

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

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

*July 1, 1998, through June 30, 2008;
July 1, 2010, through June 30, 2011;
and July 1, 2013, through June 30, 2014*



BETTY T. YEE
California State Controller

December 2016



BETTY T. YEE
California State Controller

December 29, 2016

John Pinkerton, President of the Board of Trustees
Victor Valley Community College District
18422 Bear Valley Road
Victorville, CA 92395

Dear Mr. Pinkerton:

The State Controller's Office audited the costs claimed by the Victor Valley 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; July 1, 2010, through June 30, 2011; and July 1, 2013, through June 30, 2014.

The district claimed \$3,496,195 for the mandated program. Our audit found that \$434,199 is allowable (\$469,041 less a \$34,842 penalty for filing late claims) and \$3,061,996 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time, travel, and training costs; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$417,878. The State will pay allowable costs claimed that exceed the amount paid, totaling \$16,321, contingent upon available appropriations.

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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Roger Wagner, Superintendent/President
Victor Valley Community College District
Marie Vidana-Barda, Interim Director of Fiscal Services
Victor Valley Community College District
Tracey Richardson, Vice President of Administrative Services
Victor Valley Community College District
Mario Rodriguez, Assistant Vice Chancellor
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Victor Valley 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; July 1, 2010, through June 30, 2011; and July 1, 2013, through June 30, 2014.

The district claimed \$3,496,195 for the mandated program. Our audit found that \$434,199 is allowable (\$469,041 less a \$34,842 penalty for filing late claims) and \$3,061,996 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time, travel, and training costs; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$417,878. The State will pay allowable costs claimed that exceed the amount paid, totaling \$16,321, contingent upon available appropriations.

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 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 Board of Governor's Grants (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 that will enable an independent determination regarding accuracy of the district's certification of need for financial assistance

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

Objectives, Scope, and Methodology

We conducted 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; July 1, 2010, through June 30, 2011; and July 1, 2013, through June 30, 2014.

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:

- Reviewed annual claims filed with the SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year-to-year
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained
- Interviewed district staff to determine employee classifications involved in performing the reimbursable activities during the audit period
- Assessed whether computer-processed data provided by the claimant to support claimed costs was complete and accurate and could be relied upon
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities
- Traced productive hourly rate calculations for district employees to supporting documentation in the district's payroll system
- Determined whether indirect costs claimed were for common or joint purposes and whether indirect cost rates were properly supported and applied
- Inquired whether the claimant realized any offsetting savings or reimbursements from the statutes which created the mandated program
- Recalculated allowable costs claimed using audited data

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 Victor Valley Community College District claimed \$3,496,195 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$434,199 is allowable (\$469,041 less a \$34,842 penalty for filing late claims) and \$3,061,996 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$193,396. Of that amount, \$171,511 was from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$16,862 is allowable. The State will apply \$171,511 against any balances of unpaid mandated program claims due the district as of June 30, 2014. The State will also offset \$5,023 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 1999-2000 claim, the State paid the district \$224,482 from funds appropriated pursuant to Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$27,741 is allowable. The State will apply \$196,741 against any unpaid balance of unpaid mandated program claims due the district as of June 30, 2014.

For the FY 2000-01 through FY 2007-08, FY 2010-11, and FY 2013-14 claims, the State made no payment to the district. Our audit found that \$389,596 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$389,596 contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on October 12, 2016. Dr. Roger Wagner, Superintendent/President, responded by letter dated October 24, 2016 (Attachment), disagreeing (either in whole or in part) with Findings 1, 2, 5, and 8; indicating that the district has “no further information at this time” for Findings 3, 6, and 9; and stating that the district “does not dispute the adjustment at this time” for Finding 4 and “does not object to the entirety of this finding at this time” for Finding 7. This final audit report includes the district’s response.

Restricted Use

This report is solely for the information and use of the Victor Valley 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

December 29, 2016

**Schedule 1—
Summary of Program Costs
July 1, 1998, through June 30, 2014;
excluding July 1, 2008 through June 30, 2010,
and July 1, 2011, through June 30, 2013**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculating and collecting enrollment fees	\$ 146,518	\$ 30,172	(116,346)	Finding 2
Total direct costs	146,518	30,172	(116,346)	
Indirect costs	84,833	8,970	(75,863)	Finding 7
Total direct and indirect costs	231,351	39,142	(192,209)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(16,466)	(20,406)	(3,940)	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total costs	214,885	18,736	(196,149)	
Less late filing penalty ³	-	(1,874)	(1,874)	
Total program costs	<u>\$ 214,885</u>	16,862	<u>\$ (198,023)</u>	
Less amount paid by the State ⁴		(193,396)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (176,534)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculating and collecting enrollment fees	\$ 155,293	\$ 36,646	\$ (118,647)	Finding 2
Total direct costs	155,293	36,646	(118,647)	
Indirect costs	91,561	11,096	(80,465)	Finding 7
Total direct and indirect costs	246,854	47,742	(199,112)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(16,623)	(16,919)	(296)	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	<u>230,231</u>	<u>30,823</u>	<u>(199,408)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	-	206	206	Finding 4
Waiving student fees	31,533	18,584	(12,949)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	1,022	1,022	-	Finding 6
Total direct costs	32,555	19,812	(12,743)	
Indirect costs	19,192	5,999	(13,193)	Finding 7
Total direct and indirect costs	51,747	25,811	(25,936)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(32,554)	(75,153)	(42,599)	Finding 8
Adjustment for unused portion of offsets ²	-	49,342	49,342	
Total enrollment fee waivers	<u>19,193</u>	<u>-</u>	<u>(19,193)</u>	
Total costs	249,424	30,823	(218,601)	
Less late filing penalty ³	-	(3,082)	(3,082)	
Total program costs	<u>\$ 249,424</u>	27,741	<u>\$ (221,683)</u>	
Less amount paid by the State ⁴		<u>(224,482)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (196,741)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 177,830	\$ 41,245	\$ (136,585)	Finding 2
Total direct costs	177,830	41,245	(136,585)	
Indirect costs	103,942	12,378	(91,564)	Finding 7
Total direct and indirect costs	281,772	53,623	(228,149)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(18,606)	(18,443)	163	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	<u>263,166</u>	<u>35,180</u>	<u>(227,986)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	-	221	221	Finding 4
Waiving student fees	37,516	21,562	(15,954)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	1,064	1,064	-	Finding 6
Total direct costs	38,580	22,847	(15,733)	
Indirect costs	22,549	6,856	(15,693)	Finding 7
Total direct and indirect costs	61,129	29,703	(31,426)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(38,580)	(86,661)	(48,081)	Finding 8
Adjustment for unused portion of offsets ²	-	56,958	56,958	
Total enrollment fee waivers	<u>22,549</u>	<u>-</u>	<u>(22,549)</u>	
Total costs	285,715	35,180	(250,535)	
Less late filing penalty ³	-	(3,518)	(3,518)	
Total program costs	<u>\$ 285,715</u>	31,662	<u>\$ (254,053)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 31,662</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 205,200	\$ 50,588	\$ (154,612)	Finding 2
Total direct costs	205,200	50,588	(154,612)	
Indirect costs	125,747	15,920	(109,827)	Finding 7
Total direct and indirect costs	330,947	66,508	(264,439)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(17,039)	(21,634)	(4,595)	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	313,908	44,874	(269,034)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	2,252	2,252	-	Finding 3
Adopt procedures, record and maintain records	-	233	233	Finding 4
Waiving student fees	40,320	23,751	(16,569)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	1,106	1,106	-	Finding 6
Total direct costs - salaries and benefits	43,678	27,342	(16,336)	
Direct costs - travel and training				
Staff training	1,106	-	(1,106)	Finding 3
Total direct costs - travel and training	1,106	-	(1,106)	
Total direct costs	44,784	27,342	17,442	
Indirect costs	26,765	8,605	(18,160)	Finding 7
Total direct and indirect costs	71,549	35,947	(35,602)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(44,784)	(86,689)	(41,905)	Finding 8
Adjustment for unused portion of offsets ²	-	50,742	50,742	
Total enrollment fee waivers	26,765	-	(26,765)	
Total costs	340,673	44,874	(295,799)	
Less late filing penalty ³	-	(4,487)	(4,487)	
Total program costs	\$ 340,673	40,387	\$ (300,286)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 40,387		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 208,086	\$ 48,362	\$ (159,724)	Finding 2
Total direct costs	208,086	48,362	(159,724)	
Indirect costs	114,863	14,789	(100,074)	Finding 7
Total direct and indirect costs	322,949	63,151	(259,798)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(21,180)	(20,868)	312	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	301,769	42,283	(259,486)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	2,064	2,064	-	Finding 3
Adopt procedures, record and maintain records	-	235	235	Finding 4
Waiving student fees	46,609	46,597	(12)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	1,128	1,128	-	Finding 6
Total direct costs - salaries and benefits	49,801	50,024	223	
Direct costs - travel and training				
Staff training	894	894	-	Finding 3
Total direct costs - travel and training	894	894	-	
Total direct costs	50,695	50,918	223	
Indirect costs	27,491	15,571	(11,920)	Finding 7
Total direct and indirect costs	78,186	66,489	(11,697)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(50,695)	(111,017)	(60,322)	Finding 8
Adjustment for unused portion of offsets ²	-	44,528	44,528	
Total enrollment fee waivers	27,491	-	(27,491)	
Total costs	329,260	42,283	(286,977)	
Less late filing penalty ³	-	(4,228)	(4,228)	
Total program costs	\$ 329,260	38,055	\$ (291,205)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 38,055		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Staff training	\$ 584	\$ 584	\$ -	Finding 1
Calculating and collecting enrollment fees	189,850	58,481	(131,369)	Finding 2
Total direct costs	190,434	59,065	(131,369)	
Indirect costs	102,663	13,343	(89,320)	Finding 7
Total direct and indirect costs	293,097	72,408	(220,689)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(35,427)	(31,702)	3,725	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	257,670	40,706	(216,964)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	890	890	-	Finding 3
Adopt procedures, record and maintain records	-	253	253	Finding 4
Waiving student fees	47,616	46,549	(1,067)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	1,804	1,804	-	Finding 6
Total direct costs - salaries and benefits	50,310	49,496	(814)	
Direct costs - travel and training				
Staff training	309	309	-	Finding 3
Total direct costs - travel and training	309	309	-	
Total direct costs	50,619	49,805	(814)	
Indirect costs	27,122	11,251	(15,871)	Finding 7
Total direct and indirect costs	77,741	61,056	(16,685)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(50,619)	(124,684)	(74,065)	Finding 8
Adjustment for unused portion of offsets ²	-	63,628	63,628	
Total enrollment fee waivers	27,122	-	(27,122)	
Total costs	284,792	40,706	(244,086)	
Less late filing penalty ³	-	(4,071)	(4,071)	
Total program costs	\$ 284,792	36,635	\$ (248,157)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 36,635		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Staff training	\$ 1,402	\$ 1,402	\$ -	Finding 1
Calculating and collecting enrollment fees	217,297	60,060	(157,237)	Finding 2
Total direct costs	218,699	61,462	(157,237)	
Indirect costs	99,749	27,135	(72,614)	Finding 7
Total direct and indirect costs	318,448	88,597	(229,851)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(73,823)	(45,104)	28,719	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	244,625	43,493	(201,132)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	1,469	1,469	-	Finding 3
Adopt procedures, record and maintain records	-	263	263	Finding 4
Waiving student fees	47,733	38,312	(9,421)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	2,706	2,706	-	Finding 6
Total direct costs - salaries and benefits	51,908	42,750	(9,158)	
Direct costs - travel and training				
Staff training	929	929	-	Finding 3
Total direct costs - travel and training	929	929	-	
Total direct costs	52,837	43,679	(9,158)	
Indirect costs	23,676	19,284	(4,392)	Finding 7
Total direct and indirect costs	76,513	62,963	(13,550)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(52,838)	(179,466)	(126,628)	Finding 8
Adjustment for unused portion of offsets ²	-	116,503	116,503	
Total enrollment fee waivers	23,675	-	(23,675)	
Total costs	268,300	43,493	(224,807)	
Less late filing penalty ³	-	(4,349)	(4,349)	
Total program costs	\$ 268,300	39,144	\$ (229,156)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 39,144		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Staff training	\$ 4,949	\$ -	\$ (4,949)	Finding 1
Calculating and collecting enrollment fees	235,987	80,503	(155,484)	Finding 2
Total direct costs	240,936	80,503	(160,433)	
Indirect costs	112,204	33,513	(78,691)	Finding 7
Total direct and indirect costs	353,140	114,016	(239,124)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(70,171)	(58,125)	12,046	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	282,969	55,891	(227,078)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	1,098	1,098	-	Finding 3
Adopt procedures, record and maintain records	-	276	276	Finding 4
Waiving student fees	51,487	29,357	(22,130)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	2,866	2,866	-	Finding 6
Total direct costs - salaries and benefits	55,451	33,597	(21,854)	
Direct costs - travel and training				
Staff training	449	449	-	Finding 3
Total direct costs - travel and training	449	449	-	
Total direct costs	55,900	34,046	(21,854)	
Indirect costs	25,824	14,173	(11,651)	Finding 7
Total direct and indirect costs	81,724	48,219	(33,505)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(55,901)	(165,089)	(109,188)	Finding 8
Adjustment for unused portion of offsets ²	-	116,870	116,870	
Total enrollment fee waivers	25,823	-	(25,823)	
Total costs	308,792	55,891	(252,901)	
Less late filing penalty ³	-	(5,589)	(5,589)	
Total program costs	\$ 308,792	50,302	\$ (258,490)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 50,302		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 281,253	\$ 45,903	\$ (235,350)	Finding 2
Total direct costs	281,253	45,903	(235,350)	
Indirect costs	167,402	23,502	(143,900)	Finding 7
Total direct and indirect costs	448,655	69,405	(379,250)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(51,049)	(32,969)	18,080	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	397,606	36,436	(361,170)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	2,483	2,483	-	Finding 3
Adopt procedures, record and maintain records	-	290	290	Finding 4
Waiving student fees	62,497	31,033	(31,464)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	-	2,644	2,644	Finding 6
Total direct costs - salaries and benefits	64,980	36,450	(28,530)	
Direct costs - travel and training				
Staff training	1,140	-	(1,140)	Finding 3
Total direct costs - travel and training	1,140	-	(1,140)	
Total direct costs	66,120	36,450	(29,670)	
Indirect costs	38,676	18,662	(20,014)	Finding 7
Total direct and indirect costs	104,796	55,112	(49,684)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(66,120)	(152,809)	(86,689)	Finding 8
Adjustment for unused portion of offsets ²	-	97,697	97,697	
Total enrollment fee waivers	38,676	-	(38,676)	
Total costs	436,282	36,436	(399,846)	
Less late filing penalty ³	-	(3,644)	(3,644)	
Total program costs	\$ 436,282	32,792	\$ (403,490)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 32,792		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 776	\$ 776	\$ -	
Staff training	1,035	1,035	-	Finding 1
Calculating and collecting enrollment fees	212,522	50,101	(162,421)	Finding 2
Total direct costs	214,333	51,912	(162,421)	
Indirect costs	127,571	24,482	(103,089)	Finding 7
Total direct and indirect costs	341,904	76,394	(265,510)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(38,696)	(38,688)	8	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	303,208	37,706	(265,502)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	776	776	-	
Adopt procedures, record and maintain records	-	305	305	Finding 4
Waiving student fees	70,572	29,246	(41,326)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	7,627	3,487	(4,140)	Finding 6
Total direct costs	78,975	33,814	(45,161)	
Indirect costs	47,006	15,947	(31,059)	Finding 7
Total direct and indirect costs	125,981	49,761	(76,220)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(78,975)	(142,465)	(63,490)	Finding 8
Adjustment for unused portion of offsets ²	-	92,704	92,704	
Total enrollment fee waivers	47,006	-	(47,006)	
Total program costs	\$ 350,214	37,706	\$ (312,508)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 37,706		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 207,755	\$ 50,026	\$ (157,729)	Finding 2
Total direct costs	207,755	50,026	(157,729)	
Indirect costs	103,005	25,318	(77,687)	Finding 7
Total direct and indirect costs	310,760	75,344	(235,416)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(35,292)	(35,292)	-	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	<u>275,468</u>	<u>40,052</u>	<u>(235,416)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	-	278	278	Finding 4
Waiving student fees	105,265	46,968	(58,297)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	-	3,328	3,328	Finding 6
Total direct costs	105,265	50,574	(54,691)	
Indirect costs	52,190	25,596	(26,594)	Finding 7
Total direct and indirect costs	157,455	76,170	(81,285)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(157,455)	(180,014)	(22,559)	Finding 8
Adjustment for unused portion of offsets ²	-	103,844	103,844	
Total enrollment fee waivers	-	-	-	
Total program costs	<u>\$ 275,468</u>	40,052	<u>\$ (235,416)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,052</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2013, through June 30, 2014</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 113,950	\$ 52,194	\$ (61,756)	Finding 2
Total direct costs	113,950	52,194	(61,756)	
Indirect costs	56,177	26,791	(29,386)	Finding 7
Total direct and indirect costs	170,127	78,985	(91,142)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(17,737)	(36,124)	(18,387)	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	152,390	42,861	(109,529)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	-	290	290	Finding 4
Waiving student fees	6,304	52,229	45,925	Finding 5
Reporting BOGG fee waiver data to CCCCCO	-	5,053	5,053	Finding 6
Total direct costs	6,304	57,572	51,268	
Indirect costs	3,108	29,552	26,444	Finding 7
Total direct and indirect costs	9,412	87,124	77,712	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(9,412)	(351,587)	(342,175)	Finding 8
Adjustment for unused portion of offsets ²	-	264,463	264,463	
Total enrollment fee waivers	-	-	-	
Total program costs	\$ 152,390	42,861	\$ (109,529)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 42,861		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
Summary: July 1, 1998, through June 30, 2014				
(excluding July 1, 2008, through June 30, 2010; and				
July 1, 2011, through June 30, 2013)				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 776	\$ 776	\$ -	
Staff training	7,970	3,021	(4,949)	Finding 1
Calculating and collecting enrollment fees	2,351,541	604,281	(1,747,260)	Finding 2
Total direct costs	2,360,287	608,078	(1,752,209)	
Indirect costs	1,289,717	237,237	(1,052,480)	Finding 7
Total direct and indirect costs	3,650,004	845,315	(2,804,689)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(412,109)	(376,274)	35,835	Finding 8
Adjustment for unused portion of offsets ²	-	-	-	
Total enrollment fee collection	3,237,895	469,041	(2,768,854)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 776	\$ 776	-	
Staff training	10,256	10,256	-	Finding 3
Adopt procedures, record and maintain records	-	2,850	2,850	Finding 4
Waiving student fees	547,452	384,188	(163,264)	Finding 5
Reporting BOGG fee waiver data to CCCCCO	19,323	26,208	6,885	Finding 6
Total direct costs - salaries and benefits	577,807	424,278	(153,529)	
Direct costs - travel and training				
Staff training	4,827	2,581	(2,246)	Finding 3
Total direct costs - travel and training	4,827	2,581	(2,246)	
Total direct costs	582,634	426,859	(155,775)	
Indirect costs	313,599	171,496	(142,103)	Finding 7
Total direct and indirect costs	896,233	598,355	(297,878)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(637,933)	(1,655,634)	(1,017,701)	Finding 8
Adjustment for unused portion of offsets ²	-	1,057,279	1,057,279	
Total enrollment fee waivers	258,300	-	(258,300)	
Total costs	3,496,195	469,041	(3,027,154)	
Less late filing penalty ³	-	(34,842)	(34,842)	
Total program costs	\$ 3,496,195	434,199	\$(3,061,996)	
Less amount paid by the State ⁴		(417,878)		
Allowable costs claimed in excess of (less than) amount paid		\$ 16,321		

¹ See the Findings and Recommendations section.

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

³ The district's claims included \$204,603 in late penalties (\$21,489 for FY 1998-99, \$24,942 for FY 1999-2000, \$28,572 for FY 2000-01, \$34,067 for FY 2001-02, \$32,926 for FY 2002-03, \$28,479 for FY 2003-04, \$26,830 for FY 2004-05, \$1,000 for FY 2005-06, and \$6,298 for FY 2006-07). The SCO assesses the late penalty on allowable costs for claims filed after the filing deadline specified in the Controller's claiming instructions. FY 1998-99 through FY 2004-05 claims were initial reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17561, subdivision (d)(3), equal to 10% of allowable costs, with no maximum penalty. FY 2005-06 and FY 2006-07 claims were annual reimbursement claims filed after the filing deadline and subject to the late penalty specified in Government Code section 17568, equal to 10% of allowable costs, not to exceed \$10,000.

⁴ Payment from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858) totaled \$171,511 for FY 1998-99 and \$224,482 for FY 1999-2000.

Findings and Recommendations

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

The district claimed \$7,970 in salaries and benefits during the audit period for the one-time activity of training district staff who implement the program on the procedures for the collection of enrollment fees (one-time per employee). We found that \$3,021 is allowable and \$4,949 is unallowable.

For FY 2005-06, the district claimed costs totaling \$4,949 based on 160 estimated hours spent by one Admissions and Records Specialist to perform the one-time reimbursable activity. We did not review costs claimed for the other years, as the costs were below our materiality threshold, although the costs claimed for FY 2003-04 and FY 2004-05 were for the same district employee that was claimed for FY 2005-06 to perform the reimbursable activity.

The costs for FY 2005-06 are unallowable because the district claimed estimated costs and did not provide documentation related to the nature of the training provided; the length of the training; which employees attended the training; or how much, if any, of the training costs related to the trainers' time. In addition, the activity is reimbursable only on a one-time basis per employee and costs were claimed for this same employee for the previous two fiscal years, as noted above. In addition, evidence obtained during the audit indicates that most of the training for new staff is performed in the Fiscal Services Building rather than in the Cashier's office. The training that is performed in the Cashier's Office involves activities beyond those that are reimbursable.

For costs to be reimbursable, the district must provide actual cost documentation or other reliable evidence supporting the extent that it incurred costs for training new district staff tasked with implementing the program on the procedures for the collection of enrollment fees and/or costs incurred for district staff who provided the training.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
2003-04	\$ 584	\$ 584	\$ -
2004-05	1,402	1,402	-
2005-06	4,949	-	(4,949)
2007-08	1,035	1,035	-
Total, salaries and benefits	\$ 7,970	\$ 3,021	\$ (4,949)

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

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the

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

The parameters and guidelines (section IV.A.1.b) allow staff training as a one-time cost per employee for training district staff who implement the program based on the procedures for the collection of enrollment fees. Consistent with the Final Staff Analysis for the proposed parameters and guidelines relating to policies and procedures, training existing staff for changes in the community college district's policies and procedures rather than for changes in state law is not reimbursable.

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

Recommendation

Commencing in FY 2014-15, 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 \$7,970 in salaries and benefits during the audit period for training District staff on the procedures for the collection of enrollment fees, of which \$3,021 was found allowable and \$4,949 (160 hours) found unallowable by the draft audit report. The draft audit report indicates all costs claimed for FY 2005-06 were disallowed. The draft audit report ostensibly disallowed the claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The draft audit report does not indicate how, as a matter of law, this documentation was not “actual cost documentation.”

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 source documentation” and that “the draft audit report does not indicate how, as a matter of law, this documentation was not actual cost documentation.” We disagree. Pursuant to Government Code section 17557, the Commission on State Mandates (a California regulatory agency) adopted the parameters and guidelines for the Enrollment Fee Collection and Waivers Program on January 26, 2006. Parameters and guidelines (section IV – Reimbursable Activities) defines the terms for actual costs, source documents, and corroborating documents

and states that “corroborating documents cannot be substituted for source documents.” The district supported costs claimed only with corroborating documents rather than source documents, therefore, the district provided no actual cost documentation to support its claims.

Further, for FY 2005-06, the district claimed training costs for one Admission and Records Specialist who had already been claimed in the two previous fiscal years. However, training is reimbursable only on a one-time basis per employee.

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

The district claimed \$2,351,541 in salaries and benefits for the Calculating and Collecting Enrollment Fees cost component during the audit period. We found that \$604,281 is allowable and \$1,747,260 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. We also noted variations in the number of students used in the district’s calculations when compared to the student enrollment data reported to us by the California Community College Chancellor’s Office (CCCCO), and the number of students who paid their enrollment fees online rather than in person, based on information provided to us by the district. In addition, we made adjustments to the average productive hourly rates used in the district’s claims.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ 146,518	\$ 30,172	\$ (116,346)
1999-2000	155,293	36,646	(118,647)
2000-01	177,830	41,245	(136,585)
2001-02	205,200	50,588	(154,612)
2002-03	208,086	48,362	(159,724)
2003-04	189,850	58,481	(131,369)
2004-05	217,297	60,060	(157,237)
2005-06	235,987	80,503	(155,484)
2006-07	281,253	45,903	(235,350)
2007-08	212,522	50,101	(162,421)
2010-11	207,755	50,026	(157,729)
2013-14	\$ 113,950	\$ 52,194	(61,756)
Total, salaries and benefits	<u>\$ 2,351,541</u>	<u>\$ 604,281</u>	<u>\$ (1,747,260)</u>

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

- i. Referencing student accounts and records to determine course workload, status of payments, and eligibility for fee waiver. Printing a list of enrolled courses. **(Activity 1)**

- ii. Calculating the total enrollment fee to be collected. Identifying method of payment. Collecting cash and making change as necessary. Processing credit card and other non-cash payment transactions (however, any fees that may be charged to a community college district by a credit card company or bank are not reimbursable). Preparing a receipt for a payment received. **(Activity 2)**
- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
- iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
- v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**
- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

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

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

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

Salaries and Benefits

During the audit period, the district claimed salaries and benefits for each of the six reimbursable activities under the Calculating and Collecting Enrollment Fees cost component.

Employees estimated the average time in minutes it took them to perform the various reimbursable activities per student, per year, using certification forms developed by the district's mandated cost consultant. The district then calculated its claimed salary and benefit amounts using the average time allowances that it developed for each reimbursable activity. The district based the average time allowances on the total estimated time it took staff to complete the reimbursable activities as reported on the employees' annual survey (certification) forms. To compute the average

time increments claimed for each of the six reimbursable activities, the employees' time estimates were added together and the total was divided by the number of employees that provided estimates. The district did not provide any source documentation based on actual data to support the estimated time allowances. In addition, the district provided no evidence indicating that the average time increments were verified for reasonableness nor did it investigate why some of the individual employees' time estimates were significantly higher than others.

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff for FY 1998-99 through FY 2007-08, FY 2010-11, and FY 2013-14 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 Cashier's Office who collect enrollment fees from students. We documented the average time increments spent by district staff to perform these activities, based on our observations.

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

Time Increments

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed time allowances, per student for the audit period, ranging from 13.0 minutes to 20.6 minutes for activities 1 through 4. Based on our observations, we found that the time allowances claimed for the audit period were overstated.

We held discussions with various district representatives during the course of the audit in order to determine the procedures district staff followed to perform the reimbursable activities. We observed district staff in the Cashier's Office performing the reimbursable activities and other non-mandated activities. We documented the average time increments spent by district staff to perform reimbursable activities based on our observations. Over several days of observations at the Cashier's Office windows, we observed and documented a total of 445 transactions. Of these, 101 involved the payment of enrollment fees, totaling 372.45 minutes. The average time it took staff to perform all four activities was 3.69 minutes.

During our observations, district staff stated that when the district's Datatel system was first implemented in FY 2004-05, all enrollment fee collection processes took extra time due to various issues and glitches with the system. The first year was the most difficult, and as each year passed, the system improved. We interviewed district staff who worked in the Cashier's Office during that time period and who could provide a detailed explanation of the issues they encountered and the extra time that was involved to process enrollment fees during these years. We found the district's explanations to be reasonable and we concurred with their assessment of the extra time needed to process enrollment fees beginning

with FY 2004-05 through FY 2010-11. Therefore, based on our observations, the average time increment allowable for FY 1998-99 through FY 2003-04 and FY 2013-14 is 3.69 minutes; and based on the district's explanation of the problems encountered with its Datatel system, the average time increments allowable for FY 2004-05 through FY 2007-08 and FY 2010-11 ranges from 3.92 to 5.5 minutes.

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 student, for FY 1998-99 through FY 2007-08, FY 2010-11, and FY 2013-14, ranging from 2.8 minutes to 5.1 minutes.

District staff explained how the district collected delinquent enrollment fees using the Chancellor's Office Tax Offset Program (COTOP) service as the primary means of collection. The district also used an online collection system called TekCollect during the audit period. Based on staff's explanation of the processes involved to perform the reimbursable activity, we found the time claimed for FY 1998-99 through FY 2005-06 and FY 2013-14 to be reasonable. However, the district requested and we agreed to adjust the time increment from 3.3 minutes to 4.0 minutes for FY 2005-06 due to issues district staff encountered when they attempted to collect delinquent fees using data from the district's new Datatel system.

For FY 2006-07 through FY 2012-13, district staff explained that the district could not use the COTOP system to collect delinquent enrollment fees due to issues and glitches with the district's Management Information System (MIS). As the district's software system could not provide an accurate count of fees owed for those years, the district did not collect any delinquent fees. Therefore, the time claimed for FY 2006-07, FY 2007-08, and FY 2010-11 is unallowable because the district did not perform the reimbursable activity.

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

Time Increments

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable Activity 6. Based on these certifications, the district developed time allowances per student, for FY 1998-99 through FY 2007-08, FY 2010-11, and FY 2013-14, ranging from 3.3 minutes to 5.1 minutes.

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

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Minutes						
	Reimbursable Activity						
	1	2	3	4	Total	5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds
1998-99	3.80	4.00	6.90	3.90	18.60	3.30	4.00
1999-2000	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2000-01	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2001-02	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2002-03	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2003-04	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2004-05	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2005-06	3.80	4.00	6.90	3.90	18.60	3.30	4.00
2006-07	6.10	4.40	4.50	5.60	20.60	2.80	4.10
2007-08	2.90	2.80	4.30	3.00	13.00	2.90	3.30
2010-11	4.30	3.30	3.70	3.20	14.50	5.10	5.10
2013-14	3.80	4.70	4.40	4.30	17.20	4.70	3.70

Fiscal Year	Allowable Minutes						
	Reimbursable Activity						
	1	2	3	4	Total	5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds
1998-99	0.92	0.92	0.92	0.93	3.69	3.30	4.00
1999-2000	0.92	0.92	0.92	0.93	3.69	3.30	4.00
2000-01	0.92	0.92	0.92	0.93	3.69	3.30	4.00
2001-02	0.92	0.92	0.92	0.93	3.69	3.30	4.00
2002-03	0.92	0.92	0.92	0.93	3.69	3.30	4.00
2003-04	0.92	0.92	0.92	0.93	3.69	3.30	4.00
2004-05	1.38	1.37	1.38	1.37	5.50	3.30	4.00
2005-06	1.25	1.25	1.25	1.25	5.00	4.00	4.00
2006-07	1.13	1.13	1.13	1.13	4.52	-	4.10
2007-08	1.00	1.01	1.00	1.01	4.02	-	3.30
2010-11	0.98	0.98	0.98	0.98	3.92	-	5.10
2013-14	0.92	0.92	0.92	0.93	3.69	4.70	3.70

Multiplier Calculation

Activities 1 through 4

Claimed

For Activities 1 through 4, the district claimed costs by multiplying the number of students (multiplier) by a uniform time allowance and an annual average productive hourly rate for the district staff that performed the activities. For each fiscal year of the audit period, except for FY 2013-14, the district used the number of total enrolled students as the multiplier for Activities 1 and 3. In determining student enrollment, the district used the "Student Headcount by Unit Load" summary report obtained from the CCCCCO website (Data Mart). However, this report includes duplicated

students by term. In addition, the district did not deduct ineligible non-resident and special admit students (students who attend a community college while in high school pursuant to Education Code section 76001), as required by the parameters and guidelines. For FY 2013-14, the district used the number of students enrolled in person as the multiplier for Activities 1 and 3, by excluding the number of students that paid their enrollment fees using the district's online payment system. The district developed its own statistics for the number of students paying their enrollment fees online.

For FY 2006-07, FY 2007-08, and FY 2010-11, the district used the number of total enrolled students less the number of BOGG fee waivers granted as the multiplier for Activities 2 and 4. For FY 2013-14, the district used the number of students who paid their enrollment fees in person for Activities 2 and 4. For FY 1998-99 through FY 2005-06, the district did not claim a multiplier for Activities 2 and 4.

Allowable

For the audit period, we updated the district's calculations of eligible students for Activities 1 and 3 based on the number of students enrolled that it reported to the CCCCCO less non-resident students and special admit students (see attachment). The CCCCCO's MIS identifies enrollment information based on student data that the district reported from its MIS data element STD 7, codes A through G. The CCCCCO eliminates any duplicate students by term based on their Social Security number.

We also updated the district's calculations of eligible students for Activities 2 and 4 by deducting the number of BOGG fee waiver recipients from reimbursable student enrollment confirmed by the CCCCCO. The CCCCCO identifies the unduplicated number of BOGG fee waiver recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. In addition, we added the number of refunds for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver. Beginning with FY 2004-05, we also deducted students who paid their enrollment fees through the district's online system, based on information provided by the district.

The district began accepting online payments through its Datatel system in FY 2004-05. The district provided a breakdown of the number of students who paid their enrollment fees using the district's online system and in person from FY 2004-05 through FY 2007-08, FY 2010-11, and FY 2013-14. Based on this information, we calculated the percentage of enrollment fees paid in person at the Cashier's Office by dividing the number of students who paid in person by the total number of students who paid enrollment fees. We applied the percentages we calculated to the net enrollment number (the number of students enrolled less non-resident students, special admit students, and BOGG fee waiver recipients) to compute the number of students who paid enrollment fees in person. We then added in the number of refunds claimed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver.

However, the district did not claim any costs for operating its online payment system or provide any analysis of such costs during the audit.

*Activity 5*Claimed

For Activity 5 (collecting delinquent enrollment fees), the district claimed costs for FY 2013-14 only. Though the district claimed a time increment for this activity for each fiscal year of the audit period, the district claimed a multiplier for FY 2013-14 only, and therefore did not claim costs for collecting delinquent enrollment fees for the remainder of the audit period.

Allowable

During the course of the audit, the district provided, and we accepted, data for the number of delinquent accounts processed for eight fiscal years of the audit period (FY 1999-2000 through FY 2004-05, and FY 2013-14). The district did not provide data for FY 1998-99 because the records were no longer available, and did not provide data for FY 2006-07, FY 2007-08, and FY 2010-11 because for these years, the district could not use the State's COTOP collection system due to issues with its own MIS system. In addition, the district could not provide an accurate count of fees owed for those years, and therefore stopped sending delinquent letters because it could not verify that the information was correct.

*Activity 6*Claimed

For Activity 6 (providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected), the district claimed costs for FY 2013-14 only. Though the district claimed a time increment for this activity for each fiscal year of the audit period, the district claimed a multiplier for FY 2013-14 only, and therefore did not claim costs for providing refunds for the remainder of the audit period.

Allowable

During the course of the audit, the district provided data for the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees for FY 2004-05 through FY 2007-08, FY 2010-11, and FY 2013-14. In collecting this data from the district, the following two issues were encountered:

- The district was unable to provide data for FY 1999-2000 through FY 2003-04 because it can no longer access its "legacy" system.
- The district changed to its Datatel system in FY 2004-05. District representatives explained that the data for FY 2004-05 through FY 2007-08 is understated and not representative of the actual refund count, as the district experienced many issues and glitches with the Datatel system in the first few years of its implementation. Per the district, these issues were mostly resolved by FY 2010-11.

Therefore, we suggested, and the district agreed, to use the following methodology to calculate the number of refunds for the six fiscal years in which data was not available and to also recalculate the data that was understated for four fiscal years:

1. For the two years for which we had accurate and complete data (FY 2010-11 and FY 2013-14), we calculated the percentage of refunds compared to net student enrollment.
2. We then took the resulting figures, 2% and 3%, and calculated a two-year average of 2.5%.
3. We applied the 2.5% average to net student enrollment for the years data was unavailable and also to the years in which data was understated.
4. This methodology resulted in a derived number of refunds for FY 1999-2000 through FY 2003-04, and a recalculated number of refunds for FY 2004-05 through FY 2007-08. We accepted the use of these numbers as the multipliers for Activity 6 based on reasonableness.

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	350,792	303,563	(47,229)
2	44,227	155,939	111,712
3	350,792	303,563	(47,229)
4	44,227	155,939	111,712
5	3,365	41,891	38,526
6	661	6,821	6,160
Total	794,064	967,716	173,652

Calculation of Hours Adjustments

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

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

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
1	23,236.60	5,178.70	(18,057.90)
2	2,629.90	2,628.50	(1.40)
3	34,989.50	5,178.70	(29,810.80)
4	18,059.10	2,645.20	(15,413.90)
5	263.60	2,510.80	2,247.20
6	40.80	452.66	411.86
Total	79,219.50	18,594.56	(60,624.94)

Productive Hourly Rates

We found that the district misstated the average productive hourly rates used for Activities 1 through 6. The district overstated the annual average productive hourly rate for FY 2006-07, FY 2007-08, and FY 2013-14, and understated the annual average productive hourly rate for FY 1998-99 through FY 2005-06, and FY 2010-11. As explained in Finding 9, for permanent classified staff we recalculated the annual average productive hourly rates based on actual salary and benefit information and 1,800 annual productive hours for the employees involved in calculating and collecting enrollment fee activities. For hourly workers, we recalculated the annual average productive hourly rates based on actual salary and benefit information and actual hours worked for the employees involved in calculating and collecting enrollment fee activities. We also made other necessary adjustments to the claimed rates. The information used for the recalculation of rates was provided by the district's Payroll Manager.

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that \$604,281 in salaries and benefits is allowable and \$1,747,260 is unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
1	\$ 704,148	\$ 171,159	\$ (532,989)
2	93,957	82,236	(11,721)
3	1,024,389	171,159	(853,230)
4	514,618	82,740	(431,878)
5	12,495	81,944	69,449
6	1,934	15,043	13,109
Total	\$ 2,351,541	\$ 604,281	\$(1,747,260)

Recommendation

Commencing in FY 2014-15, 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 \$2,351,541 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 time 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 for some or all of the Activities.

The draft audit report states \$604,281 of claimed salary and benefits is allowable and \$1,747,260 is unallowable, because the District estimated the amount of time required to perform the reimbursable activities and did not provide 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 disallowance is a 77% reduction of the 79,219.50 claimed mandate program hours to 18,594.56. There is a reduction of a similar magnitude for the \$2,351,541 in claimed costs for salaries and benefits to \$604,281.

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 Activities 1-4.

For Activities 1 through 4, the District claimed average total times of 13.00 to 20.60 minutes over the audit period. The Controller found the times claimed for Activity 5 for FY 1998-99 through FY 2005-06 and FY 2013-14 as well as the times claimed for Activity 6 to be reasonable based on the forms developed by the District mandated cost consultant and the District staff's explanation of their process. The Controller decided, however, that the good faith time estimates reported by the District related to Activities 1-4 were overstated. Instead, the Controller observed 101 transactions related to Activities 1-4, and concluded the average times necessary to perform each of Activities 1-4 was between .92 and 1.38 minutes.

This substantial reduction in time allowed for these in-person transactions is the largest source of the cost reduction. However, the Controller's sample size is statistically meaningless. The audited transactions were 303,563 (for Activities 1 and 3) and 155,939 (for Activities 2 and 4) over the audit period, of which at most, 101 relevant transactions were observed by the Controller. The draft audit report does not state that the collection procedures 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 for Activities 1 through 4.

SCO's Comment

The finding and recommendation remain unchanged.

In its response, the district states the following:

The Controller found the times claimed for Activity 5 for FY 1998-99 through FY 2005-06 and FY 2013-14 as well as the times claimed for Activity 6 to be reasonable based on the forms developed by the District mandated cost consultant and the District staff's explanation of their process. The Controller decided, however, that the good faith time estimates reported by the District related to Activities 1-4 were overstated.

The time estimates provided by the district 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 any 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.

We partially agree with the district's statement regarding Activities 5 and 6. During the discussions held with district staff, one of our objectives was to determine whether the claimed time increments were reasonable, based on staff explanations of the procedures that were followed. If the estimated time increments claimed appeared to be reasonable, based on our judgement of the information provided by the district, then we relied on the time increments claimed. If the estimated time increments claimed did not appear to be reasonable, based on our judgement of the information provided by the district, then we performed direct testing of management's procedures to obtain appropriate evidence on which to base allowable

costs. We determined allowable costs for Activities 5 and 6 based on staff explanations of the procedures that were performed and our conclusion that the time estimates cited for these two activities appeared to be reasonable based on staff explanations. We based allowable costs solely on staffs' explanations of the district's processes, not on the documentation provided by the district.

We also agree with the district's statement regarding Activities 1 through 4. Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities appeared to be overstated. In addition, it is irrelevant whether estimates were provided in good faith or not. Estimates of time to conduct mandated activities do not comply with the parameters and guidelines. Therefore, we determined allowable costs for Activities 1 through 4 based on our observations of district staff performing the activities.

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 13.0 to 20.6 combined minutes for Activities 1 through 4 over the audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. We observed an average time of 3.69 combined minutes for Activities 1 through 4. The district states that "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." We disagree.

We worked with district staff to adjust the observed time increments upwards for several years of the audit period. We made these adjustments because district staff pointed out that, for FY 2004-05 through FY 2010-11, enrollment fee collection processes took extra time due to various issues and glitches the district experienced with its newly implemented Datatel system. District staff provided us with an explanation obtained from employees who worked in the district's Cashier's Office during those years and proposed that we consider increasing the time increments as appropriate. We found the district's explanations to be reasonable and concurred with its assessment of the extra time needed to process enrollment fees for FY 2004-05 through FY 2010-11. Therefore, based on the district's explanation of the problems encountered with its Datatel system, the average time increments allowable for FY 2004-05 through FY 2007-08 and FY 2010-11 increased from 3.69 minutes to a range of 3.92 to 5.5 minutes.

Subsequent to making these adjustments, the district requested that the time increments be further increased to account for additional time staff spent recalculating the enrollment fees (Activity 2) and then updating the records (Activity 4) for students with BOGG fee waivers whose accounts may have been incorrectly altered due to either adding or dropping classes after the district converted to the Datatel system. We informed the district that reimbursement for performing Activities 2 and 4 is only applicable to student accounts that are not covered by a BOGG fee waiver.

The district also 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 445 transactions processed by district staff; 101 of these transactions were related to enrollment fee collections encompassing Activities 1 through 4. The district identifies 303,563 audited enrollment transactions for Activities 1 and 3 and 155,939 for Activities 2 and 4 over the audit period and 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 any 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 during fieldwork when conducting our observations. During our observations, we asked district staff how the enrollment fee processes may have changed over the years. On March 3, 2016, we emailed the district our initial observation results and asked for feedback. We advised that the district could provide a proposal for increased time increments to account for issues encountered after implementing the Datatel system and also advised that it could perform its own time study to corroborate our observation results. On May 26, 2016, the district provided its analysis and proposal for increased time increments for FY 2004-05 through FY 2007-08 and FY 2010-11. We found the district’s proposal to be reasonable and revised our time increment analysis to reflect the increased time increments in the district’s proposal.

**FINDING 3—
Enrollment Fee
Waivers: Staff
Training cost
component –
unallowable travel
and training costs**

The district claimed \$15,083 (\$10,256 in salaries and benefits and \$4,827 in travel and training costs) for the activity of training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee (one-time per employee). We found that \$12,837 (\$10,256 in salaries and benefits and \$2,581 in travel and training) is allowable and \$2,246 in travel and training is unallowable.

The following table summarizes the combined claimed, allowable, and unallowable staff training costs for the waiving of enrollment fees for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Total direct costs:			
2001-02	\$ 3,358	\$ 2,252	\$ (1,106)
2002-03	2,958	2,958	-
2003-04	1,199	1,199	-
2004-05	2,398	2,398	-
2005-06	1,547	1,547	-
2006-07	3,623	2,483	(1,140)
Total	<u>\$ 15,083</u>	<u>\$ 12,837</u>	<u>\$ (2,246)</u>

Salaries and Benefits

The district claimed \$10,256 in salaries and benefits during the audit period for the activity of training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. We found that the entire amount is allowable. Costs claimed are for FY 2001-02 through FY 2006-07, and are based on 259 estimated hours spent by various district staff members to perform the one-time reimbursable activity. The activity is reimbursable only on a one-time basis per employee and costs were claimed for several district staff members multiple times in the district's claims covering a six-year period. However, we did not review costs claimed for these years because the costs were below our materiality threshold for testing.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ 2,252	\$ 2,252	\$ -
2002-03	2,064	2,064	-
2003-04	890	890	-
2004-05	1,469	1,469	-
2005-06	1,098	1,098	-
2006-07	2,483	2,483	-
Total, salaries and benefits	<u>\$ 10,256</u>	<u>\$ 10,256</u>	<u>\$ -</u>

Travel and Training

The district claimed \$4,827 in travel and training costs under this cost component for the audit period. We found that \$2,581 is allowable and \$2,246 is unallowable. The costs are unallowable because the district claimed unsupported costs. The district's claims state that the travel and

training costs for FY 2001-02 through FY 2006-07 were for “registration fees for enrollment fee waiver seminars.” However, the district did not provide any information describing the topics discussed during these seminars supporting that the training related to BOGG fee waivers, or invoices supporting the costs incurred. Costs claimed for FY 2002-03 through FY 2005-06 are allowable as claimed because total direct costs for those years were below our materiality threshold for testing. Travel and training costs claimed for FY 2001-02 and FY 2006-07 are unallowable. For the costs to be allowable, the district would have to submit source documents such as invoices and/or receipts for the costs incurred.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Travel and training:			
2001-02	\$ 1,106	\$ -	\$ (1,106)
2002-03	894	894	-
2003-04	309	309	-
2004-05	929	929	-
2005-06	449	449	-
2006-07	1,140	-	(1,140)
Total, travel and training	<u>\$ 4,827</u>	<u>\$ 2,581</u>	<u>\$ (2,246)</u>

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

Section IV.B.1.b states that staff training is reimbursable as a one-time cost per employee for training district staff that implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. Consistent with the Final Staff Analysis for policies and procedures, training existing staff for changes in the community college district’s policies and procedures is not reimbursable.

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

Recommendation

Commencing in FY 2014-15, 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 \$15,083 in salaries, benefits, and travel and training costs for training District staff on the procedures for determining which students are eligible for waiver of the enrollment fee. The draft audit report found \$12,837 of these costs allowable and \$2,246 of these costs unallowable. The draft audit report noted that the salaries and benefits claimed were based on estimated hours spent by district staff to perform the activity, but found the entire amount allowable. The draft audit disallowed the remaining amount claimed for travel and training costs for FY 2001-02, approximately 14 years prior to the issuance of the draft report, as "the district did not provide any information describing the topics discussed during these seminars supporting that the training related to BOGG fee waivers, or invoices supporting the costs incurred." 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 further comment.

The district claimed total direct costs in the amount of \$15,083 for the Enrollment Fee Waiver: Staff Training cost component. Of this amount, \$10,256 was claimed for salaries and benefits and \$4,827 was claimed for travel and training costs. The district states that "the draft audit report noted that the salaries and benefits claimed were based on estimated hours spent by district staff to perform the activity, but found the entire amount allowable." We agree. Although this activity is reimbursable only on a one-time basis per employee and costs were claimed for several district staff members multiple times covering a six-year period, the costs were allowable only because they were below our materiality threshold for testing.

The district also states that "the draft disallowed the remaining amount claimed for travel and training costs for FY 2001-02...." We disagree. We found that \$2,246 was unallowable for travel and training costs, which included \$1,106 in FY 2001-02 and \$1,140 in FY 2006-07. When added together with the salaries and benefits claimed for these two years, the combined total was above our materiality threshold. As the district did not provide any invoices supporting the travel and training costs incurred, the amounts claimed for these two years were unallowable.

**FINDING 4—
Enrollment Fee
Waivers: Adopting
Procedures,
Recording and
Maintaining Records
cost component –
allowable ongoing
costs**

The district did not claim costs for this component. However, during the course of the audit, we interviewed the Director of Financial Aid and found that the district did perform the reimbursable activities during the audit period. We worked with the Director of Financial Aid to determine the tasks performed by the district to adopt district procedures that document all financial assistance provided to students relating to BOGG fee waivers, to record and maintain BOGG fee waiver records, and the time required to complete these activities.

Adopting Procedures

For the adopting procedures part of this component, the district either attends or hosts a “Region IX meeting” once each month. Districts in the area take turns hosting the meetings, which take place at least nine months out of the year. Financial Aid Directors are usually the only employee classification attending these meetings, which last all day (eight hours) and include mostly financial aid-related discussions. The Financial Aid Director explained that discussions related to BOGG fee waiver procedures ranged from 15 minutes to an hour. Recently, more time has been devoted to BOGG fee waivers due to the upcoming changes for the fall 2016 term related to BOGG fee waiver eligibility and requirements. However, these upcoming changes do not pertain to the audit period. The Region IX meetings have been ongoing for many years. During the audit period, we found it reasonable that the Director of Financial Aid spent 4.5 hours per year discussing BOGG fee waiver issues at these meetings (nine meetings per year at 30 minutes per meeting). We concluded that the Financial Aid Director spent 49.5 hours during the audit period performing this activity.

Recording and Maintaining Records

For the recording and maintaining records part of this component, the district indicated that at the end of each school year, a Financial Aid Technician and/or a student worker will take the year’s completed BOGG fee waiver applications out of the filing cabinets, pack them in a box, and place the boxes in the back of the office. One of the staff will then make a request for Maintenance and Operations to pick up the boxes and take them to the warehouse, where they will be stored for the district’s retention period. District staff indicated that this entire process takes about 30 minutes. We found it reasonable that one student worker and one Financial Aid Technician spent 15 minutes each to perform this reimbursable activity for each fiscal year of the audit period. However, during payroll testing, we learned that students working in the Financial Aid Office are paid through Federal Work Study Funding and/or state grants. The district does not pay for any portion of their salary. Therefore, the 15 minutes attributed to student worker involvement each year cannot be included as increased costs for performing mandated activities. We concluded that a Financial Aid Technician spent 2.75 hours during the audit period performing this activity.

We found a total of 52.25 hours and \$2,850 in salaries and benefits to be allowable to perform the reimbursable activities of adopting procedures and recording and maintaining records related to BOGG fee waivers during the audit period.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-2000	\$ -	\$ 206	\$ 206
2000-01	-	221	221
2001-02	-	233	233
2002-03	-	235	235
2003-04	-	253	253
2004-05	-	263	263
2005-06	-	276	276
2006-07	-	290	290
2007-08	-	305	305
2010-11	-	278	278
2013-14	-	290	290
Total, salaries and benefits	<u>\$ -</u>	<u>\$ 2,850</u>	<u>\$ 2,850</u>

The parameters and guidelines (section IV–Reimbursable Activities) require claimed costs to be supported by source documents that were “created at or near the same time the actual cost was incurred for the event or activity in question.” (See Finding 1 for the specific language.) Section IV.B.2.a allows ongoing activities related to the following:

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

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

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

Recommendation

Commencing in FY 2014-15, 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 found that the district performed additional reimbursable activities. This included adopting procedures to document all financial assistance provided to students relating to BOGG fee waivers and recording and maintaining BOGG fee waiver records. The draft audit report indicated District staff spent 52.25 hours, equal to \$2,850 in salaries and benefits, to perform the activities in FY 1999-00 through 2007-08, FY 2010-11, and FY 2013-14.

SCO's Comment

The finding and recommendation remain unchanged. The district states that it does not dispute the adjustment at this time.

**FINDING 5—
Enrollment Fee
Waivers: Waiving
Student Fees cost
component –
overstated ongoing
costs**

The district claimed \$547,452 in salaries and benefits for the Waiving Student Fees cost component 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 \$384,188 in salaries and benefits is allowable and \$163,264 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. We also noted variations in the number of students used in the district's calculations based on data the district reported to the CCCCCO. We also made adjustments to the average productive hourly rates used in the district's claims for FY 1999-2000 through FY 2007-08, FY 2010-11, and FY 2013-14. (See Finding 9.)

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-00	\$ 31,533	\$ 18,584	\$ (12,949)
2000-01	37,516	21,562	(15,954)
2001-02	40,320	23,751	(16,569)
2002-03	46,609	46,597	(12)
2003-04	47,616	46,549	(1,067)
2004-05	47,733	38,312	(9,421)
2005-06	51,488	29,357	(22,131)
2006-07	62,496	31,033	(31,463)
2007-08	70,572	29,246	(41,326)
2010-11	105,265	46,968	(58,297)
2013-14	6,304	52,229	45,925
Total	<u>\$ 547,452</u>	<u>\$ 384,188</u>	<u>\$ (163,264)</u>

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

- b. Waiving student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h.) waiving fees for students who apply for and are eligible for BOG fee waiver (Cal. Code Regs., tit. 5, §§ 58612, 58613, 58620).
 - i. Answering student’s questions regarding enrollment fee waivers or referring them to the appropriate person for an answer. **(Activity 7)**
 - ii. Receiving of waiver applications from students by mail, fax, computer online access, or in person, or in the form of eligibility information processed by the financial aid office. **(Activity 8)**
 - iii. Evaluating each application and verification documents (dependency status, household size and income, SSI and TANF/CalWorks, etc.) for compliance with eligibility standards utilizing information provided by the student, from the student financial aid records (e.g., Free Application for Federal Student Aid (FAFSA), and other records. **(Activity 9)**
 - iv. In the case of an incomplete application or incomplete documentation, notify the student of the additional required information and how to obtain that information. Hold student application and documentation in suspense file until all information is received. **(Activity 10)**
 - v. In the case of an approved application, copy all documentation and file the information for further review or audit. Entering the approved application information into district records and / or notifying other personnel performing other parts of the process (e.g., cashier’s office). Providing the student with proof of eligibility or an award letter, and file paper documents in the annual file. **(Activity 11)**
 - vi. In the case of a denied application, reviewing an evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. **(Activity 12)**

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

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

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

Salaries and Benefits

The district claimed salaries and benefits during the audit period to waive student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h) and to waive fees for students who apply for and are eligible for BOGG fee waivers. For FY 1999-2000 through FY 2007-08 and FY 2010-11, the district claimed salaries and benefits for each of the six reimbursable activities under the Waiving Student Fees cost component. For FY 2013-14, the district claimed costs for five of the six reimbursable activities (Activities 7, 8, 9, 10, and 11). Using time allowances developed through the use of employees' annual survey forms, the district claimed salaries and benefits based on the estimated time it took staff to complete various activities. Using certification forms developed by the district's mandated cost consultant, employees estimated the average time, in minutes, it took them to perform the various reimbursable activities claimed per student per year. To compute the average time increment for each of the reimbursable activities claimed, the employees' time estimates were added together and the total was divided by the number of employees who provided estimates. The district did not provide any source documentation based on actual data to support the estimated time allowances. In addition, the district provided no evidence indicating that the average time increments were verified for reasonableness.

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff for FY 1999-2000 through FY 2007-08, FY 2010-11, and FY 2013-14 were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff at the Financial Aid Office who process students' BOGG fee waiver applications. We documented the average time increments spent by district staff to perform these activities based on our observations.

Activity 7 – Answering student questions

We observed staff at the front counter of the Financial Aid Office answer general questions regarding BOGG fee waivers. We also observed staff answer specific questions for those students who submit their BOGG fee waiver application in person as well as for those who submit their application through the U.S. Department of Education's Free Application for Federal Student Aid (FAFSA). We also observed a few instances of staff answering general BOGG-related questions by phone for students who called the front counter.

Activity 8 – Receiving enrollment fee waiver applications

We observed staff at the front counter of the Financial Aid Office receive paper BOGG fee waiver applications from students.

District staff indicated that they receive paper BOGG fee waiver applications at the Financial Aid Office front counter only. The district will allow a student to mail in an application, but this is rare and only for emergency situations. For BOGG A and B, students can print a BOGG fee

waiver application from the district's website, or they can get a copy from the Financial Aid Office front counter. In addition, the district receives student information in digital form for students who submitted a FAFSA. The district does not offer an online system for students to apply; all applications are paper. The district is looking into procuring an online system for the future.

Activity 9 – Evaluating waiver applications and verifying documentation

We observed staff at the front counter of the Financial Aid office manually evaluate paper BOGG fee waiver applications for eligibility and completeness. Financial Aid Technicians evaluate each application as the student brings it to the front counter. They look over the application, make sure all questions are answered, and ask clarifying questions. They also access the district's system to see if the student has completed a FAFSA and if so, compares the information. The next step is to process the BOGG application. The district's system, Colleague by Ellucian, mirrors the paper application. The technician enters the information from the paper application into the system while the student is at the counter. The application is then considered complete and is either approved or denied. The applications are "self-certifying," meaning that district procedures do not require that students submit any supporting documentation for BOGG fee waivers to be approved. However, in certain circumstances, the student is asked to return with the necessary supporting documentation before the application can be processed.

In addition to observing the manual processing of paper BOGG applications, we observed a Financial Aid Specialist perform two FAFSA Batch Processes. According to staff, the batch process includes downloading the FAFSA, posting verification requirements (if any), posting a budget, running an academic progress report, and then posting the fee waiver for BOGG C. This process is done once per week; however, at the beginning of the school year when the office is busier, it is completed every other day.

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

We observed staff at the front counters of the Financial Aid Office advising students, during the evaluation process (Activity 9) mentioned above, of additional information required when students submitted incomplete applications. If an application was incomplete, the staff guided the student through the various steps to complete the application in order to immediately determine the student's eligibility. If necessary, the student was asked to fix the application or finish completing the application and then return. Because the district processes the applications at the front counter as the students turn them in, mistakes are usually caught immediately. Therefore, it is rare to have incomplete applications at the end of a term or school year.

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

We observed staff at the back counter of the Financial Aid Office file the paper BOGG fee waiver applications alphabetically, first into an accordion file, and then into a filing cabinet. Though we observed a Financial Aid Technician file the paper BOGG applications, we were told that typically a student worker performs this task. The district was short on student workers on the day we visited and the technician filed the applications for observation purposes only.

Activity 12 – Appealing a denied BOGG fee waiver application

District staff indicated that the district does not have a formal appeal process for denied BOGG fee waiver applications. A student can meet with a Financial Aid Specialist or with the Director of Financial Aid, but there is no appeal process. For federal aid that is denied, a Financial Aid Specialist or the Director of Financial Aid uses his or her professional judgement to make the financial aid decision. However, for BOGG fee waivers, if the student does not qualify for a BOGG A or B, he or she is instructed to apply for a BOGG C through the FAFSA.

Activities 7 through 11*Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed time allowances, per student for the audit period, ranging from 13.4 minutes to 26.6 minutes for Activities 7 through 11. Based on our observations, we found that the time allowances claimed for these years were overstated.

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

For front-counter activities, we observed and documented a total of 209 transactions. Of these, 88 involved BOGG fee-related inquires, totaling 219.82 minutes. The average time it took staff to perform the front-counter activities was 2.50 minutes.

For back-counter activities, we observed staff process 132 BOGG fee waivers through the FAFSA batch process totaling 4.67 minutes. The average time to process a BOGG fee waiver through the batch process was 0.04 minutes.

Also for back-counter activities, we observed staff file paper BOGG fee waiver applications in a filing cabinet located in the Financial Aid Office. The staff filed 45 paper applications for a total of 11.39 minutes. The average time it took to file a paper BOGG fee waiver application was 0.25 minutes.

Based on our observations, it took district staff an average of 2.79 minutes for activities 7 through 11.

The district submitted additional information after the draft audit report was issued supporting an argument for increased time increments for the Enrollment Fee Waiver: Waiving Student Fees cost component. The additional information was compiled by district staff that worked in the Financial Aid and Fiscal Services Offices during the audit period. The district provided a detailed explanation as to why the allowable time increments should be increased for some years of the audit period so that they more accurately reflect the district's processes and procedures in place during that time. Based on the reasonableness of the district's explanation, we partially accepted the proposed increments for Activities 7 and 8, fully accepted the proposed increment for Activity 9, and did not accept the proposed increments for Activities 10 and 11. The following summarizes the district's explanation and the resulting adjustments we made to the observed time increments for some years of the audit period:

FY 1999-2000 through FY 2003-04

For FY 1999-2000 through FY 2003-04, the district presented two arguments in support of the time increments.

- The district indicated that enrollment fee waivers were brand new and students were not familiar with the rules and regulations, requirements, or how to fill out the waiver applications. Therefore, it indicated that staff spent extra time during these earlier years answering student questions and receiving/evaluating the applications (Activities 7 and 8) and that the auditors could not observe this during their observations.
- The district also stated that during these years, it used the old Charming system, in which staff had to go back and forth referencing three to four different screens when inputting/processing a BOGG application. Therefore, it indicated that staff spent more time during these earlier years inputting the BOGG applications (Activity 9). The district indicated that it currently uses the Datatel system, in which there is just one screen, and the BOGG application mirrors what is shown on the screen. The district indicated that the auditors' observations were based on the current one-screen method.

Based on support provided by the district, we increased the combined allowable minutes for Activities 7 through 11, from 2.79 to 8.11, an increase of 5.32 minutes. The breakdown of time increments per activity is as follows:

- Activity 7: increased from 0.56 to 2.5
- Activity 8: increased from 0.56 to 1.5

- Activity 9: increased from 0.56 to 3.0
- Activity 10: remained at 0.56
- Activity 11: remained at 0.55

The district also argued for increased time increments for Activities 10 and 11. However, we determined that the extra time being proposed had already been accounted for in calculating allowable costs. Therefore, we did not adjust the 0.56 time increment for Activity 10 or the 0.55 time increment for Activity 11.

FY 2004-05 through FY 2006-07

For FY 2004-05 through FY 2006-07, the district indicated that the time increments should be increased because during the first few years of implementing using the new Datatel system, there were kinks that needed to be worked out. Therefore, the district believes that it took longer to enter a BOGG into the system and then run an extra process to get the BOGG to credit properly. This extra time falls under Activity 9 (evaluating and inputting). The district indicated that this is something the auditors could not observe during their observations.

Based on supporting documentation, we accepted the district's proposed time increment for Activity 9 for each of these three fiscal years. We increased the time increment as follows:

- For FY 2004-05 from 0.56 to 3.56, an increase of 3 minutes.
- For FY 2005-06 from 0.56 to 2.13, an increase of 1.57 minutes.
- For FY 2006-07 from 0.56 to 1.7, an increase of 1.14 minutes.

Activity 12

Time Increments

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable activity 12. Based on these certifications, the district developed time allowances per student, for FY 1999-2000 through FY 2007-08, and FY 2010-11, ranging from 2.4 to 12.0 minutes.

District staff explained that the district does not have a formal appeal process for the denied BOGG fee waiver applications, although students can meet with a Financial Aid Specialist or the Director of Financial Aid to discuss their denied application. However, these instances are rare and do not constitute the reimbursable activity of evaluating any additional information or documentation provided by the student and then providing a written notification explaining the results of the student's appeal or a change in eligibility status. Therefore, during fieldwork, we did not observe this activity. As noted above, district staff advise students to apply for a BOGG C waiver using the FAFSA if they do not qualify for BOGG fee waiver A or B. Regardless, the district would need to provide source documentation or other reliable evidence supporting staff involvement in reviewing appeals for denied BOGG fee waiver applications.

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed						
	Reimbursable Activity						Appeals for Denied Waiver
	7	8	9	10	11	12	
Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications	Total		
1999-2000	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2000-01	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2001-02	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2002-03	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2003-04	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2004-05	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2005-06	2.2	3.7	3.3	3.2	5.2	17.6	4.9
2006-07	3.5	2.7	5.7	3.5	4.0	19.4	4.8
2007-08	2.7	2.0	5.0	15.4	1.5	26.6	12.0
2010-11	2.6	1.7	2.6	3.4	3.1	13.4	2.4
2013-14	4.1	2.2	3.0	2.0	3.0	14.3	-

Fiscal Year	Allowable						
	Reimbursable Activity						Appeals for Denied Waiver
	7	8	9	10	11	12	
Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications	Total		
1999-2000	2.50	1.50	3.00	0.56	0.55	8.11	-
2000-01	2.50	1.50	3.00	0.56	0.55	8.11	-
2001-02	2.50	1.50	3.00	0.56	0.55	8.11	-
2002-03	2.50	1.50	3.00	0.56	0.55	8.11	-
2003-04	2.50	1.50	3.00	0.56	0.55	8.11	-
2004-05	0.56	0.56	3.56	0.56	0.55	5.79	-
2005-06	0.56	0.56	2.13	0.56	0.55	4.36	-
2006-07	0.56	0.56	1.70	0.56	0.55	3.93	-
2007-08	0.56	0.56	0.56	0.56	0.55	2.79	-
2010-11	0.56	0.56	0.56	0.56	0.55	2.79	-
2013-14	0.56	0.56	0.56	0.56	0.55	2.79	-

Multiplier Calculation

For Activities 7, 8, 9, and 11, the district claimed costs by multiplying the number of BOGG fee waivers by a uniform time allowance and an annual average productive hourly rate. The district used the number of students who received a BOGG fee waiver in its claims for FY 1999-2000 through FY 2007-08, FY 2010-11, and FY 2013-14 based on information the district obtained from its software system. The district did not claim costs during the audit period for Activity 10 (incomplete BOGG fee waiver applications) and Activity 12 (appeals of denied BOGG fee waiver applications).

Although the district did not claim costs for Activity 10, we found that the district performed the reimbursable activity because staff received incomplete BOGG fee waiver applications throughout the year. Therefore, we will apply the time required to perform Activities 7 through 11 by the number of students who received BOGG fee waivers, according to

statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO identified the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. For Activity 12, the district indicated that it does not have a formal appeal process in place to review denied BOGG fee waiver applications.

Calculation of Multiplier Adjustment – Number of BOGG Fee Waivers

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	74,925	127,359	52,434
8	74,925	127,359	52,434
9	74,925	127,359	52,434
10	-	127,359	127,359
11	74,925	127,359	52,434
12	-	-	-
Total	<u>299,700</u>	<u>636,795</u>	<u>337,095</u>

Calculation of Hours Adjustments

We multiplied the allowable minutes per reimbursable activity by the multiplier (as identified in the table above) to determine the number of allowable hours for reimbursable Activities 7 through 12.

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

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
7	3,100.40	2,380.10	(720.30)
8	3,704.00	1,766.00	(1,938.00)
9	4,499.10	3,838.00	(661.10)
10	-	1,188.50	1,188.50
11	5,192.60	1,167.50	(4,025.10)
12	-	-	-
Total	<u>16,496.10</u>	<u>10,340.10</u>	<u>(6,156.00)</u>

Productive Hourly Rates

We made adjustments to the average productive hourly rates claimed for the activities involved in waiving student fees. The district understated the annual average productive hourly rate in its claims for Activities 7 through 12 for each fiscal year of the audit period. As explained in Finding 9, we recalculated the annual average productive hourly rates based on actual salary and benefit information and 1,800 annual productive hours for the employees involved in enrollment fee waivers activities and made the necessary adjustments to the claimed rates. The information used for the recalculation of rates was provided by the district's Payroll Manager.

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that salaries and benefits totaling \$384,188 are allowable and \$163,264 are unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
7	\$ 106,508	\$ 86,086	\$ (20,422)
8	120,045	66,726	(53,319)
9	152,210	135,198	(17,012)
10	-	48,518	48,518
11	168,689	47,660	(121,029)
12	-	-	-
Total	<u>\$ 547,452</u>	<u>\$ 384,188</u>	<u>\$(163,264)</u>

Recommendation

Commencing in FY 2014-15, 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 \$547,422 in salaries and benefits for waiving enrollment fees for students who are eligible for BOGG fee waivers. The cost of staff time to implement this mandate component (Activities 7 through 12) is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions and then multiplied by the relevant workload statistic. The draft audit report adjusts all three of these components. The District disputes these adjustments since claims were originally submitted and signed by staff at that time.

The draft audit report determined that \$241,732 is allowable and \$305,720 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 calculation with student waiver obtained by the auditor from the Chancellor's Office. The collective effect of the disallowances is nearly a two-thirds reduction of the 16,496.1 claimed mandate program hours to 5,921.5. There is a reduction of the same magnitude for the claimed costs. Based on the audited number of waivers of 127,359 and the audited total time of 5,921.5 hours, the imputed audited average time for all six activities per waiver is an unlikely less than 3 minutes or less than \$2 per waiver.

Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 7 through 11 and no staff time was allowed for Activity 12.

For Activities 7 through 11, waiver application processing, the District claimed average times per student transaction of 13.4 to 26.6 minutes over the 11 years audited. The Controller decided that the good faith estimates reported by District staff were overstated. The Controller held discussions with District staff in order to determine the procedures used to perform the reimbursable activities. The Controller observed 209 transactions at the financial aid office encompassing 88 involving BOGG fee-related inquiries totaling 219.82 minutes, or an average of 2.50 minutes. The Controller also observed District staff process 132 BOGG fee waivers through the FAFSA batch process (4.67 minutes total/0.04 minutes per application) and District staff file paper BOGG fee waiver applications (11.39 minutes total/.25 minutes per application). The audited total average is 2.79 minutes for Activities 7 through 11.

This 80% to 90% reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 127,359 over the 11-year period, of which 88 waiver transactions were observed- less than .07% of all transactions. The draft audit report does not state that the 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.

Workload multipliers

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

SCO's Comment

The finding amount was updated based on information provided by the district after issuance of the draft report. The recommendation remains unchanged.

In its response, the district states the following:

For Activities 7 through 11, waiver application processing, the District claimed average times per student transaction of 13.4 to 26.6 minutes over the 11 years audited. The Controller decided that the good faith time estimates reported by District staff were overstated.

Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities appeared to be overstated. Therefore, we determined allowable costs for Activities 7 through 11 based on our observations of district staff performing the activities. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation which cannot be a substitute for source documents. The district did not provide any 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.

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 waiver activities during the audit period. We held discussions with various district representatives to determine what procedures the district employees followed to complete the certification forms and to perform the reimbursable activities. We also observed district staff members in the Financial Aid Office who process students' BOGG fee waiver applications and documented the average time increments spent by district staff to perform these activities.

The district's certified estimates ranged from 13.4 to 26.6 combined minutes for Activities 7 through 11 over the audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. We observed an average time of 2.79 combined minutes for Activities 7 through 11. The district states that "the draft audit report does not state that the procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years." We disagree. We worked with district staff extensively to adjust the observed time increments for Activities 7, 8, and 9 upwards for several years of the audit period. We made these adjustments because district staff provided an explanation of how the processing of enrollment fee waivers took extra time during the earlier years of the audit period due to BOGG fee waivers being new and also due to the slower, more complicated nature of district's original Charming system. We also made adjustments in the later years of the audit period based on the district's explanation of glitches it experienced for several years after implementing the Datatel system. Therefore, based on our observations, the average time increment allowable for FY 2007-08, FY 2010-11, and FY 2013-14 is 2.79 minutes; and based on the district's explanation of the various problems encountered during the remaining fiscal years, the average time increment allowable for FY 1999-2000 through FY 2006-07 ranges from 3.93 to 8.11 minutes.

These adjustments are reflected in this final report, but were not reflected in the draft report because the district did not submit the entirety of the information necessary to make these adjustments until the draft report had already been issued. As the result of the increased time increments, allowable salary and benefit costs for waiving student fees increased by \$142,456; from \$241,732 as reflected in the draft report, to \$384,188 as reflected in this final report.

The district states that “the Controller’s sample size is statistically meaningless” in comparison to the enrollment fee waiver transactions performed by the district throughout the audit period. We disagree. We spent several days at the Financial Aid Office observing staff performing a variety of activities. We observed a total of 209 transactions processed by district staff at the front counter; 88 of these transactions were BOGG fee-related inquiries. We observed an additional 177 BOGG fee-related activities at the back counter. The district identifies the audited number of waiver transactions of 127,359 over the audit period and 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 during fieldwork when conducting our observations. We also worked with district staff to understand how the enrollment fee waiver processes may have changed over the years. On March 3, 2016, we emailed the district our initial observation results and asked for feedback. We also advised the district that it could perform its own time study to corroborate our observations results. On March 22, 2016, we emailed the district a time-increment analysis which included a detailed narrative of our observations and the resulting time increments. We did not receive any comments or feedback from the district throughout the course of the audit. After the audit’s exit conference, which took place on August 24, 2016, the district provided additional information regarding how enrollment fee waiver processes took extra time during certain years of the audit period. We worked with the district and subsequently agreed to increase the observed time increments for those activities where the district’s proposal for the increases seemed reasonable. We provided the district with updates and explanations of the reasoning behind the adjustments we made and did not receive any objections from the district.

**FINDING 6—
Enrollment Fee
Waivers: Reporting to
the CCCCCO the
number of and
amounts provided for
BOGG fee waivers
cost component –
misstated ongoing
costs**

The district claimed \$19,323 in salaries and benefits during the audit period related to the reimbursable activity of reporting to the CCCCCO the number of and amounts provided for BOGG fee waivers. We found that \$26,208 is allowable. We found that salaries and benefits were misstated by \$6,885 (overstated by \$4,140 and understated by \$11,025). The salaries and benefits were misstated because the district claimed unsupported costs in FY 2007-08 and did not claim reimbursable costs for this activity in FY 2006-07, FY 2010-11, and FY 2013-14.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-00	\$ 1,022	\$ 1,022	\$ -
2000-01	1,064	1,064	-
2001-02	1,106	1,106	-
2002-03	1,128	1,128	-
2003-04	1,804	1,804	-
2004-05	2,706	2,706	-
2005-06	2,866	2,866	-
2006-07	-	2,644	2,644
2007-08	7,627	3,487	(4,140)
2010-11	-	3,328	3,328
2013-14	-	5,053	5,053
Total, salaries and benefits	<u>\$ 19,323</u>	<u>\$ 26,208</u>	<u>\$ 6,885</u>

For FY 1999-2000 through FY 2005-06, and FY 2007-08, the district estimated the time it takes to perform the reimbursable activity. Staff completed “time and effort reports” to estimate the hours claimed by the district, ranging from 25 hours to 60 hours per year, with the only exception being FY 2007-08, in which the district claimed 140 hours. The district did not include costs for this activity in its claims for FY 2006-07, FY 2010-11, and FY 2013-14. During the course of the audit, we interviewed district staff, who described the district’s process of reporting to the CCCCO the number of and amounts provided for BOGG fee waivers. We learned that a Senior Systems Analyst in the IT department is responsible for gathering this information and reporting it to the CCCCO each year. If there are discrepancies in the report that is generated, the IT Department will request the Financial Aid Department to correct them. According to the current Financial Aid Director, if discrepancies exist, either the Director or a Financial Aid Specialist will investigate and correct them; this activity typically takes just one to two hours each year.

Based on the district’s explanation of the process involved to perform this activity, we determined that the time claimed during the audit period for the Senior Systems Analyst, ranging from 25 hours in the earlier year to 60 hours in the later years, seems reasonable to comply with this mandated activity. However, the 80 hours claimed in FY 2007-08 for the Director of Financial Aid does not appear reasonable.

For FY 1999-2000 through FY 2005-06, the costs claimed are below our materiality threshold for testing. Therefore, we did not analyze the costs claimed. However, based on the district's explanation of the process involved to perform this activity, the time claimed for one Senior Systems Analyst, ranging from 25 hours in the earlier fiscal years to 60 hours in the later fiscal years, seems reasonable.

For FY 2006-07, the district did not claim costs for this activity. Based on interviews with district staff, we determined that the Senior Systems Analyst who typically performs this activity was out on leave that fiscal year. District staff explained that, in her absence, another Senior Systems

Analyst performed the activity. Therefore, we calculated allowable costs for this year based on 60 hours for a Senior Systems Analyst to perform the reimbursable activity.

For FY 2007-08, the district claimed 60 hours for a Senior Systems Analyst to perform the reimbursable activity. The district also claimed 80 hours for the Director of Financial Aid. However, the 80 hours claimed are inconsistent with our understanding of the Financial Aid Office's involvement for this reimbursable activity, as noted above. Further, time was not claimed for the Director of Financial Aid or any other Financial Aid Office staff for this cost component for any of the other fiscal years. We advised the district of this inconsistency and requested supporting documentation for the 80 hours claimed. The district acknowledged that it was unable to support the 80 hours claimed. Therefore, we calculated allowable costs for this year based on the 60 hours claimed for the Senior Systems Analyst.

For FY 2010-11 and FY 2013-14, the district did not claim costs for this activity. Based on interviews with district staff, for FY 2010-11, the Senior Systems Analyst who performed this activity in previous fiscal years also performed the activity this year. For FY 2013-14, the Senior Systems Analyst was out on leave, and in her absence, the Director of MIS performed the activity. Therefore, we calculated allowable costs for FY 2010-11 based on 60 hours for one Senior Systems Analyst to perform this activity, and for FY 2013-14 calculated allowable costs based on 60 hours for the Director of MIS to perform this activity.

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

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

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

Recommendation

Commencing in FY 2014-15, 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 \$19,323 in salaries and benefits during the audit period related to reporting to the CCCCCO the number of and amounts provided for BOGG fee waivers. The draft audit report found this amount was overstated for FY 1999-2000 through FY 2005-06, and FY 2007-08, but understated in FY 2006-07, FY 2010-11, and FY 2013-14. The draft audit report found the total allowable was \$26,208. 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 7—
Overstated indirect
costs**

The district claimed indirect costs during the audit period totaling \$1,603,316 (\$1,289,717 for enrollment fee collection activities and \$313,599 for enrollment fee waivers activities). For enrollment fee collection activities, we found that \$237,237 is allowable and \$1,052,480 is unallowable. For enrollment fee waiver activities, we found that \$171,496 is allowable and \$142,103 is unallowable.

The costs are unallowable because the district overstated its indirect cost rates for FY 1998-99 through FY 2007-08, understated its rates for FY 2010-11 and FY 2013-14, and claimed indirect costs related to the unallowable salaries and benefits costs identified in Findings 1 through 3, 5, and 6.

Indirect Cost Rates Claimed

For FY 1998-99 through FY 2006-07, the district's support for its calculations of the indirect cost rates used in its claims consisted only of a table titled "Community College District Indirect Cost Rates." The table states that the indirect cost rate listed for each year was "taken from previously filed claims" and that the method used was the Controller's FAM 29-C methodology. The district did not provide a completed FAM 29-C rate calculation for any of these years. Additionally, the district did not provide its California Community Colleges Annual Financial Budget Report-Expenditures by Activity Report (CCFS-311) for any of these years; this report identifies the actual costs needed to calculate its indirect cost rates.

For FY 2007-08, it appears that the district calculated its indirect cost rate using the FAM 29-C methodology; however, no documentation was provided to support this.

For FY 2010-11 and FY 2013-14, the district calculated indirect cost rates using the SCO's FAM 29-C methodology and provided support for its calculations.

Recalculated Indirect Cost Rates

Based on our calculations, the district overstated its indirect cost rates for FY 1998-99 through FY 2007-08 and understated its indirect cost rates for FY 2010-11 and FY 2013-14.

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

Fiscal Year	Claimed Rate	Allowable Rate	Audit Adjustment
1998-99	57.90%	29.73%	-28.17%
1999-2000	58.96%	30.28%	-28.68%
2000-01	58.45%	30.01%	-28.44%
2001-02	61.28%	31.47%	-29.81%
2002-03	55.20%	30.58%	-24.62%
2003-04	53.91%	22.59%	-31.32%
2004-05	45.61%	44.15%	-1.46%
2005-06	46.57%	41.63%	-4.94%
2006-07	59.52%	51.20%	-8.32%
2007-08	59.52%	47.16%	-12.36%
2010-11	49.58%	50.61%	1.03%
2013-14	49.30%	51.33%	2.03%

Rate Calculations for FY 1998-99 through FY 2007-08

As noted above, the district did not provide documentation showing how its claimed indirect cost rates were calculated for FY 1998-99 through FY 2007-08. For FY 2002-03 through FY 2007-08, we were able to obtain the district's CCFS-311 reports to perform the FAM-29C calculations. As the FAM-29C methodology was revised in FY 2004-05 to also include depreciation amounts for Capitol Assets as indirect costs, we also obtained the district's audited financial statements for those amounts for FY 2004-05 through FY 2007-08. Therefore, for these six fiscal years, we recalculated the indirect cost rates using the applicable current-year financial information. Based on the recalculated rates, we found that the district's indirect cost rates were overstated for all six fiscal years, as noted in the table above.

However, for FY 1998-99 through FY 2001-02, the district's CCFS-311 reports were unobtainable and therefore we were unable to recalculate the district's actual indirect cost rates using the FAM-29C methodology. In addition, neither the SCO nor the district were able to locate any previously filed claims containing such information for those years.

In order to determine allowable indirect cost rates for FY 1998-99 through FY 2001-02, in the absence of CCFS-311 reports for those years or supporting documentation showing how the claimed rates were calculated, we devised an alternate methodology. As the prescribed methodology used to calculate FAM-29C rates for FY 1998-99 through FY 2001-02 was also used to calculate the indirect cost rates for FY 2002-03 through FY 2003-04, we calculated the average percent reduction in the claimed indirect cost rates based on the rates that we recalculated for FY 2002-03 and FY 2003-04. For FY 2002-03, the claimed rate was 55.2% and the recalculated rate was 30.58%, resulting in a 44.6% reduction. For FY 2003-04, the claimed rate was 53.91% and the recalculated rate was 22.59%, resulting in a 58.1% reduction. The average percent reduction for these two fiscal years was 51.35%. We multiplied the rate that was claimed each of the first four years by a factor of .5135 to compute the recalculated rates.

The following table summarizes the claimed indirect cost rates and the recalculated indirect cost rates using this alternate methodology for FY 1998-99 through FY 2001-02.

Fiscal Year	Claimed Rate	Average Percent Reduction	Recalculated Rate
1998-99	57.90%	51.35%	29.73%
1999-2000	58.96%	51.35%	30.28%
2000-01	58.45%	51.35%	30.01%
2001-02	61.28%	51.35%	31.47%

Enrollment Fee Collection

The district claimed \$1,289,717 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that indirect costs were overstated by the net amount of \$1,052,480. Indirect costs were overstated by \$89,761 due to the indirect cost rate adjustments mentioned above for FY 1998-99 through FY 2007-08 and by \$962,719 due the unallowable salaries and benefits costs identified in Findings 1 and 2.

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

Fiscal Year	Allowable Costs	Enrollment Fee Collection		Claimed Indirect Costs	Adjusted Indirect Costs
		Allowable Indirect Cost Rates	Allowable Indirect Costs		
1998-99	\$ 30,172	29.73%	\$ 8,970	\$ 84,833	\$ (75,863)
1999-2000	36,646	30.28%	11,096	91,561	(80,465)
2000-01	41,245	30.01%	12,378	103,942	(91,564)
2001-02	50,588	31.47%	15,920	125,747	(109,827)
2002-03	48,362	30.58%	14,789	114,863	(100,074)
2003-04	59,065	22.59%	13,343	102,663	(89,320)
2004-05	61,462	44.15%	27,135	99,749	(72,614)
2005-06	80,503	41.63%	33,513	112,204	(78,691)
2006-07	45,903	51.20%	23,502	167,402	(143,900)
2007-08	51,912	47.16%	24,482	127,571	(103,089)
2010-11	50,026	50.61%	25,318	103,005	(77,687)
2013-14	52,194	51.33%	26,791	56,177	(29,386)
	<u>\$ 608,078</u>		<u>\$ 237,237</u>	<u>\$ 1,289,717</u>	<u>\$ (1,052,480)</u>

Enrollment Fee Waivers

The district claimed \$313,599 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We found that indirect costs were overstated by the net amount of \$142,103. Indirect costs were overstated by \$56,310 due to the indirect cost rate adjustments mentioned above for FY 1998-99 through FY 2007-08 and by \$85,793 due to the unallowable salaries and benefits costs identified in Findings 3, 5, and 6. We also noted that for FY 2001-02 through FY 2006-07, the district claimed direct costs that included both salaries and benefits and travel and training costs (travel and training costs were claimed under the staff training cost component only). When

calculating its indirect costs for these years, the district incorrectly applied the claimed rate to salaries and benefits only. Per the SCO's FAM-29C claiming instructions, the base for calculating indirect costs for these years is total direct costs; starting with FY 2007-08 and going forward, the base is salaries and benefits only. Therefore, in recalculating allowable indirect costs for FY 2001-02 through FY 2006-07, we applied the audited rate to the sum of allowable salaries and benefits and allowable travel and training costs.

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

Fiscal Year	Allowable Costs	Enrollment Fee Waiver		Claimed Indirect Costs	Adjusted Indirect Costs
		Allowable Indirect Cost Rates	Allowable Indirect Costs		
1999-2000	19,812	30.28%	5,999	19,192	(13,193)
2000-01	22,847	30.01%	6,856	22,549	(15,693)
2001-02	27,342	31.47%	8,605	26,765	(18,160)
2002-03	50,918	30.58%	15,571	27,491	(11,920)
2003-04	49,805	22.59%	11,251	27,122	(15,871)
2004-05	43,679	44.15%	19,284	23,676	(4,392)
2005-06	34,046	41.63%	14,173	25,824	(11,651)
2006-07	36,450	51.20%	18,662	38,676	(20,014)
2007-08	33,814	47.16%	15,947	47,006	(31,059)
2010-11	50,574	50.61%	25,596	52,190	(26,594)
2013-14	57,572	51.33%	29,552	3,108	26,444
	<u>\$ 426,859</u>		<u>\$ 171,496</u>	<u>\$ 313,599</u>	<u>\$(142,103)</u>

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

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

Recommendation

Commencing in FY 2014-15, 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.

The District claimed indirect costs totaling \$1,289,717 for enrollment fee collection activities. The draft audit report concluded that this amount was overstated by \$1,052,480. Most of this reduction is attributable to Finding 2. The District claimed indirect costs totaling \$313,599 for enrollment fee waiver activities. The draft audit report concluded that this amount was overstated by \$188,966. Most of this reduction is attributable to Finding 5. The District does not object to the entirety of this finding at this time.

SCO's Comment

The finding amount changed due to changes in allowable salaries and benefits costs within Finding 5 (Waiving Student Fees). The recommendation remains unchanged. The District states that it does not object to the entirety of this finding at this time. However, we wanted to add the following note:

The district states that the draft audit report concluded that, for enrollment fee waiver activities, indirect costs were overstated by \$188,966. This is correct for the draft audit report. However, due to the changes made to Finding 5 relating to increased time increments after the issuance of the draft report, allowable direct costs increased. Therefore, related indirect costs for enrollment fee waiver activities increased by \$46,863; from \$124,633 to \$171,496. Therefore, indirect costs for enrollment fee waiver activities were overstated by \$142,103, as reflected in this final audit report.

**FINDING 8—
Overstated offsetting
reimbursements**

The district claimed offsetting reimbursements totaling \$412,109 for enrollment fee collection and \$637,933 for enrollment fee waivers. We found that offsetting reimbursements were overstated for enrollment fee collection by the net amount of \$35,835 (overstated by \$63,053 and understated by \$27,218) and overstated for enrollment fee waivers by the net amount of \$39,578 (overstated by \$153,646 and understated by \$114,068). The offsetting reimbursements were overstated because the district did not report the correct amounts that it received from the CCCC for enrollment fee collection or enrollment fee waivers offsets (with the exception of enrollment fee waiver offsets for FY 2010-11).

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 CCCC confirming enrollment fee collection offsets paid to the district totaling \$376,274 during the audit period. We limited the application of offsetting reimbursements received by the district to allowable direct and indirect costs determined during the audit.

Allowable direct and indirect costs for the audit period relating to enrollment fee collection activities totaled \$845,315. The district overstated offsetting reimbursements by a net of \$35,835 (overstated by \$63,053 and understated by \$27,218), which consists of offsets applicable to the audit period totaling \$376,274 less offsets claimed totaling \$412,109.

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

Enrollment Fee Collection Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1998-99	\$ 39,142	\$ (16,466)	\$ (20,406)	\$ (20,406)	\$ (3,940)
1999-2000	47,742	(16,623)	(16,919)	(16,919)	(296)
2000-01	53,623	(18,606)	(18,443)	(18,443)	163
2001-02	66,508	(17,039)	(21,634)	(21,634)	(4,595)
2002-03	63,151	(21,180)	(20,868)	(20,868)	312
2003-04	72,408	(35,427)	(31,702)	(31,702)	3,725
2004-05	88,597	(73,823)	(45,104)	(45,104)	28,719
2005-06	114,016	(70,171)	(58,125)	(58,125)	12,046
2006-07	69,405	(51,049)	(32,969)	(32,969)	18,080
2007-08	76,394	(38,696)	(38,688)	(38,688)	8
2010-11	75,344	(35,292)	(35,292)	(35,292)	-
2013-14	78,985	(17,737)	(36,124)	(36,124)	(18,387)
Total	\$ 845,315	\$ (412,109)	\$ (376,274)	\$ (376,274)	\$ 35,835

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$0 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (20,406)	\$ (20,406)	\$ -
1999-2000	(16,919)	(16,919)	-
2000-01	(18,443)	(18,443)	-
2001-02	(21,634)	(21,634)	-
2002-03	(20,868)	(20,868)	-
2003-04	(31,702)	(31,702)	-
2004-05	(45,104)	(45,104)	-
2005-06	(58,125)	(58,125)	-
2006-07	(32,969)	(32,969)	-
2007-08	(38,688)	(38,688)	-
2010-11	(35,292)	(35,292)	-
2013-14	(36,124)	(36,124)	-
Total	\$ (376,274)	\$ (376,274)	\$ -

Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$1,655,634 for the audit period. We limited the application of offsetting reimbursements received by the district to allowable direct and indirect costs determined during the audit.

Allowable direct and indirect costs for the audit period relating to enrollment fee waivers activities totaled \$598,355. The district overstated offsetting reimbursements by a net of \$39,578 (overstated by \$153,646 and understated by \$114,068), which consists of offsets applicable to the audit period totaling \$598,355 less offsets claimed totaling \$637,933.

The following table summarizes the overstated and understated offsetting reimbursements for enrollment fee waivers by fiscal year:

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1999-2000	\$ 25,811	\$ (32,554)	\$ (75,153)	\$ (25,811)	\$ 6,743
2000-01	29,703	(38,580)	(86,661)	(29,703)	8,877
2001-02	35,947	(44,784)	(86,689)	(35,947)	8,837
2002-03	66,489	(50,695)	(111,017)	(66,489)	(15,794)
2003-04	61,056	(50,619)	(124,684)	(61,056)	(10,437)
2004-05	62,963	(52,838)	(179,466)	(62,963)	(10,125)
2005-06	48,219	(55,901)	(165,089)	(48,219)	7,682
2006-07	55,112	(66,120)	(152,809)	(55,112)	11,008
2007-08	49,761	(78,975)	(142,465)	(49,761)	29,214
2010-11	76,170	(157,455)	(180,014)	(76,170)	81,285
2013-14	87,124	(9,412)	(351,587)	(87,124)	(77,712)
Total	\$ 598,355	\$ (637,933)	\$ (1,655,634)	\$ (598,355)	\$ 39,578

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs totals \$1,246,598 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (75,153)	\$ (25,811)	\$ (49,342)
2000-01	(86,661)	(29,703)	(56,958)
2001-02	(86,689)	(35,947)	(50,742)
2002-03	(111,017)	(66,489)	(44,528)
2003-04	(124,684)	(61,056)	(63,628)
2004-05	(179,466)	(62,963)	(116,503)
2005-06	(165,089)	(48,219)	(116,870)
2006-07	(152,809)	(55,112)	(97,697)
2007-08	(142,465)	(49,761)	(92,704)
2010-11	(180,014)	(76,170)	(103,844)
2013-14	(351,587)	(87,124)	(264,463)
Total	\$ (1,655,634)	\$ (598,355)	\$ (1,057,279)

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

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

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

Enrollment Fee Collection Program:

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

Enrollment Fee Waiver Program:

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

July 1, 1999 to July 4, 2000:

- For low income students or recipients of public assistance, or dependents or surviving spouses of National Guard soldiers killed in the line of duty as defined:
 - an offset identified in Education Code section 76300, subdivision (m), that requires the community college Board of Governors, from funds in the annual budget act, to allocated to community college two percent (2%) of the fees waived, under subdivision (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and
- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined), or dependents or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived:
 - from funds provided in the annual State Budget Act, the board of governors shall allocate to community college districts, pursuant to this subdivision, an amount equal to seven (7%) of the fee waivers provided, pursuant to subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and 9h0 [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].

Beginning July 5, 2000:

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

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

Recommendation

Commencing in FY 2014-15, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommended that the district report the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its mandated cost claims based on information provided by the CCCCCO.

District's Response

The offsetting amounts are not actually "reimbursements," rather they are funds provided by the State to implement the program and are based on statewide statutory rates and not actual cost of the program to the District. The offsetting program revenue amounts are applied to the audited direct and indirect costs. The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFM allocation beginning FY 2000-01 (7% for FY 1999-00 only). The District concurred 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 overstated by \$35,835 for enrollment fee collection and overstated by \$228,897 for enrollment fee waivers. The audit applicable offsetting revenue amounts for enrollment fee waivers exceeded the audited direct and indirect activity costs for all of the years audited. The remaining amounts become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amount for enrollment fee waivers is \$1,246,598.

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 2 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 report 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 amount changed due to increased allowable direct and indirect costs, as noted in Findings 5 and 7. The recommendation remains unchanged.

The district states its belief that the audited revenue offsets should be reduced by the same percentage of online transaction costs “in order to properly match revenues and costs as required by generally accepted accounting principles.” In essence, the district believes that offsets should only be based on enrollment fees collected through “in-person” transactions. We disagree. The “matching principle” that the district refers to is used by accountants for accrual accounting purposes in order to recognize expenditures or expenses in the proper period in which they were incurred for proper reporting within financial statements. The matching principle is not used to match revenues with associated expenditures. In addition, the pro-ratio of the student multiplier to reflect the payment of enrollment fees online only applied to reimbursable Activity 2 (Calculating and Collecting the Fee) and Activity 4 (Updating Written and Computer Records). To determine the allowable costs, we applied the time increments required to perform these activities by the number of students appearing in-person to pay their enrollment fees based on the applicable productive hourly rates of district staff that performed these activities.

We concur that the offsetting reimbursements received by the district for the enrollment fee collection program includes 2% of revenues collected from both in-person and online enrollment fee payments. However, as noted in Finding 2, the district did not claim any costs for operating its online enrollment fee collection system. Therefore, we did not see any rationale for reducing enrollment fee collection offsets because the district failed to claim all of the costs that it incurred to collect enrollment fees from students. In addition, we audit to the language contained in the parameters and guidelines. Parameters and guidelines Section VII – Offsetting Savings and Reimbursements states that “The costs of the Enrollment Fee Collection program are subject to an offset of two percent (2%) of the *revenue* [emphasis added] from enrollment fees.” Therefore, we applied the offset of 2% of the revenue from enrollment fees, as reported to us by the CCCCCO.

Further, the district states that the draft audit report concludes that for enrollment fee waiver activities, offsetting reimbursements were overstated by \$228,897, and the unused adjustment amount for enrollment fee waivers is \$1,246,598. This is correct for the draft audit report. However, due to the additional allowable direct and related indirect costs included in Finding 5 after the issuance of the draft report, offsetting

reimbursement amounts increased by \$189,319; from \$409,036 to \$598,355. Therefore, enrollment fee waiver offsets were overstated by \$39,578 and the unused adjustment amount is \$1,057,279, as reflected in this final audit report.

**FINDING 9—
Misstated Productive
Hourly Rates for
Calculating and
Collecting Enrollment
Fees, and Waiving
Student Fees cost
components**

For the audit period, the district calculated average productive hourly rates separately for employees involved in calculating and collecting enrollment fees (Activities 1 through 6) and for employees involved in waiving student fees (Activities 7 through 12). However, the district misstated (overstated and understated) the average productive hourly rates used in its claims for the audit period.

Productive Hourly Rates Claimed

The district calculated its average productive hourly rates during the audit period using a straight-average methodology. In its calculations, the district did not weigh the involvement of the various employee classifications that performed the reimbursable activities in the fiscal years for which we determined that weighing was necessary. Instead, all employee classifications were weighted at the same level, as if they all performed the reimbursable activities to the same extent. For example, by calculating average productive hourly rates using a straight average methodology, the involvement of supervisors was weighted at the same level as other district staff who performed most of the reimbursable activities. We believe that using a straight-average methodology to compute an average productive hourly rate for district staff that performed the reimbursable activities at varying levels may not provide a reasonable result. Additionally, the district included in its calculations employees who work in different departments and who did not perform the reimbursable activities.

During our observations of the reimbursable activities performed at the district, we noticed that only permanent, classified workers and hourly workers performed the reimbursable enrollment fee collection activities at the Cashier's Office. The classified staff included the employee classifications of Accounting Technician I and II, Senior Accounting Technician, and Accounting Specialist. Through our interviews with district staff, we learned that student workers were not employed in the Cashier's Office during the audit period. In addition, we were told that temporary hourly workers were employed in the Cashier's Office only during certain years of the audit period.

We also noticed that only permanent, classified workers perform reimbursable enrollment fee waiver Activities 7-10 at the front counter of the Financial Aid Office. These classified workers included the employee classifications of Financial Aid Technicians and Financial Aid Specialists. Although student workers do not process enrollment fee waiver applications; they did perform reimbursable activities such as filing, which encompasses reimbursable Activity 11.

Allowable Productive Hourly Rates

The district did not provide payroll reports for each fiscal year of the audit period. We initially worked with the district to obtain payroll reports for as many fiscal years as possible. Payroll personnel had difficulty with the district's system in attempting to generate detailed payroll reports for any of the fiscal years. In addition, the district changed software systems during the audit period, and for the years in which payroll information was unavailable, district representatives advised that they would have to obtain the information requested from the County Office of Education. We ultimately decided to request payroll reports for the last two fiscal years of the audit period (FY 2010-11 and FY 2013-14); the district was able to provide these reports. We informed the district that we would test the rates claimed for these two years against the district's payroll reports, and if the productive hourly rates claimed matched or closely matched the audited rates for these years, we could accept the claimed productive hourly rates for the remainder of the audit period.

For the two years tested, we recalculated productive hourly rates using actual salary and benefit information provided by the district, along with 1,800 productive hours for permanent employees, and actual hours worked for hourly employees. In our recalculations, we also omitted employees who were claimed in the wrong department. We recalculated (and weighted where necessary) average productive hourly rates based on the supporting documentation that the district provided. We also recalculated average productive hourly rates separately for enrollment fee collection and enrollment fee waiver activities based on the level of involvement of hourly workers, full-time classified staff, and supervisors performing the reimbursable activities. The level of effort spent by the various employee classifications that we used in our calculations was based on our discussions with district staff regarding the district's procedures in place to conduct the reimbursable activities and our observations of district staff actually performing the reimbursable activities.

Based on this testing methodology, we concluded that the district understated productive hourly rates related to enrollment fee waiver activities for both fiscal years; and for enrollment fee collection activities, understated the rate in FY 2010-11 and overstated the rate in FY 2013-14. However, the differences in productive hourly rates was not material. Therefore, we decided to accept the claimed productive hourly rates for the remainder of the audit period, and adjusted only those claimed rates to account for employees claimed in the wrong department and to apply a weighted percentage where necessary. Most of the staff performing the activities are permanent, classified staff; therefore, weighting the average productive hourly rates was not necessary for every fiscal year.

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

As noted above, we recalculated the productive hourly rates claimed for the last two fiscal years of the audit period (FY 2013-14 and FY 2010-11) using information from the district's detailed payroll reports. The district provided separate payroll reports for permanent classified staff and hourly/student workers. For permanent classified staff, we used actual

salaries paid, actual benefits paid, and 1,800 productive hours to recalculate the average productive hourly rates. The district's payroll reports did not provide actual hours worked; therefore, per the SCO claiming instructions, we defaulted to 1,800 annual productive hours. For hourly workers, we used actual salaries paid, actual benefits paid, and actual hours worked to recalculate the average productive hourly rates. In performing our recalculations, we noted the following two issues: Admissions and Records staff were claimed in the Cashier's Office for both years, and short-term hourly workers were not included in the calculations for FY 2013-14, but were included in the calculations with the permanent classified staff in FY 2010-11. Therefore, in performing our recalculations, we made the following adjustments:

- Omitted staff who were claimed in the wrong department and not involved in performing the reimbursable activities
- Weighted the calculated average productive hourly rates according to the involvement level of different classifications

Based on the testing that we performed for the last two fiscal years of the audit period, we accepted the claimed productive hourly rates for the remainder of the audit period. However, we made minor revisions to the rates for those years because we omitted staff (mostly Admissions and Records staff) from our recalculations, as they did not perform the reimbursable activities. For FY 2013-14, FY 2010-11, 2007-08, and FY 2006-07, we weighted the average productive hourly rates to account for the involvement of temporary hourly workers (ranging from 10% to 11% each of these years).

The following table summarizes the average productive hourly rates claimed and allowable for rates related to enrollment fee collection activities by fiscal year:

Fiscal Year	Enrollment Fee Collection		
	Claimed Average Productive Hourly Rate	Audited Average Productive Hourly Rate	Difference
1998-99	\$ 24.67	\$ 27.67	\$ 3.00
1999-2000	25.16	28.22	3.06
2000-01	26.21	29.40	3.19
2001-02	27.23	30.54	3.31
2002-03	27.77	31.15	3.38
2003-04	27.77	31.15	3.38
2004-05	27.77	31.15	3.38
2005-06	29.42	32.99	3.57
2006-07	34.05	30.10	(3.95)
2007-08	35.97	35.07	(0.90)
2010-11	34.40	41.93	7.53
2013-14	47.40	43.45	(3.95)

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

As noted above, we recalculated the productive hourly rates claimed for the last two fiscal years of the audit period using information from the district's detailed payroll reports. The district provided separate payroll

reports for permanent classified staff and hourly/student workers. For permanent classified staff, we used actual salaries paid, actual benefits paid, and 1,800 productive hours to recalculate the average productive hourly rates. The district's payroll reports did not provide actual hours worked; therefore, per the SCO claiming instructions, we defaulted to 1,800 annual productive hours. The Financial Aid office does not have hourly workers, only student workers. The involvement of student workers in the mandated activities is limited. They are not involved in processing enrollment fee waiver applications (Activities 7-10), but are involved in back-office activities such as filing completed applications. Although the district identified in its payroll reports which student workers worked in the Financial Aid Office for FY 2013-14 and FY 2010-11, we found through payroll testing that their salaries were completely funded with either federal work-study funding and/or state grants. As the district did not pay for any portion of student worker salaries, the limited amount of time the student workers spent performing reimbursable activities cannot be included as increased costs for performing mandated activities. Therefore, we did not perform an average productive hourly rate calculation for student workers. In performing our recalculations of permanent classified staff, we noted that various Cashier's Office staff were claimed in the Financial Aid Office in addition to the Cashier's Office for both years. Therefore, in performing our recalculations, we omitted staff who were claimed in the wrong department and not involved in performing the reimbursable activities.

We did not need to weigh the calculated average productive hourly rates, as only permanent classified workers were involved in the mandated activities. Although we accepted the claimed productive hourly rates for the remainder of the audit period and did not perform testing, made minor adjustments for staff claimed in the wrong department. For FY 2006-07 we made one additional adjustment, to weigh the involvement level of supervisory staff, including the Financial Aid Director and Associate Director, claimed that year.

The following table summarizes the average productive hourly rates claimed and allowable for rates related to enrollment waiver activities by fiscal year:

Fiscal Year	Enrollment Fee Waivers		
	Claimed Average Productive Hourly Rate	Audited Average Productive Hourly Rate	Difference
1999-2000	\$ 27.32	\$ 29.23	\$ 1.91
2000-01	28.46	30.45	1.99
2001-02	29.56	31.64	2.08
2002-03	30.15	32.27	2.12
2003-04	30.15	32.27	2.12
2004-05	30.15	32.27	2.12
2005-06	31.93	34.18	2.25
2006-07	33.87	39.79	5.92
2007-08	38.30	47.26	8.96
2010-11	41.60	49.10	7.50
2013-14	52.27	54.54	2.27

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

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

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

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

Recommendation

Commencing in FY 2014-15, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that productive hourly rates are calculated in accordance with the guidance provided in the SCO's claiming instructions.

District's Response

The draft audit report concludes that the District erred by not weighting the productive hourly rates for some 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 the following comments:

The district states the following:

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

The district is correct that weighting the productive hourly rates resulted in a reduction of the productive hourly rate; however, we only weighted the rates for four fiscal years of the audit period and only for enrollment fee collection activities. Further, weighting resulted in a reduction of the productive hourly rate for only three of these four fiscal years (FY 2006-07, FY 2007-08, and FY 2013-14). We did not weight the productive hourly rates for enrollment fee waiver activities, as only permanent, classified workers were involved in the mandated activities.

The district states that “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.” We disagree. The parameters and guidelines (Section V.A.1 – Claim Preparation and Submission – Salaries and Benefits) states that claimants are required to:

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

This requirement recognizes that all employees do not perform the reimbursable activities equally. Accordingly, this methodology to claim costs takes into account the weight of involvement in the reimbursable activities by various employee classifications. The Controller’s claiming instructions also recognize the weight of involvement of employees in its guidance for computing average productive hourly rates. For the four fiscal years in which we applied a weighted average to enrollment fee collection activities, this was to account for the involvement of temporary hourly workers.

**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, which is 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 CCCCCO the number and amounts provided for BOGG fee waivers; and
- Adopting procedures that will document all financial assistance provided on behalf of students...and including in the procedures the rules for retention of support documentation...

Therefore, community college districts were “on notice” that the mandated program existed as early as April 24, 2003.

The district’s comments also focused on documentation provided for claims filed under the initial filing period of FY 1998-99 through FY 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 for 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**



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October 24, 2016

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

RE: Victor Valley Community College District
Enrollment Fee Collection and Waivers Program
FY 1998-99 through FY 2007-08; FY 2010-11 and FY 2013-14

Dear Mr. Spano:

This letter constitutes the Victor Valley Community College District's response to the draft audit report dated October 2016, received by the District by email on October 12, 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 88 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 program's parameters and guidelines (section IV – Reimbursable Activities) state:

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



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(Draft Audit Report, p. 20.) 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.¹ 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.

The 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.

Audit Findings

Finding 1 Enrollment Fee Collection: Staff Training cost component – unallowable one-time costs

The District claimed \$7,970 in salaries and benefits during the audit period for training District staff on the procedures for the collection of enrollment fees, of which \$3,021 was found allowable and \$4,949 (160 hours) found unallowable by the draft audit report. The draft audit report indicates all costs claimed for FY 2005-06 were disallowed. The draft



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¹ The Controller has noted in other audit reports that the program's statement of decision was adopted in April of 2003. Nonetheless, even if this provided general guidance on reimbursable activities (although it did not set any requirements for documentation) it too did not come until several years after the District began to perform the mandated activities.

audit report ostensibly disallowed this claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The draft audit report does not indicate how, as a matter of law, this documentation was not "actual cost documentation."

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

The District claimed \$2,351,541 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 for some or all of the Activities.

The draft audit report states \$604,281 of claimed salary and benefits is allowable and \$1,747,260 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 a 77% reduction of the 79,219.50 claimed mandate program hours to 18,594.56. There is a reduction of a similar magnitude for the \$2,351,541 in claimed costs for salaries and benefits to \$604,281.

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 Activities 1-4.

For Activities 1 through 4, the District claimed average total times of 13.00 to 20.60 minutes over the audit period. The Controller found the times claimed for Activity 5 for FY 1998-99 through FY 2005-06 and FY 2013-14 as well as the times claimed for Activity 6 to be reasonable based on the forms developed by the District mandated cost consultant and the District staff's explanation of their process. The Controller decided, however, that the good faith time estimates reported by the District related to Activities 1-4 were overstated. Instead, the Controller observed 101 transactions related to Activities 1-4, and concluded the average times necessary to perform each of Activities 1-4 was between .92 and 1.38 minutes.



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This substantial reduction in time allowed for these in-person transactions is the largest source of the cost reduction. However, the Controller's sample size is statistically meaningless. The audited transactions were 303,563 (for Activities 1 and 3) and 155,939 (for Activities 2 and 4) over the audit period, of which at most, 101 relevant transactions were observed by the Controller. 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 for Activities 1 through 4.

Finding 3 Enrollment Fee Waivers: Staff Training cost component – unallowable travel and training costs

The District claimed \$15,083 in salaries, benefits, and travel and training costs for training District staff on the procedures for determining which students are eligible for waiver of the enrollment fee. The draft audit report found \$12,837 of these costs allowable and \$2,246 of these costs unallowable. The draft audit report noted that the salaries and benefits claimed were based on estimated hours spent by District staff to perform the activity, but found the entire amount allowable. The draft audit disallowed the remaining amount claimed for travel and training costs for FY 2001-02, approximately 14 years prior to the issuance of the draft audit report, as "the district did not provide any information describing the topics discussed during these seminars supporting that the training related to BOGG fee waivers, or invoices supporting the costs incurred." The District has no further information at this time.

Finding 4 Enrollment Fee Waivers: Adopting Procedures, Recording and Maintaining Records cost component – allowable ongoing costs

The draft audit report found that the District performed additional reimbursable activities. This included adopting procedures to document all financial assistance provided to students relating to BOGG fee waivers and recording and maintaining BOGG fee waiver records. The draft audit report indicated District staff spent 52.25 hours, equal to \$2,850 in salaries and benefits, to perform the activities in FY 1999-00 through 2007-08, FY 2010-11, and FY 2013-14. The District does not dispute this adjustment at this time.

Finding 5 Enrollment Fee Waivers: Waiving Student Fees cost component – overstated ongoing costs

The District claimed \$547,422 in salaries and benefits for waiving enrollment fees for students who are eligible for BOGG fee waivers. The cost of staff time to implement this mandate component (Activities 7 through 12) is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions and then multiplied by the relevant workload statistic. The draft audit report adjusts all three of these components. The District disputes these adjustments since claims were originally submitted and signed by staff at that time.



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The draft audit report determined that \$241,732 is allowable and \$305,720 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 calculation with student waiver data obtained by the auditor from the Chancellor's Office. The collective effect of the disallowances is nearly a two-thirds reduction of the 16,496.1 claimed mandate program hours to 5,921.5. There is a reduction of the same magnitude for the claimed costs. Based on the audited number of waivers of 127,359 and the audited total time of 5,921.5 hours, the imputed audited average time for all six activities per waiver is an unlikely less than 3 minutes or less than \$2 per waiver.

Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average

calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 7 through 11 and no staff time was allowed for Activity 12.

For Activities 7 through 11, waiver application processing, the District claimed average times per student transaction of 13.4 to 26.6 minutes over the 11 years audited. The Controller decided that the good faith time estimates reported by District staff were overstated. The Controller held discussions with District staff in order to determine the procedures used to perform the reimbursable activities. The Controller observed 209 transactions at the financial aid office encompassing 88 involving BOGG fee-related inquires totaling 219.82 minutes, or an average of 2.50 minutes. The Controller also observed District staff process 132 BOGG fee waivers through the FAFSA batch process (4.67 minutes total/0.04 minutes per application) and District staff file paper BOGG fee waiver applications (11.39 minutes total/.25 minutes per application). The audited total average is 2.79 minutes for Activities 7 through 11.

This 80% to 90% reduction in time allowed for In-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 127,359 over the 11-year period, of which 88 waiver transactions were observed – less than .07% of all transactions. The draft audit report does not state that the 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.

Workload multipliers

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



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Finding 6 Enrollment Fee Waivers: Reporting to the CCCCO the number of and amounts provided for BOGG fee waivers cost component – misstated ongoing costs

The District claimed \$19,323 in salaries and benefits during the audit period related to reporting to the CCCCO the number of and amounts provided for BOGG fee waivers. The draft audit report found this amount was overstated for FY 1999-2000 through FY 2005-06, and FY 2007-08, but understated in FY 2006-07, FY 2010-11, and FY 2013-14. The draft audit report found the total allowable was \$26,208. The District has no further information at this time.

Finding 7 Overstated indirect costs

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

The District claimed indirect costs totaling \$1,289,717 for enrollment fee collection activities. The draft audit report concluded that this amount was overstated by \$1,052,480.

Most of this reduction is attributable to Finding 2. The District claimed indirect costs totaling \$313,599 for enrollment fee waiver activities. The draft audit report concluded that this amount was overstated by \$188,966. Most of this reduction is attributable to Finding 5. The District does not object to the entirety of this finding at this time.

Finding 8 Overstated 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 concurred 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 overstated by \$35,835 for enrollment fee collection and overstated by \$228,897 for enrollment fee waivers. The audited applicable offsetting revenue amounts for enrollment fee waivers exceed the audited direct and indirect activity costs for all of the years audited. The remaining amounts become "unused" offsets because the offset cannot exceed the total reimbursable cost each year. The unused adjustment amount for enrollment fee waivers is \$1,246,598.



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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 2 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 report 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.

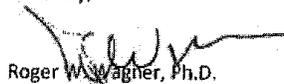
Finding 9 Misstated Productive Hourly Rates for Calculating and Collecting Enrollment Fees, and Waiving Student Fees cost components

The draft audit report concludes that the District erred by not weighting the productive hourly rates for some 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,


Roger W. Wagner, Ph.D.
Superintendent/President
Victor Valley Community College District

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