06 (1,559), and FY 2006-07 (2,529). Prior to FY 2003-04, the data for delinquent accounts could not be retrieved. Therefore, we calculated an average of the multipliers that were available during the audit period. We used that average as the multiplier for FY 1998-99 through FY 2002-03.

The following table calculates the average multiplier used for FY 1998-99 through FY 2002-03:

		Average Multiplier
FY 2003-04 Multiplier		1,972
FY 2004-05 Multiplier		2,387
FY 2005-06 Multiplier		1,559
FY 2006-07 Multiplier		2,529
FY 2010-11 Multiplier		4,119
FY 2011-12 Multiplier		948
Total multipliers		13,514
Number of multipliers	÷	6
Average Multiplier		2,252

The following table summarizes the multiplier audit adjustment for Activity 5:

	Activity 5		
Fiscal Year	Claimed	Allowable	Audit Adjustment
1998-99	-	2,252	2,252
1999-2000	-	2,252	2,252
2000-01	-	2,252	2,252
2001-02	-	2,252	2,252
2002-03	-	2,252	2,252
2003-04	-	1,972	1,972
2004-05	-	2,387	2,387
2005-06	-	1,559	1,559
2006-07	1,663	2,529	866
2007-08	-	-	-
2010-11	4,119	4,119	-
2011-12	948	948	-
Total	6,730	24,774	18,044

Productive Hourly Rates

Consistent with the information presented for Activities 1 through 4, the district misstated the average PHRs in its claims during the audit period for Activity 5. As explained in Finding 8 (Misstated Productive Hourly Rates), we recalculated the average PHRs based on actual salary and benefit information available and used the standard 1,800 productive hours.

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 a time allowance per refund of 4.00 minutes for FY 2006-07. The district did not claim any costs for Activity 6 in its claim for FY 1998-99 through FY 2005-06, FY 2007-08, and FY 2010-11 through FY 2011-12.

We observed staff processing a refund for a student who established fee waiver eligibility after paying enrollment fees that occurred during our observations of Activities 1 through 4. The time to perform this activity in person at the front counter was 3.80 minutes.

District staff members also provided a walk-through of their refund process. Refunds are done as a batch process, which grabs all outstanding credit balances and processes them. Once the students are identified, checks are issued to those students. However, the district stated that they cannot specifically identify refunds that are a direct result of a BOGG fee

waiver being processed after a student has already paid his or her enrollment fees. This batch refund could be a result of a BOGG fee waiver being applied or classes being dropped. As no other data was available, we used the entire batch refund data from fall 2015 for time increment purposes only. The district indicated that the first batch refund process took approximately 6 hours and included 2,572 students, which is equivalent to 0.14 minutes per student.

In summary, the allowable time increment for Activity 6 is 3.94 minutes per student.

Multiplier Calculation

The district claimed costs only for Activity 6 in its FY 2006-07 claim. We determined that the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees for that fiscal year is reasonable.

Productive Hourly Rates

As explained in Finding 8 (Misstated Productive Hourly Rates), we recalculated the average PHRs based on actual salary and benefit information available and used the standard 1,800 productive hours.

Calculation of Time Increments Adjustment

The following table summarizes the minutes-per-student claimed and allowable for reimbursable Activities 1 through 6:

	Claimed Minutes				
Reimbursable Activity	FY 1998-99 through FY 2005-06	FY 2006-07	FY 2007-08	FY 2010-11	FY 2011-12
1 Referencing student accounts	5.10	2.80	2.70	2.80	2.50
2 Calculating the fee	-	2.40	4.20	10.00	4.80
3 Answering questions	5.40	4.60	5.30	6.40	4.50
4 Updating records	4.90	2.20	2.00	2.00	2.00
Subtotal, Activities 1 through 4	15.40	12.00	14.20	21.20	13.80
5 Collecting delinquent fees	-	3.00	-	6.40	6.30
6 Providing refunds	-	4.00	-	-	-
Total, Claimed time increments for Activities 1-6	15.40	19.00	14.20	27.60	20.10

	Allowable Minutes				
Reimbursable Activity	FY 1998-99 through FY 2005-06	FY 2006-07	FY 2007-08	FY 2010-11	FY 2011-12
1 Referencing student accounts	0.72	0.72	0.72	0.72	0.72
2 Calculating the fee	0.72	0.72	0.72	0.72	0.72
3 Answering questions	0.72	0.72	0.72	0.72	0.72
4 Updating records	0.72	0.72	0.72	0.72	0.72
Subtotal, Activities 1 through 4	2.88	2.88	2.88	2.88	2.88
5 Collecting delinquent fees	2.02	2.02	-	2.02	2.02
6 Providing refunds	-	3.94	-	-	-
Total, Allowable time increments for Activities 1-6	4.90	8.84	2.88	4.90	4.90

Calculation of Multiplier Adjustment

The following table summarizes the claimed, allowable, and adjusted amounts to the multiplier during the audit period for reimbursable Activities 1 through 6:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	724,075	693,845	(30,230)
2	100,996	298,176	197,180
3	724,075	693,845	(30,230)
4	632,863	298,176	(334,687)
5	6,730	24,774	18,044
6	2,636	2,636	-
Total	2,191,375	2,011,452	(179,923)

Calculation of Hours Adjustments

We multiplied the allowable minutes per reimbursable activity by the multiplier 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	53,886.1	8,326.2	(45,559.9)
2	8,745.7	3,578.1	(5,167.6)
3	65,283.5	8,326.2	(56,957.3)
4	46,878.3	3,578.1	(43,300.2)
5	622.1	834.1	212.0
6	175.7	173.1	(2.6)
Total	175,591.4	24,815.8	(150,775.6)

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 2007-08, and FY 2010-11 through FY 2011-12. We then multiplied the hours spent by the audited average PHRs to compute allowable costs for salaries and benefits.

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 2007-08, and FY 2010-11 through FY 2011-12. We then multiplied the hours spent times the audited PHRs to compute allowable costs for salaries and benefits.

We applied the audited PHRs to the allowable hours per reimbursable activity. We found that $602,872 in salaries and benefits is allowable and $2,845,185 is unallowable.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Audit Adjustment
1	$ 969,744	$ 215,357	$ (754,387)
2	352,159	72,374	(279,785)
3	1,361,025	215,357	(1,145,668)
4	732,449	72,374	(660,075)
5	25,448	21,062	(4,386)
6	7,232	6,348	(884)
Total	$ 3,448,057	$ 602,872	$ (2,845,185)

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 $3,448,057 in salaries and benefits to calculate and collect enrollment fees 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 relevant workload statistics (e.g., the number of student paying an enrollment fee), then multiplied by the average productive hourly rate. The draft audit report adjusts all three components of the calculation.
>
> The draft audit report states that $602,872 of claimed salary and benefits is allowable and $2,845,185 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 draft audit report also replaces the number of students used in the District's calculation with student enrollment data obtained by the Controller from the Chancellor's Office and reduces the number of students for those who paid their enrollment fees online rather than in person. The collective effect of the disallowances is an 85% reduction of the 175,591.4 claimed mandate program hours to 24,815.8. There is a reduction of a similar magnitude for the $3,448,057 in claimed costs for salaries and benefits to $602,872.

> Using certification forms developed by the District's mandated cost consultant District staff who implemented the mandate estimated their average times required to perform each of the six reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the Controller for all six activities.
>
> For Activities 1 through 6, the District claimed average times total times of of 14.20 to 27.00 minutes over the audit period. The Controller decided that the good faith time estimates reported by the District were "overstated." Instead, the Controller observed 117 transactions related to Activities 1-4, only 4 transactions related to Activity 5, and only 1 transaction related to Activity 6. Interestingly, the Controller relied on the good faith estimates of District employees in establishing the time necessary to complete related tasks including collecting delinquent enrollment fees and the batch refund fee process. Nonetheless, the average times calculated to perform each activity was between .72 minutes and 1.47 minutes.
>
> This substantial reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the Controller's sample size is statistically meaningless. The audited enrollment transactions were 693,845 over the audit period, of which at most, 125 relevant transactions were observed. The draft audit report does not state that the collection 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 Controller's observation process does not constitute a representative "time study" sample. Instead, the good faith records of minutes provided by the District are the most reliable indicator of the time dedicated to these activities and they should be used to calculate the average activity time.

<u>SCO's Comment</u>

The finding and recommendation remain unchanged.

For Activities 1 through 6, the district states that the Controller decided that the "good faith time estimates" reported by the District were "overstated." We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities were unreasonable. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation. Section IV of the parameters and guidelines states:

> Evidence corroborating the source documents may include, but is not limited to worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, and declarations. Declarations must include a certification or declaration stating, "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Civil Code of Procedure section 2105.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. *However, corroborating documents cannot be substituted for source documents* [emphasis added].

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

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 certificated 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 complete the certification forms and to perform the reimbursable activities. We also observed district staff members in the Cashier's Office collect enrollment fees from students and documented the average time increments spent by district staff to perform these activities.

The district's certified estimates ranged from 14.20 to 27.60 minutes for Activities 1 through 6 over the audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. We observed an average time of 2.88 to 8.84 minutes for Activities 1 through 6.

The district states that "the Controller's sample size is statistically meaningless" in comparison to the enrollment fee collection transactions performed by the district throughout the audit period. We disagree. We spent several days at the Cashier's Office observing students paying a variety of fees owed to the district. We observed 408 transactions processed by district staff; 122 transactions were related to enrollment fee collections encompassing Activities 1 through 6. The district identifies the audited enrollment transactions of 693,845 over the audit period and states that our observation process does not constitute a representative "time study" sample. However, the district did not provide any source documentation to support the time required to perform these transactions. Instead, time increments were supported only by estimates. In addition, the district did not provide evidence based on actual cost data or conduct its own time study supporting a different conclusion from ours. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

We discussed our observation results with district representatives on November 16, 2015, and asked them if they had any disagreements with the results. We also invited the district to perform its own time study. We were told that we would be advised if there were any perceived deficiencies in the amount of time by transaction. We did not receive a response from the district, so we followed up with district representatives during a phone conversation on April 14, 2016, and were told that no disagreements with our observation results had arisen.

FINDING 2—Contracted services incorrectly reported under the Enrollment Fee Collection Calculating and Collecting Enrollment Fees cost component

In FY 2004-05, the district incorrectly reported its contracted services under the cost component of Enrollment Fee Collection: Calculating and Collecting Enrollment Fees, rather than Enrollment Fee Waivers: Waiving Student Fees. We determined that the district overstated contracted services by $149,506. The allowable contracted services of $1,332 will be reclassified under Enrollment Fee Waivers: Waiving Student Fees. The costs are unallowable because the district claimed unsupported costs.

The district indicated that these services were for consulting work to support the implementation of and upgrades to its student registration and financial aid systems, including the PS Financial System. In addition, the district stated that only $56,299.50 of the claimed amount is applicable to the financial systems that handle the calculating and collecting of enrollment fees. The district is not certain how this particular amount was determined, as the only support provided consisted of a status report for the week ending October 15, 2004.

The following table summarizes the audit adjustment for contracted services by billing period:

Invoice Date	Claimed Costs	Allowable Costs	Audit Adjustment
7/30/2004	$ 56,923	$ -	$ (56,923)
9/24/2004	22,440	-	(22,440)
10/7/2004	37,125	-	(37,125)
10/21/2004	34,350	1,332	(33,018)
Total	$ 150,838	$ 1,332	$ (149,506)

Based on the single status report, a portion of the costs are allowable for two of the three individuals for the week ending October 15, 2004. The details of the status report described only one of the nine bullet points that related to services for BOGG fee waivers and PELL grant processing. Therefore, we determined that the allowable mandate-related percentage for that week is 11.11% (one bullet point divided by nine bullet points).

The following table summarizes the calculation of allowable costs for the invoice date of October 21, 2004.

	Date	Hours (A)	Hourly Rate (B)	Total Amount (C) = (A) x (B)	% Mandate Related (D)	Allowable Costs (E) = (C) x (D)
Employee 1	10/11/2004	10	$ 150	$ 1,500	11.11%	$ 167
	10/12/2004	11	150	1,650	11.11%	183
	10/13/2004	11	150	1,650	11.11%	183
	10/14/2004	8	150	1,200	11.11%	133
	10/4/2004	-	150	-		-
	10/5/2004	-	150	-		-
	10/6/2004	-	150	-		-
	10/7/2004	-	150	-		-
Subtotal, Employee 1		40		6,000		666
Employee 2	10/11/2004	11	$ 150	$ 1,650	11.11%	$ 183
	10/12/2004	11	150	1,650	11.11%	183
	10/13/2004	10	150	1,500	11.11%	167
	10/14/2004	8	150	1,200	11.11%	133
	10/4/2004	-	150	-		-
	10/5/2004	-	150	-		-
	10/6/2004	-	150	-		-
	10/7/2004	-	150	-		-
Subtotal, Employee 2		40		6,000		666
Total, Employees 1 and 2						$ 1,332

The parameters and guidelines (section V.A.3 – Claim Preparation and Submission, Direct Cost Reporting – Contracted Services) state:

> Report the name of the contractor and services performed to implement the reimbursable activities. Attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services.

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 claim [sic] $150,838 in costs related to consulting work to support the implementation of and upgrades to its student registration and financial aid systems. The draft audit report found this claim was "overstated" by $149,506, allowing only $1,332 in claimed costs as it considered the remaining costs to be "unsupported." The District has no further information at this time.

SCO's Comment

The finding and recommendation remain unchanged. The district states that it has no further information at this time.

FINDING 3—Enrollment Fee Waivers: Preparing District Policies and Procedures—unallowable one-time activity costs

The district overstated salaries and benefits by $7,372 for the one-time activity of preparing the district's policies and procedures for determining which students are eligible for the waiver of enrollment fees during the audit period. The costs are unallowable primarily because the district claimed costs based on estimates of time. The district also claimed costs for this one-time activity for fiscal years in which there were no changes in state law requiring it to update its policies and procedures.

In addition to the first year for which the district claimed costs for initially preparing its policies and procedures under this cost component, the district can also claim costs for updating policies and procedures for years in which the CCCCO updated its Board of Governors Fee Waiver Program and Special Programs Manual. Based on information provided by the CCCCO, it updated the manual in FY 2003-04, FY 2005-06, and FY 2009-10.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Costs Claimed	Allowable Costs	Audit Adjustment
Salaries and benefits:			
1999-2000	$ 62	$ 62	$ -
2000-01	65	65	-
2001-02	3,136	-	(3,136)
2002-03	256	256	-
2003-04	79	79	-
2004-05	45	45	-
2005-06	47	47	-
2006-07	22	22	-
2007-08	4,236	-	(4,236)
2010-11	161	161	-
2011-12	-	-	-
Total	$ 8,109	$ 737	$ (7,372)

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

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

> Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a

> document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

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

Recommendation

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

District's Response

> The District claimed $8,109 in salaries and benefits during the audit period for the activity of preparing the District's policies and procedures for determining which students are eligible for the waiver of enrollment fees during the audit period. The draft audit report adjusted FY 2001-02 and FY 2007-08 only. The draft audit report states that the adjustments were made because the District claimed costs based on estimates of time spent performing the reimbursable activities, and did not prove that costs incurred were required by changes in state law as opposed to discretionary activities undertaken by the District to update its own policies and procedures.
>
> The parameters and guidelines state that preparing District policies and procedures is reimbursable as a one-time activity. When there is a need to update a policy or procedure, this is a new one-time activity. As the draft audit report states, "[i]n addition to the first year for which the [D]istrict claimed costs for initially preparing its policies and procedures under this cost component, the [D]istrict can also claim costs for updating policies and procedures. . . ." There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report.
>
> This mandated activity was not observed or observable by the auditor. The District policies and procedures are the work product for this activity. This staff time should be reinstated because there is no basis to disallow the time spent on the mandate.

SCO's Comment

The finding and recommendation remain unchanged.

Costs are not allowable for FY 2001-02 and FY 2007-08 because no changes were made to state laws for those years that required the district to incur increased costs to update its policies and procedures. In addition,

the district did not provide support to explain why costs were incurred for a one-time activity in years during which there were no changes in state laws requiring it to do so.

The district states that "When there is a need to update a policy or procedure, there is a new one-time activity…There is no stated requirement to distinguish this work as a result of changes to District procedures…or changes in state law…." We disagree. The Final Staff Analysis and Proposed Parameters and Guidelines (Item 9), addressed during the January 26, 2006 Commission on State Mandates hearing for this mandated program, states on page 5 that:

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

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

FINDING 4—Enrollment Fee Waivers: Staff Training – unallowable one-time activity costs

The district overstated salaries and benefits by $4,826 for the one-time activity of training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee during the audit period.

The costs are unallowable because the district claimed estimated costs and did not provide any documentation to support the nature of the training provided, lists of employees who attended the training, length of the training, or indication of who provided the training. In addition, staff training is reimbursable only as a one-time cost per employee. However, the district claimed several employees more than once during the audit period.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Costs Claimed	Allowable Costs	Audit Adjustment
Salaries and benefits			
1999-2000	$ 181	$ 181	$ -
2000-01	28	28	-
2001-02	97	97	-
2002-03	1,038	1,038	-
2003-04	-	-	-
2004-05	-	-	-
2005-06	392	392	-
2006-07	-	-	-
2007-08	7,391	2,565	(4,826)
2010-11	161	161	-
2011-12	-	-	-
Total	$ 9,288	$ 4,462	$ (4,826)

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

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

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

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

Recommendation

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

District's Response

> The District claimed $9,288 in salaries and benefits during the audit period for the activity of training staff who implemented the program on the procedures for the collection of enrollment fees. The draft audit report states that $4,462 is allowable and $4,826 is unallowable. The draft audit report states that the adjustments were made because the District claimed estimated costs and did not provide documentation related to the subject matter, duration, and employees attending. The draft audit report further states that costs were claimed multiple times for several staff members in District claims over the audit period.
>
> The draft audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name or for hours claimed without sufficient documentation as to the content of the training. The District provided documentation in the form of declarations, which are acceptable documentation. The draft audit report does not indicate how this documentation was not actual cost documentation. (The fact that the draft audit report disallows time based

on time for staff claimed more than once by name suggests sufficient documentation was provided to determine the identity of the employees receiving the training.) This mandated activity was not observed or observable by the auditor. This staff time should be reinstated because there is no basis to disallow the time spent on the mandate.

SCO's Comment

The finding and recommendation remain unchanged.

The district states that "the District provided documentation in the form of declarations, which are acceptable documentation" and that "the draft audit report does not indicate how this documentation was not actual cost documentation." The district also states that "the fact that the draft audit report disallows time based on time for staff claimed more than once by name suggests sufficient documentation was provided to determine the identity of the employees receiving the training." We disagree with both statements. The parameters and guidelines (section IV – Reimbursable Activities) defines the terms for actual costs, source documents, and corroborating documents. The district supported costs claimed only with corroborating documents rather than source documents. None of the costs supported only with employee declaration forms were allowable for this cost component or any component of this mandated program.

For FY 2007-08, training costs were allowable for employees who were included in the district's claims for the first time. For all other employees claimed that year, the district did not provide any evidence related to the nature of training provided to district staff that had been claimed previously for training activities. In addition, the district's claims did not identify the person(s) who conducted such training.

FINDING 5—Enrollment Fee Waivers: Waiving Student Fees—understated salaries and benefits—ongoing activities

The district claimed $664,287 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 the district understated its salaries and benefits by $356,648 (overstated by $107,032 and understated by $463,680). The costs were understated because the district estimated the amount of time required to perform the reimbursable activities. In addition, the district used BOGG recipient data that did not agree with data that the district submitted to the CCCCO. We also adjusted the average PHRs the district claimed based on salary and benefit information provided to us by the district.

The following table summarizes the audit adjustment related to waiving student fees by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	$ 14,235	$ 28,215	$ 13,980
2000-01	15,491	29,435	13,944
2001-02	16,243	31,555	15,312
2002-03	22,470	70,575	48,105
2003-04	22,495	91,165	68,670
2004-05	18,241	89,975	71,734
2005-06	17,915	94,055	76,140
2006-07	106,385	128,376	21,991
2007-08	181,707	121,274	(60,433)
2010-11	194,984	148,385	(46,599)
2011-12	54,121	187,925	133,804
Total	$ 664,287	$ 1,020,935	$ 356,648

The parameters and guidelines (section IV.B.2.b – Reimbursable Activities – Enrollment Fee Waiver – Ongoing Activities) allow ongoing activities related to waiving student fees in accordance with groups listed in Education Code section 73600, subdivisions (g) and (h). Waiving fees for students who apply for and are eligible for BOGG fee waivers (Title 5, *California Code of Regulations*, sections 58612, 58613, and 58620). This includes:

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 and 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) also state that 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 costs were incurred for the event or activity in question.

In addition, the parameters and guidelines (section V.A.1 – Claim Preparation and Submission – Direct Cost Reporting – Salaries and Benefits) state:

> 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 specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

Salaries and Benefits

During the audit period, the district claimed salaries and benefits for the reimbursable activities as follows:

- FY 1998-99 through FY 2006-07, and FY 2010-11 through FY 2011-12 – Activities 7 through 9, and 11
- FY 2007-08 – Activities 7 through 11

The district claimed costs for these activities based on time allowances developed from the estimated time it took staff to complete various activities. 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 five 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 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.

The following table summarizes the minutes-per-student claimed for reimbursable Activities 7 through 12:

	Claimed Minutes						
Reimbursable Activity	FY 1999-2000 through FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2010-11	FY 2011-12
BOGG A/B							
7 Answering questions	0.50	0.50	0.50	1.00	1.00	1.10	-
8 Receiving applications	0.50	0.50	0.50	1.00	1.00	1.10	-
9 Evaluate applications	1.00	0.50	0.50	1.00	2.00	2.20	-
10 Incomplete applications	-	-	-	-	2.90	-	-
11 Approved applications	1.00	0.50	0.50	3.70	4.60	4.30	-
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG A/B	3.00	2.00	2.00	6.70	11.50	8.70	-
BOGG C							
7 Answering questions	1.00	1.00	1.00	-	-	1.60	-
8 Receiving applications	1.00	1.00	1.00	-	-	1.00	-
9 Evaluate applications	1.00	1.00	1.00	-	-	4.30	-
10 Incomplete applications	-	-	-	-	-	-	-
11 Approved applications	4.00	4.00	4.00	-	-	6.50	-
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG C	7.00	7.00	7.00	-	-	13.40	-
BOGG A/B/C							
7 Answering questions	-	-	-	-	-	-	2.00
8 Receiving applications	-	-	-	-	-	-	1.00
9 Evaluate applications	-	-	-	-	-	-	4.90
10 Incomplete applications	-	-	-	-	-	-	-
11 Approved applications	-	-	-	-	-	-	7.00
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG A/B/C	-	-	-	-	-	-	14.90
Total time increments claimed for Activities 7-12	10.00	9.00	9.00	6.70	11.50	22.10	14.90

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 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.

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 the district used in its claims.

Activities 7 through 11: Activity 7 – Answering student's questions; Activity 8 – Receiving enrollment fee waiver applications; Activity 9 – Evaluating waiver applications and verifying documentation; Activity 10 – Notifying students of additional required information, in the case of an incomplete application; Activity 11 – Copying all documentation and file the information for further review, in the case of an approved application

Time Increments

Claimed

Using certification forms developed by the district's mandated cost consultant, the district estimated the time required to perform the reimbursable activities. Based on these certifications, the district provided separate time increments for BOGG A/B and BOGG C. The district developed the following time allowances per student:

- FY 1999-2000 through FY 2003-04: 3.00 minutes for BOGG A/B and 7.00 minutes for BOGG C
- FY 2004-05 and FY 2005-06: 2.00 minutes for BOGG A/B and 7.00 minutes for BOGG C
- FY 2006-07: 6.70 minutes for BOGG A/B
- FY 2007-08: 11.50 minutes for BOGG A/B
- FY 2010-11: 8.70 minutes for BOGG A/B and 13.40 minutes for BOGG C
- FY 2011-12: 14.90 minutes for BOGG A/B/C

Based on our observations, we found that the time allowances claimed for these activities were overstated.

Allowable

We observed district staff in the Financial Aid Office performing the reimbursable activities and other non-mandate related activities. We documented a total of 447 transactions that were processed by district staff at the front counter. Of those 447 transactions, 118 were related to reimbursable Activities 7 through 11, totaling 340.05 minutes. The average time to perform all five activities was 2.88 minutes.

For back-counter activities, the district performs a batch process of the BOGG C waivers. The district indicated that it takes approximately 18 hours of manual labor to complete this batch process. The district provided a sample of its BOGG C log file, which states whether or not a student received a BOGG C waiver for a given term. The BOGG C log file provided by the district included 680 individual transactions. Therefore, the average time to manually process the BOGG C waivers as a batch was 1.59 minutes.

For approved BOGG fee waiver applications (Activity 11), district staff files the applications in file cabinets in alphabetical order by last name. We observed one Student Assistant at the Pacific Coast Campus filing the paper BOGG applications into the cabinets. This is a two-step process. The first step is to put a stack of the applications into an accordion folder, separated and filed in alphabetical order by last name. The Student Assistant took 20.45 minutes to file 114 applications into the accordion folder, which is approximately 0.18 minutes per application. The second step is to alphabetize those applications from the accordion folder into the

existing batch within the cabinet. The Student Assistant filed 100 BOGG fee waiver applications in 136 minutes, which is approximately 1.36 minutes per application. The average time to perform this two-step process is 1.54 minutes per application.

Therefore, after combining the front- and back-counter activities, the total time to process BOGG fee waivers averaged 6.01 minutes based on our observations.

Multiplier Calculation

Claimed Costs

For Activities 7 through 11, the district claimed costs by multiplying the number of BOGG fee waivers by a uniform time allowance and an annual average PHR. The district also claimed separate multipliers for BOGG A/B and BOGG C for FY 1999-2000 through FY 2005-06, and FY 2010-11.

For FY 1999-2000 through FY 2005-06, the district used the number of waivers requested as the multiplier for Activities 7 through 9 (based on district's records) for BOGG A/B and BOGG C. For Activity 11, the district used the number of waivers approved for BOGG A/B (based on CCCCO's DataMart) and the number of waivers requested for BOGG C (based on district's records).

For FY 2006-07, the district used the number of waivers requested as the multiplier for Activities 7 through 9 (based on district's records) for BOGG A/B. For Activity 11, the district used the number of waivers approved (based on district's records) for BOGG A/B.

For FY 2007-08, the district used the number of waivers requested as the multiplier for Activities 7 through 9 (based on district's records) for BOGG A/B. As for Activity 10, the district used the number of waivers denied (based on district's records) for BOGG A/B. In addition, for Activity 11, the district used the number of waivers approved (based on district's records) for BOGG A/B.

For FY 2010-11, the district used the number of waivers requested/approved as the multiplier for Activities 7 through 9, and Activity 11 for BOGG A/B and BOGG C. The district obtained the claimed (separate) multipliers from the CCCCO's DataMart – Financial Aid Count and Amount by Type.

For FY 2011-12, the district used the number of waivers requested/approved in-person as the multiplier for Activities 7 through 9, and Activity 11 for BOGG A/B/C. The district obtained these multipliers from the CCCCO's DataMart – Financial Aid Summary Report.

Allowable Costs

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 CCCCO. However, we

adjusted the CCCCO information by including the number of denied applications at the end of the year, based on information provided by the district.

For Activity 11, 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 CCCCO.

The CCCCO identified enrollment and BOGG recipient data from its MIS based on student data that the district reported. The CCCCO identified the district's enrollment based on MIS data element STD7, codes A through G. The CCCCO eliminated any duplicate students based on their Social Security numbers. From the district enrollment, CCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. CCCCO data element and code definitions are available at http://extranet.cccco.edu/Divisions/TechResearchInfoSys/MIS/DED.aspx.

Productive Hourly Rates

The district misstated the average PHRs used for Activities 7 through 12 during the audit period. The district overstated its average PHRs for FY 1999-2000, through FY 2002-03, and FY 2006-07, through FY 2011-12. The district also understated its average PHRs for FY 2003-04 through FY 2005-06. As explained in Finding 8 (Misstated Productive Hourly Rates), we recalculated the average PHRs based on actual salary and benefit information available and used the standard 1,800 productive hours.

Activity 12 – Appealing a denied BOGG fee waiver application

The district did not claim time to perform reimbursable Activity 12 nor did it claim any multipliers for the audit period.

Calculation of Time Increments Adjustment

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

	Claimed Minutes						
Reimbursable Activity	FY 1999-2000 through FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2010-11	FY 2011-12
BOGG A/B							
7 Answering questions	0.50	0.50	0.50	1.00	1.00	1.10	-
8 Receiving applications	0.50	0.50	0.50	1.00	1.00	1.10	-
9 Evaluate applications	1.00	0.50	0.50	1.00	2.00	2.20	-
10 Incomplete applications	-	-	-	-	2.90	-	-
11 Approved applications	1.00	0.50	0.50	3.70	4.60	4.30	-
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG A/B	3.00	2.00	2.00	6.70	11.50	8.70	-
BOGG C							
7 Answering questions	1.00	1.00	1.00	-	-	1.60	-
8 Receiving applications	1.00	1.00	1.00	-	-	1.00	-
9 Evaluate applications	1.00	1.00	1.00	-	-	4.30	-
10 Incomplete applications	-	-	-	-	-	-	-
11 Approved applications	4.00	4.00	4.00	-	-	6.50	-
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG C	7.00	7.00	7.00	-	-	13.40	-
BOGG A/B/C							
7 Answering questions	-	-	-	-	-	-	2.00
8 Receiving applications	-	-	-	-	-	-	1.00
9 Evaluate applications	-	-	-	-	-	-	4.90
10 Incomplete applications	-	-	-	-	-	-	-
11 Approved applications	-	-	-	-	-	-	7.00
12 Appeals for denied waiver	-	-	-	-	-	-	-
Subtotal, BOGG A/B/C	-	-	-	-	-	-	14.90
Total time increments claimed for Activities 7-12	10.00	9.00	9.00	6.70	11.50	22.10	14.90

	Allowable Minutes	
Reimbursable Activity	FY 1999-2000 through FY 2007-08	FY 2010-11 through FY 2011-12
7 Answering questions	1.20	1.20
8 Receiving applications	1.20	1.20
9 Evaluate applications	1.20	1.20
10 Incomplete applications	1.20	1.20
11 Approved applications	1.20	1.20
12 Appeals for denied waiver	-	-
Total time increments allowed for Activities 7-12	6.00	6.00

Calculation of Multiplier Adjustment – Number of BOGG Fee Waivers

The following table summarizes the claimed, allowable, and adjusted amounts to the multiplier during the audit period for reimbursable Activities 7 through 12:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	172,586	291,780	119,194
8	172,586	291,780	119,194
9	172,586	291,780	119,194
10	1,527	291,780	290,253
11	149,772	289,435	139,663
12	-	-	-
Total	669,057	1,456,555	787,498

Calculation of Hours Adjustments

We multiplied the allowable minutes per reimbursable activity by the multiplier to compute the number of allowable hours for reimbursable Activities 7 through 12.

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

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
7	2,432.2	5,835.6	3,403.4
8	2,203.6	5,835.6	3,632.0
9	4,448.7	5,835.6	1,386.9
10	73.8	5,835.6	5,761.8
11	7,840.6	5,788.7	(2,051.9)
12	-	-	-
Total	16,998.9	29,131.1	12,132.2

Calculation of Costs by Reimbursable Activities

We applied the audited PHRs to the allowable hours per reimbursable activity. We found that $1,020,935 in salaries and benefits is allowable.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Audit Adjustment
7	$ 91,951	$ 204,561	$ 112,610
8	81,462	204,561	123,099
9	171,817	204,561	32,744
10	3,120	204,561	201,441
11	315,937	202,691	(113,246)
12	-	-	-
Total	$ 664,287	$ 1,020,935	$ 356,648

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 $664,287 in salaries and benefits to waive student fees during the audit period. The draft audit report found that this amount was understated by $356,648. The draft audit report suggests the understatement resulted in the use of the incorrect multiplier in the calculation. This understatement is a result of a significant correction in the number of BOGG waivers, slightly mitigated by a reduction in average staff time for the waiver process. The District does not have further information at this time.

SCO's Comment

The finding and recommendation remain unchanged. The district states that it has no further information at this time.

FINDING 6—Misstated indirect costs

The district claimed indirect costs totaling $1,507,014 for the audit period ($1,250,863 for enrollment fee collection activities and $256,151 for enrollment fee waiver activities). For enrollment fee collection activities, we found that the district overstated indirect costs by $1,073,550 (overstated by $41,583 due to indirect cost rate adjustments and overstated by $1,031,967 for unallowable salaries and benefits). For enrollment fee waiver activities, the district understated indirect costs by $85,234 (overstated by $41,253 due to indirect cost rate adjustments and understated by $126,487 due to underclaimed salaries and benefits).

For FY 1998-99, the district did not obtain federal approval for its indirect cost rate. As for FY 1999-2000, FY 2000-01, and FY 2006-07, the district did not provide any support to show how its indirect cost rates were calculated.

For FY 2004-05, the district incorrectly applied its indirect cost rate to salaries and benefits rather than salaries, benefits, and contracted services.

For FY 2010-11 and FY 2011-12, the district claimed indirect costs based on indirect cost rates prepared using the SCO's FAM-29C methodology. However, the district calculated each fiscal year's indirect cost rate based on actual costs reported in the district's California Community Colleges Annual Financial Budget Report-Expenditures by Activity (CCFS-311) from the preceding fiscal year rather than using the report for the current year. In addition, the district incorrectly reported expenditures incurred for EDP 6710 – Community Relations as indirect rather than direct for those two fiscal years.

We recalculated each fiscal year's allowable indirect cost rate using the SCO's FAM-29C methodology and the district's corresponding CCFS-311 reports. For FY 2004-05, we applied the allowable rate to contracted services, as well as to allowable salaries and benefits.

For FY 2001-02, through FY 2005-06, and FY 2007-08, we used the audited indirect cost rates from prior SCO audits of the district's Health Fee Elimination Program claims.

The following table summarizes the audit adjustment for indirect costs related to enrollment fee collection activities:

Enrollment Fee Collection

Fiscal Year	Allowable Direct Costs (a)	Allowable Indirect Cost Rate (b)	Allowable Indirect Costs (c) = (a) x (b)	Claimed Indirect Costs (d)	Audit Adjustment (e) = (c) - (d)
1998-99	$ 33,237	16.84%	$ 5,598	$ 58,911	$ (53,313)
1999-2000	35,672	20.89%	7,452	70,066	(62,614)
2000-01	36,812	19.87%	7,314	76,044	(68,730)
2001-02	35,041	18.23%	6,388	86,750	(80,362)
2002-03	57,251	17.96%	10,283	95,480	(85,197)
2003-04	46,161	17.00%	7,847	93,356	(85,509)
2004-05	58,106	32.33%	18,785	82,913	(64,128)
2005-06	53,486	33.86%	18,110	93,426	(75,316)
2006-07	73,011	31.66%	23,115	64,754	(41,639)
2007-08	61,841	33.87%	20,945	174,032	(153,087)
2010-11	65,670	41.81%	27,457	229,419	(201,962)
2011-12	55,499	43.28%	24,019	125,712	(101,693)
Total	$ 611,787		$ 177,313	$ 1,250,863	$ (1,073,550)

The following table summarizes the audit adjustment for indirect costs related to enrollment fee waiver activities:

Enrollment Fee waiver					
Fiscal Year	Allowable Direct Costs (a)	Allowable Indirect Cost Rate (b)	Allowable Indirect Costs (c) = (a) x (b)	Claimed Indirect Costs (d)	Audit Adjustment (e) = (c) - (d)
1999-2000	$ 28,458	20.89%	$ 5,945	$ 5,328	$ 617
2000-01	30,755	19.87%	6,112	6,265	(153)
2001-02	32,907	18.23%	5,999	8,025	(2,026)
2002-03	73,515	17.96%	13,203	8,896	4,307
2003-04	91,244	17.00%	15,511	7,539	7,972
2004-05	93,454	32.33%	30,215	6,592	23,623
2005-06	96,701	33.86%	32,743	6,962	25,781
2006-07	129,508	31.66%	41,002	35,158	5,844
2007-08	130,094	33.87%	44,063	70,595	(26,532)
2010-11	156,084	41.81%	65,258	77,546	(12,288)
2011-12	187,925	43.28%	81,334	23,245	58,089
Total	$ 1,050,645		$ 341,385	$ 256,151	$ 85,234

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

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

For FY 2004-05, the SCO's claiming instructions specify that the FAM-29C methodology uses a direct cost base comprised of salary and benefit costs and operating expenses.

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

> 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 $1,250,863 for enrollment fee activities. The draft audit report concluded that this amount was overstated by $1,073,550. Most of this reduction is attributable to Finding 1. The District claimed indirect costs totaling $256,151 for enrollment fee waiver activities. The draft audit report concluded that this amount was understated by $85,234. The source of this increase is left unclear by the draft audit report, however, it appears related to adjustments by other audit findings.

Calculation of the Rates

There are several differences in the rates for FY 1998-99 through FY 2003-04.

CCFS-311 Choice: Both the District and the Controller calculated the indirect cost rates using the SCO FAM-29C methodology utilizing data from the California Community college annual Financial Budget Report Expenditures by Activity Report (CCFS-311) submitted by the District to the Chancellor each year. However, the District used the prior year CCFS-311 and the Controller used the current audit year report. The District utilized prior year CCFS-311 reports because the current (annual claim) year CCFS-311 report and CPA audited financial statements depreciation expenses are not always available when the annual claims are prepared. This is a source of minor difference from year-to-year that becomes insignificant because it is applied as a consistent method.

Depreciation Expenses: The large differences prior to FY 2004-05 are the result of the district including capital costs from the CCFS-311 and the Controller excluding capital costs from the calculation. The draft audit report excluded the capital costs every year until FY 2004-05 when the CPA depreciation expense was included by change in Controller policy. The Controller has not state a legal or factual reason to previously exclude or now include capital or depreciation costs, and this is statewide audit appeal issue. Capital costs and depreciation will essentially trend in the same amount over a period of years.

Direct Costs: The other minor difference between the claimed rates and the audited rates derive 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 interrelation 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 choices are unreasonably, just that they aren't exactly the same as the Controller's choices using the same method.

There are no regulations or pertinent generally accepted 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 regulation 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 Comment

The finding and recommendation remain unchanged.

The district states that the source of the understated indirect costs for enrollment fee waiver activities is left unclear by the draft audit report. The understated indirect costs for enrollment fee waiver activities are mainly attributable to Finding 5, which relates to the understatement of the district's multiplier (number of BOGG fee waivers reported).

The district also states that "there are no regulations or pertinent generally accepted methods for the calculation of the indirect cost rate, so it is a matter of professional judgment." The district also makes reference to "the choice of how some costs are categorized as either direct or indirect for purposes of the calculation." We disagree. Section V.B. of the parameters and guidelines (Claim Preparation and Submission – Indirect Cost Rates) states that community colleges have the option of using one of the following methods: a federally approved rate based on Office of Management and Budget (OMB) Circular A-21, a rate calculated on State Controller's Form FAM-29C, or a 7% indirect cost rate. The district chose the option of using the Controller's FAM-29C methodology. The SCO developed Form FAM-29C to be consistent with the OMB Circular A-21 cost accounting principles as they apply to mandated cost programs. The instructions applicable to the calculation of indirect cost rates using the FAM-29C methodology is contained in each year's Mandated Cost Manual for Community College Districts, which is published annually by the SCO to assist community college districts preparing mandated cost claims. However, the district did not follow the SCO's claiming instructions for the calculation for any of its indirect cost rates using the FAM-29C methodology.

The district states its belief that the "claiming instructions are unenforceable because they have not been adopted as regulation under the Administrative Procedure Act." We disagree. Title 2, CCR, Section 1186, allows districts an opportunity to request that the Commission review the SCO's claiming instructions. Section 1186, subdivisions (e) through (h), provides districts an opportunity for public comment during the review process. However, neither this district nor any other district requested that the Commission review the SCO's claiming instructions (i.e., the district did not exercise its right for public comment). In any case, any amendment would not be applicable to this audit period. Therefore, we recalculated the district's indirect cost rates under the FAM-29C methodology using the applicable SCO claiming instructions.

The district states that "the District utilized prior year CCFS-311 reports because the current (annual claim) year CCFS-311 report and CPA audited financial statements depreciation expenses are not always available when the annual claims are prepared." We disagree. Initial claims for this mandated program covering FY 1998-99 through FY 2004-05 were due to the SCO on August 1, 2006. The annual claim for FY 2005-06 was due to the SCO on January 16, 2007. Claims filed for FY 2006-07 and beyond were due to the SCO on February 15 of the following calendar year. Title 5, California Code of Regulations, section 58305, subdivision (d), requires the district to submit its CCFS-311 report to the CCCCO by October 10 following the fiscal year in which costs are incurred. Therefore, the district's CCFS-311 report is available well before the district is required to submit its mandated cost claims.

We used the district's audited financial statements as the source for annual depreciation amounts for FY 2004-05 and subsequent years. Audited financial statements are based on financial statement data provided by the district to its outside auditors. The district's FY 2004-05, FY 2005-06, FY 2006-07, FY 2007-08, FY 2010-11, and FY 2011-12 financial statements were dated November 4, 2005, October 20, 2006,

December 14, 2007, November 11, 2008, December 1, 2011, and November 27, 2012, respectively. Therefore, the current year depreciation expense data was also available well before the district was required to submit its mandated cost claims for those years.

The indirect cost rates used for FY 2001-02, through FY 2002-03; and FY 2003-04, through FY 2005-06 have already been addressed by the Commission on State Mandates in an incorrect reduction claim (IRC) filed by the district pursuant to our audits of its Health Fee Elimination Program claims for those years (IRC 05-4206-I-03; and IRC 09-4206-I-22). In its Statement of Decision adopted on December 5, 2014 and July 24, 2015, respectively, the Commission found that "the Controller's reduction is correct as a matter of law and the recalculation of the indirect cost rate using the state Form FAM-29C rate was not arbitrary, capricious, or entirely lacking in evidentiary support."

FINDING 7—Misstated offsetting reimbursements

The district's offsetting reimbursements were misstated by $462,981 (overstated by $504,541 and understated by $41,560) for enrollment fee collection and understated by $3,070,165 for enrollment fee waivers. The offsetting reimbursements were misstated because the district did not report the correct amounts that it received from the CCCCO for enrollment fee collection or enrollment fee waivers for each 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 CCCCO confirming enrollment fee collection offsets paid to the district totaling $717,343 for the audit period. We limited the offsetting reimbursements received by the district to allowable direct and indirect costs.

The following table summarizes the misstated 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 CCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (C) = (B - A)
1998-99	$ 38,835	$ (45,940)	$ (44,051)	$ (38,835)	$ 7,105
1999-2000	43,124	(43,233)	(49,371)	(43,124)	109
2000-01	44,126	(54,419)	(50,502)	(44,126)	10,293
2001-02	41,429	(52,741)	(48,488)	(41,429)	11,312
2002-03	67,534	(48,901)	(51,109)	(51,109)	(2,208)
2003-04	54,008	(95,125)	(71,090)	(54,008)	41,117
2004-05	76,891	(152,403)	(85,007)	(76,891)	75,512
2005-06	71,596	(144,866)	(76,689)	(71,596)	73,270
2006-07	96,126	(146,652)	(70,143)	(70,143)	76,509
2007-08	82,786	(114,397)	(65,415)	(65,415)	48,982
2010-11	93,127	(240,207)	(30,824)	(30,824)	209,383
2011-12	79,518	(41,440)	(74,654)	(74,654)	(33,214)
Total	$ 789,100	$ (1,180,324)	$ (717,343)	$ (662,154)	$ 518,170

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs totaled $55,189 as follows:

Enrollment Fee Collection

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (C) = (A - B)
1998-99	$ (44,051)	$ (38,835)	$ (5,216)
1999-2000	(49,371)	(43,124)	(6,247)
2000-01	(50,502)	(44,126)	(6,376)
2001-02	(48,488)	(41,429)	(7,059)
2002-03	(51,109)	(51,109)	-
2003-04	(71,090)	(54,008)	(17,082)
2004-05	(85,007)	(76,891)	(8,116)
2005-06	(76,689)	(71,596)	(5,093)
2006-07	(70,143)	(70,143)	-
2007-08	(65,415)	(65,415)	-
2010-11	(30,824)	(30,824)	-
2011-12	(74,654)	(74,654)	-
Total	$ (717,343)	$ (662,154)	$ (55,189)

Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and $0.91 per credit unit waived. We obtained a report from the CCCCO confirming enrollment fee waiver offsets paid to the district totaling $3,875,817 for the audit period. We limited offsetting reimbursements received by the district to allowable direct and indirect costs.

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

Enrollment Fee Waiver Offsets

Fiscal Year	Allowable Direct and Related Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (C) = (B - A)
1999-2000	$ 34,403	$ (14,478)	$ (197,300)	$ (34,403)	$ (19,925)
2000-01	36,867	(16,810)	(275,578)	(36,867)	(20,057)
2001-02	38,906	(20,731)	(265,035)	(38,906)	(18,175)
2002-03	86,718	(25,410)	(278,237)	(86,718)	(61,308)
2003-04	106,755	(22,573)	(317,331)	(106,755)	(84,182)
2004-05	123,669	(20,388)	(433,068)	(123,669)	(103,281)
2005-06	129,444	(20,561)	(397,036)	(129,444)	(108,883)
2006-07	170,510	(107,517)	(415,611)	(170,510)	(62,993)
2007-08	174,157	(199,589)	(390,731)	(174,157)	25,432
2010-11	221,342	(280,229)	(432,306)	(221,342)	58,887
2011-12	269,259	(77,366)	(473,584)	(269,259)	(191,893)
Total	$ 1,392,030	$ (805,652)	$ (3,875,817)	$ (1,392,030)	$ (586,378)

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waiver costs totaled $2,483,787 as follows:

Enrollment Fee Waiver			
Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (C) = (A - B)
1999-2000	$ (197,300)	$ (34,403)	$ (162,897)
2000-01	(275,578)	(36,867)	(238,711)
2001-02	(265,035)	(38,906)	(226,129)
2002-03	(278,237)	(86,718)	(191,519)
2003-04	(317,331)	(106,755)	(210,576)
2004-05	(433,068)	(123,669)	(309,399)
2005-06	(397,036)	(129,444)	(267,592)
2006-07	(415,611)	(170,510)	(245,101)
2007-08	(390,731)	(174,157)	(216,574)
2010-11	(432,306)	(221,342)	(210,964)
2011-12	(473,584)	(269,259)	(204,325)
Total	$ (3,875,817)	$ (1,392,030)	$ (2,483,787)

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 allocate to community colleges two percent (2%) of the fees waived, under subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and

- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined), or dependents or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived:
    - from funds provided in the annual State Budget Act, the board of governors shall allocate to community college districts, pursuant to this subdivision, an amount equal to seven (7%) of the fee waivers provided pursuant to subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].

Beginning July 5, 2000:

- For 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 (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 percent (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 recipients of public assistance] and (h) [dependents of 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.

<u>Recommendation</u>

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 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-SFM 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 reimbursement for enrollment fee collection and enrollment fee waivers. The draft audit report states that the offsetting reimbursements were misstated by $462,981 for enrollment fee collection and misstated by $3,070,165 for enrollment fee waivers. The audited applicable offsetting enrollment fee collection revenue amounts exceed the audited direct and indirect activity costs for about half of the 12 years and the offsetting enrollment fee waiver revenue amounts exceed the audited direct and indirect activity costs for all years. These become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amounts are $55,189 for enrollment fee collection and $2,483,787 for enrollment fee waivers.

The District would note, however, that 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, that is, the claimed and audited costs are both based on "in-person" enrollment fee collections. The draft 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 Comment

The finding and recommendation remain unchanged.

The district states that the audited revenue offset should be reduced by the same percentage of online transaction costs "in order to properly match revenues and costs." Basically, the district believes that offsets should be based only on enrollment fees collected through "in-person" transactions. We disagree.

The "matching principle" that the district refers to in its response is used by accountants for accrual accounting purposes 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 CCCCO were based on 2% of the revenue from enrollment fees received by the district from students and were intended to cover the costs incurred by the district to implement the program of calculating and collecting enrollment fees from students. The specific program costs subject to mandate reimbursement are those identified in Section IV.A. of the parameters and guidelines (Reimbursable Activities – Enrollment Fee Collection). The costs claimed by the district under this section of the parameters and guidelines included the one-time activities of preparing policies and procedures and staff training, as well as the six ongoing activities for calculating and collecting enrollment fees from students.

However, the pro-ration of the student multiplier to reflect the payment of enrollment fees online applied only to reimbursable Activity 2 (Calculating and Collecting the Fee) and Activity 4 (Updating Written and Computer Records). To determine the allowable costs, we applied the time increments required to perform these activities by the number of students appearing in person to pay their enrollment fees based on the applicable productive hourly rates of district staff who performed these activities.

Based on the results of our audit, the district has already been fully reimbursed for the costs to implement the program of calculating and collecting fees from students for FY 1998-99 through FY 2001-02 and FY 2003-04 through FY 2005-06 through the receipt of offsetting revenues from the CCCCO. Further, our audit report identifies that the district has received offsetting revenues beyond the actual costs that it incurred to perform these reimbursable activities.

FINDING 8—Misstated productive hourly rates and understated benefit rates

For the audit period, the district calculated average PHRs 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 PHRs for each fiscal year of the audit period.

The district calculated its average PHRs using a straight average methodology based on annual productive hours per employee. Prior to FY 2006-07, the district used 1,800 annual productive hours to compute its productive hourly rates. For FY 2006-07 and forward, the district used actual annual productive hours. In addition, the district applied a 21% employee benefit rate to all full-time employees' salaries and a 10% benefit rate to part-time employees for FY 1998-99, through FY 2005-06. Subsequent to FY 2005-06, the district used actual benefit rates when calculating its PHRs.

For FY 1998-99, through FY 2000-01, the district could not provide any support for the employees' paid salaries. Therefore, the district's mandated cost consultant used the average PHR for FY 2001-02 and divided that by 5% for each previous year.

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

The district calculated its average PHRs for the enrollment fee collection activities by calculating each employee's PHR, adding up the total of individual PHRs, and dividing it by the number of employees identified. We noted that the district's mandated cost consultant identified the same employees when calculating the average PHRs for FY 1998-99 through FY 2005-06.

Based on actual supporting documentation, we noted some discrepancies in the calculation of the district's average PHRs. Some of the claimed rates did not include the most current salary/benefit information. For FY 2003-04, through FY 2005-06, the district did not apply actual benefit rates to the employees' salaries. For FY 2006-07 and forward, the district used actual benefit rates and actual annual productive hours. However, the district did not provide any support for its actual annual productive hours. In addition, the district inadvertently included in its average PHR calculation several employees who were terminated in FY 2002-03, through FY 2004-05.

Therefore, we recalculated the average PHRs for each fiscal year to include only those employees who were still employed by the district and those who actually performed the reimbursable activities during the audit period. We also used actual salary information provided by the district beginning with FY 2001-02. Prior to FY 2003-04, we used the 21% benefit rate for full-time employees and 10% benefit rate for part-time employees whom the district claimed. Consistent with the SCO claiming instructions, in the absence of support for the number of actual annual productive hours spent by district staff, we used 1,800 productive hours for each employee.

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

Enrollment Fee Collection			
Fiscal Year	Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Difference
1998-99	$ 11.22	$ 15.15	$ 3.93
1999-2000	11.79	15.33	3.54
2000-01	12.38	14.66	2.28
2001-02	12.99	13.19	0.20
2002-03	13.97	21.04	7.07
2003-04	15.00	20.18	5.18
2004-05	15.47	30.96	15.49
2005-06	16.10	30.77	14.67
2006-07	41.16	36.67	(4.49)
2007-08	40.35	36.00	(4.35)
2010-11	41.49	38.63	(2.86)
2011-12	38.11	35.13	(2.98)

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

The district calculated its average PHRs for the enrollment fee waiver activities by calculating each employee's PHR, adding up the total of individual PHRs, and dividing it by the number of employees identified.

Based on actual supporting documentation, we noted some discrepancies in the calculation of the district's average PHRs. Some of the claimed rates did not include the most current salary/benefit information. For FY 2003-04, through FY 2005-06, the district did not apply actual benefit rates to the employees' salaries. For FY 2006-07 and forward, the district used actual benefit rates and actual annual productive hours. However, the district did not provide any support for its actual annual productive hours. In addition, we noted one employee in FY 2010-11 who was terminated effective July 1, 2010, and was still being claimed to calculate the average PHR for that fiscal year.

Therefore, we recalculated the average PHRs for each fiscal year to include only those employees who were still employed by the district during the audit period. We also recalculated the PHRs based on actual salary information provided by the district beginning with FY 2001-02. Prior to FY 2003-04, we used the 21% benefit rate for full-time employees and 10% benefit rate for part-time employees whom the district claimed. Subsequent to FY 2003-04, we used actual benefit rates that were provided by the district. Consistent with the SCO claiming instructions, in the absence of support for the actual annual productive hours spent by district staff, we used 1,800 productive hours for each employee.

The following table summarizes the changes that we made to the average PHRs for enrollment fee waiver activities by fiscal year:

Enrollment Fee Waivers

Fiscal Year		Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Difference
1999-2000		$ 22.99	$ 22.06	$ (0.93)
2000-01		24.14	23.16	(0.98)
2001-02		25.34	24.32	(1.02)
2002-03		28.30	27.71	(0.59)
2003-04		27.73	32.06	4.33
2004-05		26.61	30.32	3.71
2005-06		27.36	30.97	3.61
2006-07		48.50	42.02	(6.48)
2007-08		42.28	38.74	(3.54)
2010-11	BOGG A/B	40.26	39.25	(1.01)
2010-11	BOGG C	41.93	39.25	(2.68)
2011-12		55.87	47.91	(7.96)

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 specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The SCO's claiming instructions state that claimants may use one of the following methods 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

If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claim must include a computation of how these hours were computed.

Recommendation

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

District's Response

> The draft audit report concludes that the District erred by not weighting the productive hourly rates for the program activities. The auditor's weighting method resulted in a reduction of the productive hourly rate for several activities. The District calculated its average productive hourly rates using a straight average methodology. The District did not weight the involvement of the various employee classifications that performed the reimbursable activities. The District notes there is no requirement in the parameters and guidelines to use weighted productive hourly rates and no factual basis to do so was provided by the draft audit report. The District has no further information at this time.

SCO's Comment

The finding and recommendation remain unchanged. The district states that it has no further information at this time. However, part of the district's response warrants our comments.

The district states "the draft audit report concludes that the District erred by not weighting the productive hourly rates for the program activities. The auditor's weighting method resulted in a reduction of the productive hourly rate for several activities." This statement is incorrect. During the exit conference, we informed the district that we performed an analysis between the weighted-average and straight-average methodology for both

enrollment fee collection and enrollment fee waivers in calculating its PHRs. The differences between the two methods were immaterial. Therefore, we calculated the district's average PHRs using the straight-average methodology for the audit period.

As for the reduction of the PHRs, this was mainly due to the district using unsupported actual annual productive hours in its calculations for FY 2006-07 through FY 2007-08, and FY 2010-11 through FY 2011-12. In the absence of district support for the number of actual annual productive hours spent by district staff, we used 1,800 productive hours for each employee. In addition, for the enrollment fee waiver activities, we noted that one employee was included in the district's claim for FY 2010-11 despite being terminated effective July 1, 2010.

OTHER ISSUE—Documentation Standards

The district's response included a general statement regarding the documentation of staff time to implement the mandated program.

District's Response

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

SCO's Comment

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

- Calculating and collecting the student enrollment fee for each student except for nonresidents, and except for special part-time students…;
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h);
- Waiving fees for students who apply for and are eligible for BOGG fee waivers;
- Reporting to the CCCCO 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 2005-06. The audit period includes district-filed annual claims for the mandated program for an additional four fiscal years beyond the initial filing period. However, none of the claims filed by the district for the 12 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 in determining the allowable portion of claimed costs.

The district also states its belief that "the Controller is validating the District's good faith method and the mandate consultant's forms as an acceptable method of estimating average time." That statement is incorrect, as we did not validate the method in which costs were claimed. We believe that the district is referring to our acceptance of estimated time allowances for certain reimbursable activities, as described in the audit findings. In these instances, our acceptance of estimated time allowances was based solely on our verification that the time estimates were reasonable, not on our acceptance of the methodology used to create them.

OTHER ISSUE—Public Records Request

The district's response included a public records request.

District's Response

> The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings applicable to the audit procedures and findings for audits of this mandate program. Government Code section 6253, subdivision (c), require 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 Comment

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

Attachment—
District's Response to
Draft Audit Report

Board of Trustees
Dr. Virginia L. Baxter
Jeffrey A. Kellogg
Vivian Malauulu
Douglas W. Otto
Sunny Zia

Superintendent-President
Eloy O. Oakley

Long Beach City College • Long Beach Community College District
4901 East Carson Street • Long Beach California 90808

August 11, 2016

VIA EMAIL AND OVERNIGHT DELIVERY

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874
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RE: Long Beach Community College District
Enrollment Fee Collection and Waivers Program
FY 1998-99 through FY 2007-08; FY 2010-11 and FY 2011-12

Dear Mr. Spano:

This letter constitutes the Long Beach Community College District's response to the draft audit report dated August 2016, received by mail by the District on August 2, 2016, for the above-referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Nearly 97 percent of the amounts claimed for reimbursement for the fiscal years audited have been disallowed by the draft audit report. 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. The District's incorrect reduction claim will be submitted to the Commission after we receive the final audit report.

Documentation Standards

Before responding to the specific findings, a general statement regarding the documentation of staff time to implement the mandated program is needed. The majority of the direct costs claimed is staff time, and most of that cost is disallowed by the draft audit report. The draft audit report essentially asserts that the provided source documents are inappropriately or insufficiently documented. The draft audit report cites the parameters and guidelines as the legal standard for source documentation:

> The parameters and guidelines (section IV – Reimbursable Activities) state that 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 costs was incurred for the vent or activity in questions.

(Draft Audit Report, p. 16.) 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 eight 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 ninth 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 may need to be resolved by the incorrect reduction claim process.

<u>Audit Findings</u>

Finding 1 Enrollment Fee Collection: Calculating and Collecting Enrollment Fees – unallowable salaries and benefits – ongoing activities

The District claimed $3,448,057 in salaries and benefits to calculate and collect enrollment fees 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 relevant workload statistics (e.g., the number of student paying an enrollment fee), then multiplied by the average productive hourly rate. The draft audit report adjusts all three components of the calculation.

The draft audit report states $602,872 of claimed salary and benefits is allowable and $2,845,185 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 draft audit report also replaces the number of students used in the District's calculation with student enrollment data obtained by the Controller from the Chancellor's Office and reduces the number of students for those who paid their enrollment fees online rather than in person. The collective effect of the disallowances is an 85% reduction of the 175,591.4 claimed mandate program hours to 24,815.8. There is a reduction of a similar magnitude for the $3,448,057 in claimed costs for salaries and benefits to $602,872.

Using certification forms developed by the District's mandated cost consultant District staff who implemented the mandate estimated their average times required to perform each of the six reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the Controller for all six activities.

For Activities 1 through 6, the District claimed average times total times of 14.20 to 27.00 minutes over the audit period. The Controller decided that the good faith time estimates reported by the District were "overstated." Instead, the Controller observed 117 transactions related to Activities 1-4, only 4 transactions related to Activity 5, and only 1 transaction related to Activity 6. Interestingly, the Controller relied on the good faith estimates of District employees in establishing the time necessary to complete related tasks including collecting delinquent enrollment fees and the batch refund fee process. Nonetheless, the average times calculated to perform each activity was between .72 minutes and 1.47 minutes.

This substantial reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the Controller's sample size is statistically meaningless. The audited enrollment transactions were 693,845 over the audit period, of which at most, 125 relevant transactions were observed. The draft audit report does not state that the collection 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 Controller's observation process does not constitute a representative "time study" sample. Instead, the good faith records of minutes provided by the District are the most reliable indicator of the time dedicated to these activities and they should be used to calculate the average activity time.

Finding 2 Contracted services incorrectly reported under Enrollment Fee Collection Calculating and Collecting Enrollment Fees

The District claim $150,838 in costs related to consulting work to support the implementation of and upgrades to its student registration and financial aid systems. The draft audit report found this claim was "overstated" by $149,506, allowing only $1,332 in claimed costs as it considered the remaining costs to be "unsupported." The District has no further information at this time.

Finding 3 Enrollment Fee Waivers: Preparing District Policies and Procedures – unallowable one-time activity costs

The District claimed $8,109 in salaries and benefits during the audit period for the activity of preparing the District's policies and procedures for determining which students are eligible for the waiver of enrollment fees during the audit period. The draft audit report adjusted FY 2001-02 and FY 2007-08 only. The draft audit report states that the adjustments were made because the District claimed costs based on estimates of time spent performing the reimbursable activities, and did not prove that costs incurred were required by changes in state law as opposed to discretionary activities undertaken by the District to update its own policies and procedures.

The parameters and guidelines state that preparing District policies and procedures is reimbursable as a one-time activity. When there is a need to update a policy or procedure, this is a new one-time activity. As the draft audit report states, "[i]n addition to the first year for which the [D]istrict claimed costs for initially preparing its policies and procedures under this cost component, the [D]istrict can also claim costs for updating policies and procedures ...." There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report.

This mandated activity was not observed or observable by the auditor. The District policies and procedures are the work product for this activity. This staff time should be reinstated because there is no basis to disallow the time spent on the mandate.

Finding 4 Enrollment Fee Waivers: Staff Training – unallowable one-time activity costs

The District claimed $9,288 in salaries and benefits during the audit period for the activity of training staff who implemented the program on the procedures for the collection of enrollment fees. The draft audit report states that $4,462 is allowable and $4,826 is unallowable. The draft audit report states that the adjustments were made because the District claimed estimated costs and did not provide documentation related to the subject matter, duration, and employees attending. The draft audit report further states that costs were claimed multiple times for several staff members in District claims over the audit period.

The draft audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name or for hours claimed without sufficient documentation as to the content of the training. The District provided documentation in the form of declarations, which are acceptable documentation. The draft audit report does not indicate how this documentation was not actual cost documentation. (The fact that the draft audit report disallows time based on time for staff claimed more than once by name suggests sufficient documentation was provided to determine the identity of the employees receiving the training.) This mandated activity was not observed or observable by the auditor. This staff time should be reinstated because there is no basis to disallow the time spent on the mandate.

Finding 5 Enrollment Fee Waivers: Waiving Student Fees – understated salaries and benefits ongoing activities

The District claimed $664,287 in salaries and benefits to waive student fees during the audit period. The draft audit report found that this amount was understated by $356,648. The draft audit report suggests the understatement resulted in the use of the incorrect multiplier

in the calculation. This understatement is a result of a significant correction in the number of BOGG waivers, slightly mitigated by a reduction in average staff time for the waiver process. The District does not have further information at this time.

Finding 6 Misstated indirect costs

An indirect cost rate is applied to all reimbursable direct costs to allocate administrative and other costs to the direct mandate program costs. The two sources of the total adjustment amount each year are the amount of direct costs previously adjusted to which the indirect cost rate is applied and the calculation of the indirect cost rate.

Direct Cost Adjustments

The District claimed indirect costs totaling $1,250,863 for enrollment fee activities. The draft audit report concluded that this amount was overstated by $1,073,550. Most of this reduction is attributable to Finding 1. The District claimed indirect costs totaling $256,151 for enrollment fee waiver activities. The draft audit report concluded that this amount was understated by $85,234. The source of this increase is left unclear by the draft audit report, however, it appears related to adjustments by other audit findings.

Calculation of the Rates

There are several differences in for differences in the rates for FY 1998-99 through FY 2003-04.

CCSF-311 Choice: Both the District and the Controller calculated the indirect cost rates using the SCO FAM-29C methodology utilizing data from the California Community college annual Financial Budget Report Expenditures by Activity Report (CCFS-311) submitted by the District to the Chancellor each year. However, the District used the prior year CCSF-311 and the Controller used the current audit year report. The District utiltized prior year CCSF-311 reports because the current (annul claim) year CSF-311 report and CPA audited financial statements depreciation expenses are not always available when the annual claims are prepared. This is a source of minor difference from year-to-year that becomes insignificant because it is applied as a consistent method.

Depreciation Expenses: The large differences prior to FY 2004-05 are the result of the district including capital costs from the CCSF-311 and the Controller excluding capital costs from the calculation. The draft audit report excluded the capital costs every year until FY 20040-05 when the CPA deprecation expense was included by change in Controller policy. The Controller has not state a legal or factual reason to previously exclude or now include capital or deprecation costs, and this is statewide audit appeal issue. Capital costs and deprecation will essentially trend in the same amount over a period of years.

Direct Costs: The other minor difference between the claimed rates and the audited rates derive 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 interrelation 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 choices are unreasonably, just that they aren't exactly the same as the Controller's choices using the same method.

There are no regulations or pertinent generally accepted 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 regulation 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 7 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-SFM 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 parameter and guidelines as an offset to the program costs.

The District claimed offsetting reimbursement for enrollment fee collection and enrollment fee waivers. The draft audit report states that the offsetting reimbursements were misstated by $462,981 for enrollment fee collection and misstated by $3,070,165 for enrollment fee waivers. The audited applicable offsetting enrollment fee collection revenue amounts exceed the audited direct and indirect activity costs for about half of the 12 years and the offsetting enrollment fee waiver revenue amounts exceed the audited direct and indirect activity costs for all years. These become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amounts are $55,189 for enrollment fee collection and $2,483,787 for enrollment fee waivers.

The District would note, however, that 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, that is, the claimed and audited costs are both based on "in-person" enrollment fee collections. The draft 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 8 Misstated productive hourly rates and understated benefit rates

The draft audit report concludes that the District erred by not weighting the productive hourly rates for the program activities. The auditor's weighting method resulted in a reduction of the productive hourly rate for several activities. The District calculated its

average productive hourly rates using a straight average methodology. The District did not weight the involvement of the various employee classifications that performed the reimbursable activities. The District notes there is no requirement in the parameters and guidelines to use weighted productive hourly rates and no factual basis to do so was provided by the draft audit report. The District has no further information at this time.

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), require 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,

John Thompson
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Long Beach Community College District

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