

LOS RIOS COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

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

July 1, 1998, through June 30, 2011



JOHN CHIANG
California State Controller

March 2014



JOHN CHIANG
California State Controller

March 14, 2014

Robert Jones, President
Board of Trustees
Los Rios Community College District
1919 Spanos Court
Sacramento, CA 95825

Dear Mr. Jones:

The State Controller's Office audited the costs claimed by the Los Rios 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, 2011.

The district claimed \$16,996,026 for the mandated program. Our audit found that \$193,946 is allowable (\$194,064 less a \$118 penalty for filing a late claim) and \$16,802,080 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time; overstated student enrollment numbers; misstated the number of Board of Governor's Grants (BOGG) fee waivers; claimed ineligible contract services costs; claimed ineligible costs for adopting procedures, recording, and maintaining records for BOGG fee waivers; misstated indirect cost rates; claimed unallowable indirect costs; misstated employee productive hourly rates; and misstated eligible offsetting revenues. The State paid the district \$1,759,634. The amount paid exceeds allowable costs claimed by \$1,565,688.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCFrm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Brian King, Chancellor
 Los Rios Community College District
Jon Sharpe, Deputy Chancellor
 Los Rios Community College District
Carrie Bray, Director
 Accounting Services
 Los Rios Community College District
Raymond Andres, General Accounting Supervisor
 Los Rios Community College District
Christine Atalig, Specialist
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Los Rios 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, 2011.

The district claimed \$16,996,026 for the mandated program. Our audit found that \$193,946 is allowable (\$194,064 less a \$118 penalty for filing a late claim), and \$16,802,080 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time; overstated student enrollment numbers; misstated the number of Board of Governor's Grants (BOGG) fee waivers; claimed ineligible contract services costs; claimed ineligible costs for adopting procedures, recording, and maintaining records for BOGG fee waivers; misstated indirect cost rates; claimed unallowable indirect costs; misstated employee productive hourly rates; and misstated eligible offsetting revenues. The State paid the district \$1,759,634. The amount paid exceeds allowable costs claimed by \$1,565,688.

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's Grants 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 (CSM) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The CSM 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 CSM found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOGG fee waivers.
- Reporting to the Community Colleges Chancellor the number of and amounts provided for Board of Governors waivers.
- 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 which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM 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.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Enrollment Fee Collection and Waivers Program for the period of July 1, 1998, through June 30, 2011.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the 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.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Los Rios Community College District claimed \$16,996,026 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$193,946 is allowable (\$194,064 less a \$118 penalty for filing a late claim) and \$16,802,080 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$88,115. Our audit found that all costs claimed are unallowable. The State will offset \$88,115 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 1999-2000 through FY 2002-03 claims, the State made no payments to the district. Our audit found that \$74,784 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$74,784, contingent upon available appropriations.

For the FY 2002-03 claim, the State paid the district \$883,017 from funds appropriated under Chapter 724, Statutes of 2010. Our audit found that \$24,208 is allowable. The State will apply \$858,809 against any balances of unpaid mandated-program claims due to the district as of October 19, 2010.

For the FY 2003-2004 through FY 2005-06 claims, the State made no payments to the district. Our audit found that all costs claimed are unallowable.

For the FY 2006-07 and FY 2007-08 claims, the State made no payments to the district. Our audit found that \$46,506 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$46,506, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$314,866. Our audit found that \$72,656 is allowable. The State will offset \$242,210 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 claim, the State paid the district \$473,596. Our audit found that all costs claimed are unallowable. The State will offset \$473,596 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2010-11 claim, the State made no payment to the district. Our audit found that all costs claimed are unallowable.

**Views of
Responsible
Officials**

We issued a draft audit report on February 19, 2014. Jon Sharpe, Deputy Chancellor, responded by letter dated March 4, 2014 (Attachment), disagreeing with the audit results, except for Finding 10. The final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Los Rios 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

March 14, 2014

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2011

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:				
Prepare policies and procedures	\$ 271	\$ 271	\$ —	Finding 1
Staff training	435	1,051	616	Finding 2
Calculating and collecting enrollment fees	<u>629,623</u>	<u>109,212</u>	<u>(520,411)</u>	Finding 3
Total direct costs	630,329	110,534	(519,795)	
Indirect costs	<u>212,610</u>	<u>16,271</u>	<u>(196,339)</u>	Finding 9
Total direct and indirect costs	842,939	126,805	(716,134)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(63,923)	(139,610)	(75,687)	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>12,805</u>	<u>12,805</u>	Finding 10
Total program costs	<u>\$ 779,016</u>	—	<u>\$ (779,016)</u>	
Less amount paid by the State		<u>(88,155)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (88,155)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 7,533	\$ —	\$ (7,533)	Finding 1
Staff training	4,657	4,481	(176)	Finding 2
Calculating and collecting enrollment fees	<u>676,926</u>	<u>120,677</u>	<u>(556,249)</u>	Finding 3
Total direct costs	689,116	125,158	(563,958)	
Indirect costs	<u>232,094</u>	<u>19,537</u>	<u>(212,557)</u>	Finding 9
Total direct and indirect costs	921,210	144,695	(776,515)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(75,176)	(135,818)	(60,642)	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>—</u>	<u>—</u>	Finding 10
Total enrollment fee collection	<u>846,034</u>	<u>8,877</u>	<u>(837,157)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	50,620	5,707	(44,913)	Finding 6
Waiving student fees	183,689	82,171	(101,518)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	<u>—</u>	<u>1,828</u>	<u>1,828</u>	Finding 8
Total direct costs	234,309	89,706	(144,603)	
Indirect costs	<u>78,915</u>	<u>14,003</u>	<u>(64,912)</u>	Finding 9
Total direct and indirect costs	313,224	103,709	(209,515)	

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>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(234,309)	(328,276)	(93,967)	Finding 10
Adjustment for unused portion of offsets ²	—	224,567	224,567	Finding 10
Total enrollment fee waivers	<u>78,915</u>	<u>—</u>	<u>(78,915)</u>	
Total program costs	<u>\$ 924,949</u>	8,877	<u>\$ (916,072)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 8,877</u>		
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,130	\$ —	\$ (2,130)	Finding 1
Staff training	189	—	(189)	Finding 2
Calculating and collecting enrollment fees	<u>753,494</u>	<u>138,432</u>	<u>(615,062)</u>	Finding 3
Total direct costs	755,813	138,432	(617,381)	
Indirect costs	<u>256,976</u>	<u>20,668</u>	<u>(236,308)</u>	Finding 9
Total direct and indirect costs	1,012,789	159,100	(853,689)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(76,965)	(134,879)	(57,914)	Finding 10
Adjustment for unused portion of offsets ²	—	—	—	Finding 10
Total enrollment fee collection	<u>935,824</u>	<u>24,221</u>	<u>(911,603)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	2,191	2,191	—	Finding 4
Staff training	1,581	4,132	2,551	Finding 5
Adopt procedures, record and maintain records	31,463	6,323	(25,140)	Finding 6
Waiving student fees	209,628	95,937	(113,691)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	<u>564</u>	<u>2,035</u>	<u>1,471</u>	Finding 8
Total direct costs	245,427	110,618	(134,809)	
Indirect costs	<u>83,445</u>	<u>16,515</u>	<u>(66,930)</u>	Finding 9
Total direct and indirect costs	328,872	127,133	(201,739)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(245,427)	(380,746)	(135,319)	Finding 10
Adjustment for unused portion of offsets ²	—	253,613	253,613	Finding 10
Total enrollment fee waivers	<u>83,445</u>	<u>—</u>	<u>(83,445)</u>	
Total program costs	<u>\$ 1,019,269</u>	24,221	<u>\$ (995,048)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 24,221</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				
Staff training	\$ 5,095	\$ 176	\$ (4,919)	Finding 2
Calculating and collecting enrollment fees	868,246	142,999	(725,247)	Finding 3
Total direct costs	873,341	143,175	(730,166)	
Indirect costs	286,369	22,836	(263,533)	Finding 9
Total direct and indirect costs	1,159,710	166,011	(993,699)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(73,469)	(148,533)	(75,064)	Finding 10
Adjustment for unused portion of offsets ²	—	—	—	Finding 10
Total enrollment fee collection	1,086,241	17,478	(1,068,763)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	35	—	(35)	Finding 4
Staff training	4,085	3,111	(974)	Finding 5
Adopt procedures, record and maintain records	109,338	6,526	(102,812)	Finding 6
Waiving student fees	244,415	115,166	(129,249)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	25,673	2,206	(23,467)	Finding 8
Total direct costs	383,546	127,009	(256,537)	
Indirect costs	125,765	20,258	(105,507)	Finding 9
Total direct and indirect costs	509,311	147,267	(362,044)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(383,546)	(413,343)	(29,797)	Finding 10
Adjustment for unused portion of offsets ²	—	266,076	266,076	Finding 10
Total enrollment fee waivers	125,765	—	(125,765)	
Total program costs	<u>\$ 1,212,006</u>	17,478	<u>\$ (1,194,528)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 17,478</u>		
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 69,727	\$ —	\$ (69,727)	Finding 1
Staff training	538	—	(538)	Finding 2
Calculating and collecting enrollment fees	912,138	147,056	(765,082)	Finding 3
Total direct costs	982,403	147,056	(835,347)	
Indirect costs	305,429	24,220	(281,209)	Finding 9
Total direct and indirect costs	1,287,832	171,276	(1,116,556)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(78,534)	(147,068)	(68,534)	Finding 10
Adjustment for unused portion of offsets ²	—	—	—	Finding 10
Total enrollment fee collection	1,209,298	24,208	(1,185,090)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	9,200	—	(9,200)	Finding 4
Staff training	1,879	—	(1,879)	Finding 5
Adopt procedures, record and maintain records	119,041	6,903	(112,138)	Finding 6
Waiving student fees	276,095	192,194	(83,901)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	14,820	2,319	(12,501)	Finding 8
Total direct costs	421,035	201,416	(219,619)	
Indirect costs	130,900	33,173	(97,727)	Finding 9
Total direct and indirect costs	551,935	234,589	(317,346)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(421,036)	(482,916)	(61,880)	Finding 10
Adjustment for unused portion of offsets ²	—	248,327	248,327	Finding 10
Total enrollment fee waivers	130,899	—	(130,899)	
Total program costs	<u>\$ 1,340,197</u>	24,208	<u>\$ (1,315,989)</u>	
Less amount paid by the State ³		(883,017)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (858,809)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 50,986	\$ —	\$ (50,986)	Finding 1
Staff training	305	—	(305)	Finding 2
Calculating and collecting enrollment fees	901,010	136,217	(764,793)	Finding 3
Total direct costs	952,301	136,217	(816,084)	
Indirect costs	294,071	22,149	(271,922)	Finding 9
Total direct and indirect costs	1,246,372	158,366	(1,088,006)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(158,465)	(225,089)	(66,624)	Finding 10
Adjustment for unused portion of offsets ²	—	66,723	66,723	Finding 10
Total enrollment fee collection	1,087,907	—	(1,087,907)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	13,196	—	(13,196)	Finding 4
Staff training	3,030	316	(2,714)	Finding 5
Adopt procedures, record and maintain records	155,603	7,167	(148,436)	Finding 6
Waiving student fees	389,962	225,496	(164,466)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	43,585	2,550	(41,035)	Finding 8
Total direct costs	605,376	235,529	(369,847)	
Indirect costs	186,940	38,297	(148,643)	Finding 9
Total direct and indirect costs	792,316	273,826	(518,490)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(605,376)	(588,648)	16,728	Finding 10
Adjustment for unused portion of offsets ²	—	314,822	314,822	Finding 10
Total enrollment fee waivers	<u>186,940</u>	<u>—</u>	<u>(186,940)</u>	
Total program costs	<u>\$ 1,274,847</u>	<u>—</u>	<u>\$ (1,274,847)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 31,374	\$ —	\$ (31,374)	Finding 1
Staff training	260	—	(260)	Finding 2
Calculating and collecting enrollment fees	<u>913,679</u>	<u>134,987</u>	<u>(778,692)</u>	Finding 3
Total direct costs	945,313	134,987	(810,326)	
Indirect costs	<u>302,122</u>	<u>48,271</u>	<u>(253,851)</u>	Finding 9
Total direct and indirect costs	1,247,435	183,258	(1,064,177)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(334,101)	(305,460)	28,641	Finding 10
Adjustment for unused portion of offsets ²	—	122,202	122,202	Finding 10
Total enrollment fee collection	<u>913,334</u>	<u>—</u>	<u>(913,334)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	7,490	—	(7,490)	Finding 4
Staff training	4,783	2,880	(1,903)	Finding 5
Adopt procedures, record and maintain records	91,790	8,990	(82,800)	Finding 6
Waiving student fees	428,481	250,256	(178,225)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	<u>37,878</u>	<u>2,421</u>	<u>(35,457)</u>	Finding 8
Total direct costs	570,422	264,547	(305,875)	
Indirect costs	<u>182,307</u>	<u>94,602</u>	<u>(87,705)</u>	Finding 9
Total direct and indirect costs	752,729	359,149	(393,580)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(570,422)	(823,840)	(253,418)	Finding 10
Adjustment for unused portion of offsets ²	—	464,691	464,691	Finding 10
Total enrollment fee waivers	<u>182,307</u>	<u>—</u>	<u>(182,307)</u>	
Total program costs	<u>\$ 1,095,641</u>	<u>—</u>	<u>\$ (1,095,641)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 35,376	\$ —	\$ (35,376)	Finding 1
Staff training	959	—	(959)	Finding 2
Calculating and collecting enrollment fees	873,585	150,134	(723,451)	Finding 3
Total direct costs	909,920	150,134	(759,786)	
Indirect costs	272,976	32,403	(240,573)	Finding 9
Total direct and indirect costs	1,182,896	182,537	(1,000,359)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(317,575)	(299,332)	18,243	Finding 10
Adjustment for unused portion of offsets ²	—	116,795	116,795	Finding 10
Total enrollment fee collection	865,321	—	(865,321)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	16,837	—	(16,837)	Finding 4
Staff training	9,695	19,742	10,047	Finding 5
Adopt procedures, record and maintain records	134,190	9,514	(124,676)	Finding 6
Waiving student fees	444,612	306,578	(138,034)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	206	2,542	2,336	Finding 8
Total direct costs - salaries and benefits	605,540	338,376	(267,164)	
Direct costs - contracted services				
Prepare policies and procedures	5,892	5,892	—	
Adopt procedures, record and maintain records	10,423	10,423	—	
Total direct costs - contracted services	16,315	16,315	—	
Total direct costs	621,855	354,691	(267,164)	
Indirect costs	181,662	73,031	(108,631)	Finding 9
Total direct and indirect costs	803,517	427,722	(375,795)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(621,855)	(758,864)	(137,009)	Finding 10
Adjustment for unused portion of offsets ²	—	331,142	331,142	Finding 10
Total enrollment fee waivers	181,662	—	(181,662)	
Total program costs	<u>\$ 1,046,983</u>	—	<u>\$ (1,046,983)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare Policies and Procedures	\$ 151	\$ —	\$ (151)	Finding 1
Staff Training	2,646	24,434	21,788	Finding 2
Calculating and collecting enrollment fees	930,190	177,099	(753,091)	Finding 3
Total direct costs - salaries and benefits	932,987	201,533	(731,454)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	21,019	—	(21,019)	Finding 3
Total direct costs - contracted services	21,019	—	(21,019)	
Total direct costs	954,006	201,533	(752,473)	
Indirect costs	351,736	75,978	(275,758)	Finding 9
Total direct and indirect costs	1,305,742	277,511	(1,028,231)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(291,730)	(276,331)	15,399	Finding 10
Adjustment for unused portion of offsets ²	—	—	—	Finding 10
Total enrollment fee collection	1,014,012	1,180	(1,012,832)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare Policies and Procedures	686	—	(686)	Finding 4
Staff training	7,681	40,966	33,285	Finding 5
Adopt procedures, record and maintain records	14,570	9,930	(4,640)	Finding 6
Waiving student fees	441,101	359,823	(81,278)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	1,115	2,846	1,731	Finding 8
Total direct costs - salaries and benefits	465,153	413,565	(51,588)	
Direct costs - contracted services				
Waiving student fees	2,000	2,000	—	
Total direct costs - contracted services	2,000	2,000	—	
Total direct costs	467,153	415,565	(51,588)	
Indirect costs	175,362	156,668	(18,694)	Finding 9
Total direct and indirect costs	642,515	572,233	(70,282)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(465,151)	(777,100)	(311,949)	Finding 10
Adjustment for unused portion of offsets ²	—	204,867	204,867	Finding 10
Total enrollment fee waivers	177,364	—	(177,364)	
Subtotal	1,191,376	1,180	(1,190,196)	
Less late filing penalty	—	(118)	(118)	
Total program costs	\$ 1,191,376	1,062	\$ (1,190,314)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 1,062		

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	\$ 3,720	\$ —	\$ (3,720)	Finding 1
Staff training	537	520	(17)	Finding 2
Calculating and collecting enrollment fees	1,046,120	212,488	(833,632)	Finding 3
Total direct costs - salaries and benefits	<u>1,050,377</u>	<u>213,008</u>	<u>(837,369)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	29,332	—	(29,332)	Finding 3
Total direct costs - contracted services	<u>29,332</u>	<u>—</u>	<u>(29,332)</u>	
Total direct costs	1,079,709	213,008	(866,701)	
Indirect costs	<u>379,816</u>	<u>82,541</u>	<u>(297,275)</u>	Finding 9
Total direct and indirect costs	1,459,525	295,549	(1,163,976)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(252,954)	(250,105)	2,849	Finding 10
Adjustment for unused portion of offsets ²	—	—	—	Finding 10
Total enrollment fee collection	<u>1,206,571</u>	<u>45,444</u>	<u>(1,161,127)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	14,373	—	(14,373)	Finding 4
Staff training	14,750	48,713	33,963	Finding 5
Adopt procedures, record and maintain records	301,717	11,192	(290,525)	Finding 6
Waiving student fees	639,953	448,716	(191,237)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	11,928	3,287	(8,641)	Finding 8
Total direct costs - salaries and benefits	<u>982,721</u>	<u>511,908</u>	<u>(470,813)</u>	
Direct costs- contracted services				
Waiving student fees	2,060	2,060	—	
Total direct costs - contracted services	<u>2,060</u>	<u>2,060</u>	<u>—</u>	
Total direct costs	984,781	513,968	(470,813)	
Indirect costs	<u>355,352</u>	<u>198,364</u>	<u>(156,988)</u>	Finding 9
Total direct and indirect costs	1,340,133	712,332	(627,801)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(894,435)	(768,423)	126,012	Finding 10
Adjustment for unused portion of offsets ²	—	56,091	56,091	Finding 10
Total enrollment fee waivers	<u>445,698</u>	<u>—</u>	<u>(445,698)</u>	
Total program costs	<u>\$ 1,652,269</u>	45,444	<u>\$ (1,606,825)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 45,444</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 514	\$ —	\$ (514)	Finding 1
Staff training	332	—	(332)	Finding 2
Calculating and collecting enrollment fees	1,532,832	230,425	(1,302,407)	Finding 3
Total direct costs - salaries and benefits	<u>1,533,678</u>	<u>230,425</u>	<u>(1,303,253)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	26,881	—	(26,881)	Finding 3
Total direct costs - contracted services	<u>26,881</u>	<u>—</u>	<u>(26,881)</u>	
Total direct costs	1,560,559	230,425	(1,330,134)	
Indirect costs	<u>567,768</u>	<u>92,815</u>	<u>(474,953)</u>	Finding 9
Total direct and indirect costs	2,128,327	323,240	(1,805,087)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(264,258)	(250,584)	13,674	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>—</u>	<u>—</u>	Finding 10
Total enrollment fee collection	<u>1,864,069</u>	<u>72,656</u>	<u>(1,791,413)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	1,623	—	(1,623)	Finding 4
Staff training	608	633	25	Finding 5
Adopt procedures, record and maintain records	5,223	10,353	5,130	Finding 6
Waiving student fees	479,298	409,306	(69,992)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	2,782	3,210	428	Finding 8
Total direct costs - salaries and benefits	<u>489,534</u>	<u>423,502</u>	<u>(66,032)</u>	
Direct costs - contracted services				
Waiving student fees	2,101	2,101	—	
Total direct costs - contracted services	<u>2,101</u>	<u>2,101</u>	<u>—</u>	
Total direct costs	491,635	425,603	(66,032)	
Indirect costs	<u>181,225</u>	<u>170,587</u>	<u>(10,638)</u>	Finding 9
Total direct and indirect costs	672,860	596,190	(76,670)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(491,635)	(795,286)	(303,651)	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>199,096</u>	<u>199,096</u>	Finding 10
Total enrollment fee waivers	<u>181,225</u>	<u>—</u>	<u>(181,225)</u>	
Total program costs	<u>\$ 2,045,294</u>	72,656	<u>\$ (1,972,638)</u>	
Less amount paid by the State		(314,866)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (242,210)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 1,564,760	\$ 201,290	\$ (1,363,470)	Finding 3
Total direct costs - salaries and benefits	<u>1,564,760</u>	<u>201,290</u>	<u>(1,363,470)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	46,380	—	(46,380)	Finding 3
Total direct costs - contracted services	<u>46,380</u>	<u>—</u>	<u>(46,380)</u>	
Total direct costs	1,611,140	201,290	(1,409,850)	
Indirect costs	<u>682,235</u>	<u>85,287</u>	<u>(596,948)</u>	Finding 9
Total direct and indirect costs	2,293,375	286,577	(2,006,798)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(287,426)	(286,718)	708	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>141</u>	<u>141</u>	Finding 10
Total enrollment fee collection	<u>2,005,949</u>	<u>—</u>	<u>(2,005,949)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	971	—	(971)	Finding 4
Adopt procedures, record and maintain records	706	10,112	9,406	Finding 6
Waiving student fees	509,096	443,738	(65,358)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	<u>4,333</u>	<u>3,300</u>	<u>(1,033)</u>	Finding 8
Total direct costs - salaries and benefits	<u>515,106</u>	<u>457,150</u>	<u>(57,956)</u>	
Direct costs - contracted services				
Waiving student fees	<u>2,143</u>	<u>2,143</u>	<u>—</u>	
Total direct costs - contracted services	<u>2,143</u>	<u>2,143</u>	<u>—</u>	
Total direct costs	517,249	459,293	(57,956)	
Indirect costs	<u>224,587</u>	<u>193,694</u>	<u>(30,893)</u>	Finding 9
Total direct and indirect costs	741,836	652,987	(88,849)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(741,836)	(922,574)	(180,738)	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>269,587</u>	<u>269,587</u>	Finding 10
Total enrollment fee waivers	<u>—</u>	<u>—</u>	<u>—</u>	
Total program costs	<u>\$ 2,005,949</u>	<u>—</u>	<u>\$ (2,005,949)</u>	
Less amount paid by the State		<u>(473,596)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (473,596)</u>		

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				
Prepare policies and procedures	\$ 177	\$ —	\$ (177)	Finding 1
Staff training	355	—	(355)	Finding 2
Calculating and collecting enrollment fees	1,092,593	155,083	(937,510)	Finding 3
Total direct costs - salaries and benefits	<u>1,093,125</u>	<u>155,083</u>	<u>(938,042)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	54,062	—	(54,062)	Finding 3
Total direct costs - contracted services	<u>54,062</u>	<u>—</u>	<u>(54,062)</u>	
Total direct costs	1,147,187	155,083	(992,104)	
Indirect costs	<u>476,603</u>	<u>67,027</u>	<u>(409,576)</u>	Finding 9
Total direct and indirect costs	1,623,790	222,110	(1,401,680)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(215,560)	(238,757)	(23,197)	Finding 10
Adjustment for unused portion of offsets ²	—	16,647	16,647	Finding 10
Total enrollment fee collection	<u>1,408,230</u>	<u>—</u>	<u>(1,408,230)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	355	—	(355)	Finding 5
Adopt procedures, record and maintain records	1,420	9,945	8,525	Finding 6
Waiving student fees	788,642	441,887	(346,755)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	473	3,268	2,795	Finding 8
Total direct costs - salaries and benefits	<u>790,890</u>	<u>455,100</u>	<u>(335,790)</u>	
Direct costs - contracted services				
Waiving student fees	2,186	2,186	—	
Total direct costs - contracted services	<u>2,186</u>	<u>2,186</u>	<u>—</u>	
Total direct costs	793,076	457,286	(335,790)	
Indirect costs	<u>344,828</u>	<u>196,694</u>	<u>(148,134)</u>	Finding 9
Total direct and indirect costs	1,137,904	653,980	(483,924)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(1,137,904)	(1,059,559)	78,345	Finding 10
Adjustment for unused portion of offsets ²	—	405,579	405,579	Finding 10
Total enrollment fee waivers	<u>—</u>	<u>—</u>	<u>—</u>	
Total program costs	<u>\$ 1,408,230</u>	<u>—</u>	<u>\$ (1,408,230)</u>	
Less amount paid by the State				
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1998, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 201,959	\$ 271	\$ (201,688)	
Staff training	16,308	30,662	14,354	
Calculating and collecting enrollment fees	<u>12,695,196</u>	<u>2,056,099</u>	<u>(10,639,097)</u>	
Total direct costs - salaries and benefits	<u>12,913,463</u>	<u>2,087,032</u>	<u>(10,826,431)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	<u>177,674</u>	<u>—</u>	<u>(177,674)</u>	
Total direct costs - contracted services	<u>177,674</u>	<u>—</u>	<u>(177,674)</u>	
Total direct costs	13,091,137	2,087,032	(11,004,105)	
Indirect costs	<u>4,620,805</u>	<u>610,003</u>	<u>(4,010,802)</u>	
Total direct and indirect costs	17,711,942	2,697,035	(15,014,907)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(2,490,136)	(2,838,284)	(348,148)	
Adjustment for unused portion of offsets ²	<u>—</u>	<u>335,313</u>	<u>335,313</u>	
Total enrollment fee collection	<u>15,221,806</u>	<u>194,064</u>	<u>(15,027,742)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	66,602	2,191	(64,411)	
Staff training	48,447	120,493	72,046	
Adopt procedures, record and maintain records	1,015,681	102,662	(913,019)	
Waiving student fees	5,034,972	3,371,268	(1,663,704)	
Reporting BOGG fee waiver data to CCCCCO	<u>143,357</u>	<u>31,812</u>	<u>(111,545)</u>	
Total direct costs - salaries and benefits	<u>6,309,059</u>	<u>3,628,426</u>	<u>(2,680,633)</u>	
Direct costs - contracted Services				
Prepare policies and procedures	5,892	5,892	—	
Adopt procedures, record and maintain records	10,423	10,423	—	
Waiving student fees	<u>10,490</u>	<u>10,490</u>	<u>—</u>	
Total direct costs - contracted services	<u>26,805</u>	<u>26,805</u>	<u>—</u>	
Total direct costs	6,335,864	3,655,231	(2,680,633)	
Indirect costs	<u>2,251,288</u>	<u>1,205,886</u>	<u>(1,045,402)</u>	
Total direct and indirect costs	8,587,152	4,861,117	(3,726,035)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(6,812,932)	(8,099,575)	(1,286,643)	
Adjustment for unused portion of offsets ²	<u>—</u>	<u>3,238,458</u>	<u>3,238,458</u>	
Total enrollment fee waivers	<u>1,774,220</u>	<u>—</u>	<u>(1,774,220)</u>	
Subtotal	16,996,026	194,064	(16,801,962)	
Less late filing penalty	<u>—</u>	<u>(118)</u>	<u>(118)</u>	
Total program costs	<u>\$ 16,996,026</u>	193,946	<u>\$ (16,802,080)</u>	
Less amount paid by the State		<u>(1,759,634)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,565,688)</u>		

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 Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

Findings and Recommendations

**FINDING 1—
Enrollment Fee
Collection: Preparing
Policies and
Procedures Cost
Component –
unallowable one-time
costs**

The district claimed \$201,959 in salaries and benefits during the audit period for the one-time activity of preparing district policies and procedures for the collection of enrollment fees. We found that \$271 is allowable and \$201,688 is unallowable. Costs are unallowable because hours claimed were estimates of time spent. The district did not support costs claimed with actual cost documentation. In addition, the district did not provide support that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the collection of enrollment fees.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and Benefits:			
1998-99	\$ 271	\$ 271	\$ —
1999-2000	7,533	—	(7,533)
2000-01	2,130	—	(2,130)
2002-03	69,727	—	(69,727)
2003-04	50,986	—	(50,986)
2004-05	31,374	—	(31,374)
2005-06	35,376	—	(35,376)
2006-07	151	—	(151)
2007-08	3,720	—	(3,720)
2008-09	514	—	(514)
2010-11	177	—	(177)
Total, salaries and benefits	<u>\$ 201,959</u>	<u>\$ 271</u>	<u>\$ (201,688)</u>

The majority of hours claimed were estimates of time spent by an Application Systems Supervisor: 1,210 hours for fiscal year (FY) 2002-03, 860 hours for FY 2003-04, 460 hours for FY 2004-05, and 500 hours for FY 2005-06. However, for costs to be reimbursable, the district must provide actual cost documentation supporting the extent to which it incurred costs for changes in district policies and procedures due to changes in state law.

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

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

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

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

Recommendation

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 \$201,959 in salaries and benefits during the audit period for the activity of preparing district policies and procedures for the collection of enrollment fees. The draft audit states that \$271 is allowable and \$201,688 is unallowable because, “the district did not provide support that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the collection of enrollment fees.” About 98% of the disallowed staff time occurred before FY 2006-07 when the parameters and guidelines became available to the claimants.

The parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. There is no stated requirement to distinguish this work as either discretionary or a result of changes in state law as asserted by the draft audit report. The audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 1998-99 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.

SCO’s Comments

The dollar finding and recommendation remain unchanged. We updated the narrative section of the finding to clarify the documentation provided by the district in support of costs claimed.

The district states that approximately 98% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when the parameters and guidelines became available. We agree. However, the issuance date of the parameters and guidelines has no effect on the district’s responsibility to support costs claimed. We audit to the requirements stated in the parameters and guidelines. If the district disagreed with the documentation requirements in the parameters and guidelines, it had the opportunity to suggest changes to the requirements prior to adoption.

The district states that the SCO essentially disallowed “staff time for policies and procedures after the first instance of reported costs for these activities in FY 1998-99 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.” We disagree.

For the entire audit period, employees estimated the time it took to perform the one-time activity of preparing policies and procedures per the collection of enrollment fees, generally per year, on certification forms developed by the district’s mandated cost consultant. These forms were not prepared contemporaneously. As noted in the finding, the majority of the hours determined to be unallowable were (annual) estimates of time spent by an Application Systems Supervisor: 1,210 hours for FY 2002-03, 860 hours for FY 2003-04, 460 hours for FY 2004-05, and 500 hours for FY 2005-06. We allowed reimbursable costs that the district supported.

For the unallowable costs, the district did not support costs claimed with actual cost documentation. In addition, the district provided no support that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the collection of enrollment fees.

**FINDING 2—
Enrollment Fee
Collection: Training
Cost Component –
unallowable one-time
costs**

The district claimed \$16,308 in salaries and benefits during the audit period for the 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 \$30,662 is allowable. Allowable costs exceed claimed costs by \$14,354. The district did not claim the trainers’ hours and claimed training for some district staff more than once.

The district claimed estimated costs and in some instances did not provide any actual costs data or documentation supporting the nature of the training, the length of the training, or which employees attended the training.

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			
1998-99	\$ 435	\$ 1,051	\$ 616
1999-2000	4,657	4,481	(176)
2000-01	189	—	(189)
2001-02	5,095	176	(4,919)
2002-03	538	—	(538)
2003-04	305	—	(305)
2004-05	260	—	(260)
2005-06	959	—	(959)
2006-07	2,646	24,434	21,788
2007-08	537	520	(17)
2008-09	332	—	(332)
2009-10	—	—	—
2010-11	355	—	(355)
Total, salaries and benefits	<u>\$ 16,308</u>	<u>\$ 30,662</u>	<u>\$ 14,354</u>

For FY 1998-99, FY 2001-02, FY 2006-07 and FY 2007-08, the district provided estimates of time for one staff member who provided staff training and the productive hourly rate support. The costs were allowable because they appeared to be reasonable based on the amount of training provided.

For FY 1999-2000 through FY 2005-06, FY 2007-08, FY 2008-09, and FY 2010-11, the district claimed costs for training the same staff more than once. For the Training Costs component, training costs are reimbursable only once per employee. Therefore, the costs claimed are unallowable.

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

The parameters and guidelines (section IV.A.1.b–Reimbursable Activities–Enrollment Fee Collection–One-Time Activities–Staff Training (One-time per employee)) state that staff training is reimbursable as a one-time cost per employee for training district staff who implement the program based on the procedures for the collection of enrollment fees. Consistent with the CSM’s 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

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 \$16,308 in salaries and benefits during the audit period for the activity of training district staff who implement the program on the procedures for the collection of enrollment fees. The audit report states that \$30,662 is allowable and \$14,354 is unallowable. The increase is generally related to additional allowed trainers' hours not claimed by the district for FY 2006-07. Hours disallowed are for trainee staff claimed more than once by name, or for hours claimed without documentation related to the nature of the training, the length of the training, and which district employees attended the training. About 90% of the disallowed staff time occurred before FY 2006-07, when the parameters and guidelines became available to the district.

The draft audit report disallows claimed training time for employees who were claimed more than once during the thirteen fiscal years in the audit period. However, it should be considered that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections as may have been updated by the Board of Governors. It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

SCO's Comments

The dollar finding and recommendation remain unchanged.

The district states that approximately 90% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when the parameters and guidelines became available. We agree. Refer to the SCO's comments in Finding 1 for a discussion related to documentation requirements.

The district states that costs were determined to be unallowable because training time for employees were claimed more than once during the audit period. We disagree. Training costs were determined to be unallowable because the district estimated time spent for the entire audit period and did not support the nature of the training provided. Employees estimated the time it took to perform the one-time activity of training district staff who implement the program on the procedures for the collection of enrollment fees, generally per year, on certification forms developed by the district's mandated cost consultant. These forms were not prepared contemporaneously.

The district also states that we should consider that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The district further states, “There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.” We agree with both of these statements. We determined allowable costs based on documentation the district provided in support of claimed costs. We allowed reimbursable costs based on documentation the district provided supporting the nature of the training, the length of the training, and the employees who attended the training.

**FINDING 3—
Enrollment Fee
Collection:
Calculating and
Collecting Enrollment
Fees Cost
Component—
unallowable ongoing
costs**

The district claimed \$12,872,870 (\$12,695,196 in salaries and benefits and \$177,674 in contract services) for the Calculating and Collecting Enrollment Fees cost component during the audit period. We found that \$2,056,099 in salaries and benefits is allowable and \$10,816,771 is unallowable. All costs claimed for contract services are unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. Also, we noted variations in the number of students used in the district’s calculations, based on the student enrollment data provided 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, the district claimed ineligible costs for contract services.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1998-99	\$ 629,623	\$ 109,212	\$ (520,411)
1999-2000	676,926	120,677	(556,249)
2000-01	753,494	138,432	(615,062)
2001-02	868,246	142,999	(725,247)
2002-03	912,138	147,056	(765,082)
2003-04	901,010	136,217	(764,793)
2004-05	913,679	134,987	(778,692)
2005-06	873,585	150,134	(723,451)
2006-07	930,190	177,099	(753,091)
2007-08	1,046,120	212,488	(833,632)
2008-09	1,532,832	230,425	(1,302,407)
2009-10	1,564,760	201,290	(1,363,470)
2010-11	1,092,593	155,083	(937,510)
Subtotal, salaries and benefits	12,695,196	2,056,099	(10,639,097)
Contract Services:			
2006-07	21,019	—	(21,019)
2007-08	29,332	—	(29,332)
2008-09	26,881	—	(26,881)
2009-10	46,380	—	(46,380)
2010-11	54,062	—	(54,062)
Subtotal, contract services	177,674	—	(177,674)
Total	\$ 12,872,870	\$ 2,056,099	\$ (10,816,771)

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

- i. Referencing student accounts and records to determine course workload, status of payments, and eligibility for fee waiver. Printing a list of enrolled courses. **(Activity 1)**
- ii. Calculating the total enrollment fee to be collected. Identifying method of payment. Collecting cash and making change as necessary. Processing credit card and other non-cash payment transactions (however, any fees that may be charged to a community college district by a credit card company or bank are not reimbursable). Preparing a receipt for a payment received. **(Activity 2)**
- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
- iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
- v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**
- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

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

Salaries and Benefits

For FY 1998-99 through FY 2010-11, the district claimed salaries and benefits for the six reimbursable activities under the Calculating and Collecting Enrollment Fees cost component using time allowances developed using employees' annual survey forms that estimated the time it took staff to complete various activities. For the entire audit period, employees estimated, on certification forms developed by the district's mandated cost consultant, the average time, in minutes, it took them to perform the six reimbursable activities per student per year. Also, for the entire audit period, the district did not provide any source documentation based on actual data to support the estimated time allowances.

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 2010-11 were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable

activities. We observed district staff in the Cashier Offices who collect enrollment fees from students and documented, based on our observations, the average time increments spent by district staff to perform these activities.

The following identifies allowable and unallowable time increments related to reimbursable Activities 1 through 6.

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 13.1 minutes to 16.2 minutes (as shown in the table on page 26). Based on our observations, we determined that the time allowances claimed for these activities for these years were overstated.

We held discussions with various district representatives during the audit in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Cashier Offices performing the reimbursable activities and other, non-mandated activities. We documented the average time increments spent by district staff to perform the reimbursable activities. During eight days of observations, we observed and documented a total of 610 transactions processed by district staff. Of these, 57 involved the payment of enrollment fees encompassing Activities 1 through 4, totaling 137.98 minutes. In addition, we observed an end-of-the-day batch process system update that included 436 enrollment fee transactions, totaling 40.50 minutes. The average time to perform all four activities was 2.52 minutes, or 0.63 minutes per activity.

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 account from FY 1998-99 through FY 2009-10, ranging from 6.2 minutes to 10 minutes to collect delinquent enrollment fees (as shown in the table on page 26).

Beginning in FY 2010-11, the district's computer system automatically drops students for non-payment; therefore, enrollment fees do not become delinquent. Due to the current process, we were unable to observe staff collecting delinquent fees at the Cashier Offices. District staff explained that the class-by-class auto-drop process for non-payment began in June 2010, for the summer and fall classes of 2010. Prior to the class-by-class auto-drop process, the district placed a hold on the student's account and invoiced the student for fees due. The invoicing

process required staff at the District Office to send students a hardcopy invoice via regular mail. Therefore, if the payment was received, the district applied the payment to the student's account and released the hold. Staff indicated that placing a hold on the student's account was a manual process and invoicing was a batch process. Based on the information provided, we determined that the time claimed for this component was reasonable for FY 1998-99 through FY 2009-10.

For FY 2010-11, the district indicated that staff time includes the class-by-class auto-drop process. The district claimed 4 minutes per student to collect delinquent enrollment fees. District personnel explained that staff review daily the list of potential students to be dropped during the next auto-drop process. District staff members place "Do Not Drop" holds on students' accounts whose enrollment fees were being paid by a third party, but the payment has not yet been received by the district. However, for costs to be allowable for FY 2010-11, the district must provide source documentation supporting the staff time involvement in the class by class auto-drop process.

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

Time Increments

Using certification forms developed by the district's mandated cost consultant; district employees estimated the time required to perform reimbursable Activity 6. Based on these certifications, the district developed time allowances per refund transaction for the audit period ranging from 3.1 minutes to 6.6 minutes (as shown in the following table). Based on our observations, we determined that the time allowances claimed for these activities for these years were reasonable.

Staff explained that this activity is a three-step process. The refund process is initiated at the Cashier's Office window as students submit "Fee Refund Application" forms. Students also have the option to complete and submit their application online at the college website. An Account Clerk reviews the refund application, manually inputs the refund data into district records, and approves the refund. After the approval process, the refunds are sent to the District Office for completion. Currently, staff process refunds twice per month.

During eight days of observation at the Cashier Offices, we observed 26 students submit a Fee Refund Application to staff at the Cashier Office windows. Based on our observations of district staff, it takes staff an average of 1.74 minutes to perform step one of the refund process. In addition, we observed an Account Clerk complete step two of the refund process at the back counter of the Cashier's Office and process 94 refund applications. Based on our observations of district staff, it takes staff an average of 1.88 minutes to perform step two of the refund process with a combined average totaling 3.62 minutes to perform step one and two of the refund process.

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Reimbursable Activity							Total Claimed Activities 1-6
	1	2	3	4	5	6		
	Referencing student accounts	Calculating the fee	Answering questions	Updating records	Subtotal Activities 1-4	Collecting delinquent fees	Providing refunds	
1998-99	3.4	3.3	3.3	5.7	15.7	6.2	3.1	25.0
1999-2000	3.4	3.4	3.3	5.6	15.7	6.8	3.1	26.6
2000-01-2001-02	3.4	3.3	3.4	5.4	15.5	7.4	3.2	26.1
2002-03-2003-04	3.7	3.3	3.4	5.4	15.8	7.4	3.4	26.6
2004-05	3.8	3.3	3.5	5.3	15.9	7.9	3.5	27.3
2005-06-2007-08	3.4	3.1	4.0	2.7	13.2	7.5	3.8	24.5
2008-09	4.2	2.8	5.2	2.5	14.7	10.0	6.6	31.3
2009-10	4.4	3.4	5.0	3.4	16.2	9.5	5.7	31.4
2010-11	3.1	3.0	4.3	2.7	13.1	4.0	4.1	21.2
Fiscal Year	Allowable Reimbursable Activity							Total Claimed Activities 1-6
	1	2	3	4	5	6		
	Referencing student accounts	Calculating the fee	Answering questions	Updating records	Subtotal Activities 1-4	Collecting delinquent fees	Providing refunds	
1998-99	0.63	0.63	0.63	0.63	2.52	6.2	3.1	11.82
1999-2000	0.63	0.63	0.63	0.63	2.52	6.8	3.1	12.42
2000-01-2001-02	0.63	0.63	0.63	0.63	2.52	7.4	3.2	13.12
2002-03-2003-04	0.63	0.63	0.63	0.63	2.52	7.4	3.4	13.32
2004-05	0.63	0.63	0.63	0.63	2.52	7.9	3.5	13.92
2005-06-2007-08	0.63	0.63	0.63	0.63	2.52	7.5	3.8	13.82
2008-09	0.63	0.63	0.63	0.63	2.52	10.0	6.6	19.12
2009-10	0.63	0.63	0.63	0.63	2.52	9.5	5.7	17.22
2010-11	0.63	0.63	0.63	0.63	2.52	—	4.1	6.62

Multiplier Calculation

Activity 1 through 4

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 Activities 1 and 3, the district used the number of total enrolled students as the multiplier. In determining student enrollment, the district used the “Student Headcount by Unit Load” summary report obtained from the CCCC’s (Data Mart) Website. However, this report includes duplicated students (e.g., students who attend more than one college in the district) by term. 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). For Activities 2 and 4, the district used the number of total enrolled students less the number of Board of Governor's Grants (BOGG) fee waivers granted as the multiplier.

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

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

For the audit period, the district provided a breakdown of the number of students who paid their enrollment fees by phone, through the district's online system, and in person. Based on the information provided by the district, we determined the percentage of enrollment fees paid in person at the Cashier's Office by dividing the number of fees paid in person by the total number of fees paid. We applied the percentage calculated to the net enrollment number (the number of students enrolled less non-resident students, special admit students, and BOGG fee waiver recipients) to determine the number of enrollment fees paid in person. We then included the number of refunds claimed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver.

Activity 5

For Activity 5, the district provided, and we accepted, the number of delinquent student accounts processed for FY 1998-99 through FY 2009-10. For FY 2010-11, the district's computer system automatically dropped students for non-payment; therefore, enrollment fees did not become delinquent.

Activity 6

For Activity 6, the district provided, and we accepted, the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees for FY 1998-99 through FY 2008-09. However, for FY 2009-10 and FY 2010-11, we noted a large increase in the number of refunds claimed. The district claimed 54,004 refunds for FY 2009-10 and 50,658 for FY 2010-11; therefore, we requested an explanation for the increase. The district indicated that there was a problem with the method used to pull the data for the two years in question. The district re-ran the queries and provided the correct number of refunds processed: 11,899 for FY 2009-10 and 10,837 for FY 2010-11.

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	2,288,486	2,228,868	(59,618)
2	1,736,390	931,057	(805,333)
3	2,288,486	2,228,868	(59,618)
4	1,736,390	931,057	(805,333)
5	101,676	98,617	(3,059)
6	156,000	74,074	(81,926)
Total	<u>8,307,428</u>	<u>6,492,541</u>	<u>(1,814,887)</u>

Calculation of Hours Adjustments

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

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

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
1	137,643.7	23,403.0	(114,240.7)
2	92,832.9	9,776.2	(83,056.7)
3	149,472.3	23,403.0	(126,069.3)
4	122,398.1	9,776.2	(112,621.9)
5	12,583.3	12,379.4	(203.9)
6	12,035.0	5,313.9	(6,721.1)
Total	<u>526,965.3</u>	<u>84,051.7</u>	<u>(442,913.6)</u>

Productive Hourly Rates

We determined that the district misstated the average productive hourly rates used for Activities 1 through 6. The district understated the average productive hourly rates for FY 1998-99 through FY 2000-01 and FY 2005-06 through FY 2007-08 and overstated the average productive hourly rates for FY 2003-04, FY2004-05, FY 2009-10, and FY 2010-11. As explained in Finding 11, we recalculated the annual productive hourly rates based on actual employee salaries and benefits and productive hours. As a result, we made minor adjustments to the claimed rates for the fiscal years noted above.

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We determined that salaries and benefits totaling \$2,056,099 are allowable and \$10,639,097 are unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
1	\$ 3,371,318	\$ 587,155	\$ (2,784,163)
2	2,196,814	219,132	(1,977,682)
3	3,730,669	587,155	(3,143,514)
4	2,767,219	219,132	(2,548,087)
5	292,804	297,842	5,038
6	336,372	145,683	(190,689)
Total	\$ 12,695,196	\$ 2,056,099	\$ (10,639,097)

Contract Services

The district claimed \$177,674 in contract services costs under the Calculating and Collecting Enrollment Fee cost component. Based on our analysis of the supporting documentation provided by the district, the entire amount is unallowable. Costs are unallowable because the contract services provided to the district were for costs that are not reimbursable.

The supporting documentation provided by the district represented costs for an Admissions Application system that allows students to apply to one of the four district colleges. We requested an explanation from the district as to how the Admissions Application system relates to the calculation and collection of student enrollment fees. The district indicated that claimed costs do not directly relate to the calculation and collection of student enrollment fees.

Recommendation

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 \$12,872,870 (\$12,695,196 in salaries and benefits and \$177,674 in contract services) for the calculating and collecting enrollment fees cost component during the audit period. The draft audit report states the \$2,056,099 (\$2,056,099 in salaries and benefits and no costs for contract services) is allowable and \$10,816,771 is unallowable. The cost of staff time to implement this mandate component is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee). The audit report adjusts all three components.

Average activity time

Using certification forms developed by the District's mandated cost consultant, dozens of District staff who implemented the mandate, estimated their individual times required to perform the reimbursable activities in nine different surveys conducted over the 13-year audit period. These individual times resulted in the average times per student enrollment payment transaction of 13.1 to 15.9 minutes for Activities 1 through 4 over the 13 years. The draft audit concludes that the good faith estimates reported by District staff are not acceptable source documentation of actual costs and rejects the time estimates for the four activities. Instead, the auditor observed at the cashier offices a total of 610 in-person payment transactions processed by a few district staff during an eight-day observation period which yielded a average time to perform all four activities of 2.52 minutes or 0.63 minutes per activity, with no distinction between the activities.

This 80% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. The auditor's observation sample size is not statistically adequate. The audited net enrollment is 2,228,868 over the 13 year period and each student typically enrolls for at least two semesters each year (or about 4.4 million enrollments), of which 610 student transactions were observed in 2012. For this, and other reasons, the auditor'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 method. The draft audit report rejects the enrollment data reported by the District and substitutes the enrollment data the auditor obtained from the Chancellor's Office, and removes from the workload calculation the number of students who paid their enrollment fees online rather than in person. The workload multipliers for Activities 1-4 rely upon enrollment statistics with relevant adjustments.

For Activities 1 and 3, the audited amounts are based on a post-facto specific data query from the Chancellor's MIS database that eliminated specific elements (e.g., duplicated students by term and special admit students) not available in the usual course of business at the time of the claim preparation. These corrections made by the auditor are not disputed at this time.

For activities 2 and 4, after other corrections, the auditor deducted the number of students who paid their enrollment fees through the District's online system. A percentage was derived by dividing the number of fees paid in person by the total number of fees paid. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no significant online activity, and so it was not factored into the annual claim workload statistics. The online transaction percentages further reduced the number of claimed transactions by 30-80% over the audit period. However, the audit findings do not replace the time lost from these eliminated transactions with any time to operate the online payment collection system. Thus, no costs are recognized for these transactions. This action is a matter of Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

Productive Hourly Rates

Discussed at Finding 11.

Contract Services

The District claimed \$177,674 in contract services costs (XAP contract). The draft audit report disallows the entire cost without explanation. The District does not dispute this adjustment at this time.

SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses four specific issues in its response:

- Average activity time
- Workload multiplier
- Productive Hourly Rates
- Contract Services

We addressed our comments in the same order as presented.

Average activity time

The district stated that its "good faith" estimates were considered to be "unacceptable source documentation" by the SCO auditors. We agree. Good faith estimates are not actual costs documentation allowed by the adopted parameters and guidelines; they are an example of corroborating documentation, which is not a substitute for source documentation.

For the entire audit period, employees estimated the average time in minutes it took to perform the six reimbursable activities per student, per year, on certification forms developed by the district's mandated cost consultant. The forms were not prepared contemporaneously. The district did not provide any source documentation based on actual data to support the estimated time allowances.

During the audit, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. We held discussions with various district representatives to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Cashier Offices collect enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's certifications/estimates ranged from 13.1 to 16.2 minutes for Activities 1 through 4 over the 13 years under audit. Our observation supported that the time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 1 through 4 as high as an estimated 16.2 minutes, we observed an average time of 2.52 minutes for all four activities, or 0.63 minutes per activity.

The district stated that the auditor's observation sample size is not adequate. However, the auditors spent over a week at the district's office observing students paying a variety of fees owed to the district. From the 610 transactions documented during our observation, 57 involved the payment of enrollment fees encompassing Activities 1 through 4. Our observation provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

We discussed our time study methodology with district staff in advance of its implementation. We solicited comments from staff members and encouraged them to participate in our observations. In addition, we shared our results with them and solicited comments. The district did not provide any comments on our time study plan, did not observe our time study, and did not offer any alternatives in support of actual costs incurred.

Workload multipliers

The district states that it does not dispute the corrections we made for Activities 1 and 3.

For the workload calculations of activities 2 and 4, the district disputes the SCO deducting the number of students who paid their enrollment fee online rather than in person for the last 12 of 13 fiscal years of the audit period without recognizing costs associated with operating the online payment collection system. The district also states that the costs associated with operating the online payment procedures was not considered as a matter of SCO policy. We disagree with both of these statements.

We allowed reimbursable costs that the district supported. We encouraged the district, throughout the course of fieldwork and during the November 21, 2013 exit conference, to provide support for any additional costs it incurred to comply with this mandate. During the exit conference, the district expressed its intent to provide documentation supporting the costs associated with operating and maintaining its online system. However, the district did not provide any documentation in support of such costs.

Productive Hourly Rates

The district addressed its comments related to productive hourly rates in Finding 11.

Contract Services

The district states that it does not dispute the adjustment at this time.

**FINDING 4—
Enrollment Fee
Waivers: Preparing
Policies and
Procedures Cost
Component –
unallowable one-time
costs**

The district claimed \$72,494 (\$66,602 in salaries and benefits and \$5,892 in contract services) during the audit period to prepare district policies and procedures for determining which students are eligible for a waiver of the enrollment fees. We found that \$8,083 (\$2,191 in salaries and benefits and \$5,892 in contract services) is allowable and \$64,411 in salaries and benefits is unallowable. Costs claimed are unallowable because the district did not provide documentation supporting that the costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the waiver of enrollment fees.

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:			
2000-01	\$ 2,191	\$ 2,191	\$ —
2001-02	35	—	(35)
2002-03	9,200	—	(9,200)
2003-04	13,196	—	(13,196)
2004-05	7,490	—	(7,490)
2005-06	16,837	—	(16,837)
2006-07	686	—	(686)
2007-08	14,373	—	(14,373)
2008-09	1,623	—	(1,623)
2009-10	971	—	(971)
Subtotal, salaries and benefits	<u>66,602</u>	<u>2,191</u>	<u>(64,411)</u>
Contract Services:			
2005-06	<u>5,892</u>	<u>5,892</u>	<u>—</u>
Subtotal, contract services	<u>5,892</u>	<u>5,892</u>	<u>—</u>
Total	<u>\$ 72,494</u>	<u>\$ 8,083</u>	<u>\$ (64,411)</u>

As noted in Finding 1, the majority of hours claimed were estimates of time spent by an Application Systems Supervisor; 140 hours for FY 2002-03, 220 hours for FY 2003-04, and 171 hours for FY 2005-06. However, for costs to be reimbursable, the district must provide actual cost documentation supporting the extent to which it incurred costs for changes in district policies and procedures resulting from changes in state law.

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

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

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

Recommendation

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 \$72,494 (\$66,602 in salaries and benefits and \$5,892 in contract services) during the audit period to prepare district policies and procedures for determining which students are eligible for a waiver of the enrollment fees. The audit report states that \$8,083 (\$2,191 in salaries and benefits and \$5,892 in contract services) is allowable and \$64,411 is unallowable because “the district did not provide documentation supporting that the costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the waiver of enrollment fees.” About 70% of the disallowed staff time occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in Finding 1, the parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. There is no stated requirement to distinguish this work as either discretionary or a result of changes in state law as asserted by the draft audit report. Also, as in Finding 1, the audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 2000-01 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.

SCO’s Comments

The finding and recommendation remain unchanged.

The district states that approximately 70% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when the parameters and guidelines became available. We agree. Refer to the SCO’s comments in Finding 1 for a discussion related to documentation requirements.

The district states that the SCO essentially disallowed “staff time for policies and procedures after the first instances of reported costs for these activities in FY 2000-01 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.” We disagree. The district further states that, “There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was a duplication of previously claimed training activities.” We agree.

For the entire audit period, employees estimated the time it took to perform the one-time activity of preparing policies and procedures for determining which students are eligible for a waiver of the enrollment fees, generally per year, on certification forms developed by the district’s mandated cost consultant. These forms were not prepared contemporaneously. As noted in the finding, the majority of the hours determined to be unallowable were (annual) estimates of time spent by the same Application Systems Supervisor referenced in Finding 1: 140 hours for FY 2002-03, 220 hours for FY 2003-04, and 171 hours for FY 2005-06.

For the unallowable costs, the district did not support costs claimed with actual cost documentation and did not provide documentation supporting the nature of costs incurred. In addition, the district provided no support that the costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding enrollment fee waivers. We allowed reimbursable costs that the district supported.

We encouraged the district—throughout the course of fieldwork and at status meetings held on September 13, 2013, and December 20, 2013, and during the November 21, 2013 exit conference—to provide support for any additional costs incurred to comply with this mandate. However, the district did not provide any documentation in support of such costs.

**FINDING 5—
Enrollment Fee
Waiver: Staff
Training Cost
Component –
unallowable one-time
costs**

The district claimed \$48,447 for the one-time activity of staff training (once per employee) for district staff that implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. We found that \$120,493 is allowable. Allowable costs exceed claimed costs by \$72,046. The district did not claim the trainers’ hours and claimed training for some district staff more than once.

The district claimed estimated costs and did not provide any actual costs data or documentation related to the nature and length of training, or which district employees attended the training.

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:			
2000-01	\$ 1,581	\$ 4,132	\$ 2,551
2001-02	4,085	3,111	(974)
2002-03	1,879	—	(1,879)
2003-04	3,030	316	(2,714)
2004-05	4,783	2,880	(1,903)
2005-06	9,695	19,742	10,047
2006-07	7,681	40,966	33,285
2007-08	14,750	48,713	33,963
2008-09	608	633	25
2010-11	355	—	(355)
Total, salaries and benefits	<u>\$ 48,447</u>	<u>\$ 120,493</u>	<u>\$ 72,046</u>

For FY 2000-01, FY 2001-02, and FY 2003-04 through FY 2008-09, the district provided estimates of time for one staff member who performed staff training and the productive hourly rate support the costs were allowable because they appeared to be reasonable based on the amount of training provided. Therefore, we calculated the allowable trainers’ costs.

For FY 2001-02 through FY 2003-04, FY 2004-05, FY 2007-08, FY 2008-09, and FY 2010-11, the district claimed costs for training the same staff more than once. For this component, training costs are allowable one-time per employee. Therefore, the costs claimed are unallowable.

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

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

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

Recommendation

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 \$48,447 for the one-time activity of staff training for District staff that implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. The audit determined that \$120,493 is allowable. Amounts were disallowed for five fiscal years for trainee staff claimed more than once by name, or for hours claimed without documentation related to the nature of the training, the length of the training, and which district employees attended the training. About 95% of the disallowed staff time (\$7,825) occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in Finding 2, the audit report cites the parameters and guideline's general documentation standards, the requirement that claimed costs to be supported by source documents created at or near the same time the actual cost was incurred and that training existing staff for changes in the community college district's policies and procedures is not reimbursable. Also, as in Finding 2, the draft audit report disallows claimed training time for employees who were claimed more than once during the audit period. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was a duplication of previously claimed training activities.

SCO's Comments

The finding and recommendation remain unchanged.

The district states that approximately 95% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when parameters and guidelines became available. We agree. Refer to the SCO's comments in Finding 1 for a discussion related to documentation requirements.

The district states that costs were determined to be unallowable because training time for employees were claimed more than once during the audit period. We disagree. Training costs were determined to be unallowable because the district estimated time spent for the entire audit period and did not support the nature of the training provided. Employees estimated the time it took to perform the one-time activity of training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee, generally per year, on certification forms developed by the district's mandated cost consultant. These forms were not prepared contemporaneously.

The district also states that we should consider that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The district further states, "There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities." We agree with both of these statements. We determined allowable costs

based on documentation the district provided in support of claimed costs. We allowed reimbursable costs based on documentation the district provided supporting the nature of the training, the length of the training, and the employees who attended the training.

**FINDING 6—
Enrollment Fee
Waivers: Adopting
Procedures,
Recording and
Maintaining Records
cost component –
unallowable ongoing
costs**

The district claimed \$1,026,104 (\$1,015,681 in salaries and benefits and \$10,423 in contract services costs) related to adopting procedures and recording and maintaining records related to enrollment fee waivers. We found that \$113,085 (\$102,662 in salaries and benefits and \$10,423 in contract services) is allowable and \$913,019 in salaries and benefits is unallowable. The costs are unallowable because they were based on estimates of time to perform the reimbursable activities. In addition, staff hours claimed under this component were misclassified and should have been claimed under the Waiving Student Fees and Training cost components. The allowable costs related to waiving student fee activities are addressed in Finding 7 and the allowable costs related to training are addressed in Finding 5.

This reimbursable cost component captures costs incurred for “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 “Recording and maintaining records that document all of the financial assistance provided to students for the waiver of enrollment fees. . . .” Allowable costs for salaries and benefits were based on documentation the district provided and our discussions with district staff.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1999-2000	\$ 50,620	\$ 5,707	\$ (44,913)
2000-01	31,463	6,323	(25,140)
2001-02	109,338	6,526	(102,812)
2002-03	119,041	6,903	(112,138)
2003-04	155,603	7,167	(148,436)
2004-05	91,790	8,990	(82,800)
2005-06	134,190	9,514	(124,676)
2006-07	14,570	9,930	(4,640)
2007-08	301,717	11,192	(290,525)
2008-09	5,223	10,353	5,130
2009-10	706	10,112	9,406
2010-11	1,420	9,945	8,525
Subtotal, salaries and benefits	<u>1,015,681</u>	<u>102,662</u>	<u>(913,019)</u>
Contract Services:			
2005-06	<u>10,423</u>	<u>10,423</u>	<u>—</u>
Subtotal, contract services	<u>10,423</u>	<u>10,423</u>	<u>—</u>
Total	<u><u>\$ 1,026,104</u></u>	<u><u>\$ 113,085</u></u>	<u><u>\$ (913,019)</u></u>

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

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

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

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

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

Salaries and Benefits

Claimed hours

For the entire audit period, staff completed Time Record Sheets estimating the hours spent to perform the reimbursable activities ranging from 11 hours to 8,441 hours per year. All hours claimed for this component are based on estimates of time.

During our analysis of this component, we noted large variations in the number of staff and the number of hours claimed per fiscal year. Also, we noted that various employee classifications were claimed. We reviewed the Time Record Sheets submitted as supporting documentation, and in the description of the hours claimed we noted that the staff time was related to waiving student fee, Activities 7 through 12, and training. The allowable costs related to waiving student fee, Activities 7 through 12, are addressed in Finding 7. The allowable costs related to training are addressed in Finding 5.

Staff’s Involvement in the Waiving Student Fee Activities

A total of six staff members at the district office were interviewed to gain a better understanding of their duties and responsibilities and their involvement with adopting procedures and recording and maintaining records related to the Enrollment Fee Waiver cost component for the hours claimed.

During the interviews, staff members explained that they perform the following activities related to BOGG fee waivers: receive and process applications, input student application information into the district's computer system, verify applications, send letters to students who submitted incomplete applications, answer student questions (in person, via telephone, or by email), and train new staff. As previously noted, the hours estimated in the Time Record Sheets are for staff performing waiving student fee Activities 7 through 12 and training.

Allowable hours

In addition to the information provided by six staff members we interviewed, a district Programmer explained that his duties include programming computers to perform a specific function within the specifications requested by the district. He explained that, for the audit period, the cash register system took nearly 100% of his time; however, he estimated that approximately 5% of his time was spent on BOGG fee waiver-related functions. Based on the information provided by the Programmer and additional information provided by the district for FY 2005-06, we determined that 48 hours claimed for FY 2005-06 were reasonable.

A Financial Aid Officer indicated during her interview that, during the audit period, she worked on customizing and making changes to the BOGG fee waiver applications and instructions for completing the application. She also indicated that each college makes its own changes to the applications and instructions. She estimated that she spent approximately 64 hours per school year on customizing and making changes to the BOGG fee waiver application and instructions. Based on information provided by the Financial Aid Officer during the interview, we determined that the 64 hours per fiscal year claimed were reasonable.

Another Financial Aid Officer explained, during her interview, that once a year she meets with six to seven different staff members and updates the Financial Aid Assistance Handbook. She estimated spending one hour to update BOGG fee waiver information in the Financial Aid Assistance Handbook. Based on additional information provided by the Financial Aid Officer, we determined one hour per staff per fiscal year spent on mandated activities to be reasonable.

The following table summarizes the claimed and allowable hours based on the information provided by the district for the activities related to adopting procedures, recording, and maintaining records related to enrollment fee waivers:

Fiscal Year	Total Claimed		Allowable Hours			
	Total Number of Staff	Total Claimed Hours	Computer System Functions	Customizing/Changes to BOGG Application	Financial Aid Assistance Handbook	Total Hours
1999-2000	2	1,387	48	192	—	240
2000-01	3	776	48	192	—	240
2001-02	7	2,309	48	192	1	241
2002-03	9	2,339	48	192	1	241
2003-04	9	2,784	48	192	1	241
2004-05	11	1,598	48	256	1	305
2005-06	4	2,048	48	256	—	304
2006-07	8	986	48	256	—	304
2007-08	43	8,441	48	256	1	305
2008-09	4	93	48	256	—	304
2009-10	1	11	48	256	—	304
2010-11	1	24	48	256	—	304

We based allowable hours for the audit period on the additional information provided by the district as follows:

- For FY 1999-2000 through FY 2010-11, 48 hours for a Programmer,
- For FY 1999-2000 through FY 2003-04, 192 hours (64 hours per college multiplied by 3 colleges) and for FY 2004-05 through FY 2010-11, 256 hours (64 hours per college multiplied by 4 colleges) for Customizing/Changes to BOGG Fee Waiver Applications,
- For FY 2001-02 through FY 2004-05 and FY 2007-08, 1 hour for updating the BOGG fee waiver section in the district’s Financial Aid Assistance Handbook

Recommendation

We recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

District’s Response

The District claimed \$1,026,104 (\$1,015,681 in salaries and benefits and \$10,423 in contract services costs) related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. The audit report states that \$113,085 (\$102,662 in salaries and benefits and \$10,423 in contract services) is allowable and \$913,019 in salaries and benefits are unallowable because they were based on estimates of time to perform the reimbursable activities. The auditor also concluded that some staff hours claimed under this component were for waiving student fees and for training, but those amounts are not specifically identified in either this finding where the hours are excluded or the findings where those hours may have been transferred. About 70% of the disallowed staff time (\$936,080) occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in previous findings, the audit report cites the parameters and guideline's general documentation standards and the requirement that claimed costs be supported by source documents created at or near the same time the actual cost was incurred. The audit report states that the allowable costs for salaries and benefits were based on six staff interviews. These interviews resulted in allowable time for three functions: 48 hours per year for the computer system function; 192 to 256 hours per year for changes to the BOGG application process which includes 64 hours per staff for each of the four colleges; and, 5 hours for all years to update the BOGG fee waiver section in the Financial Aid Assistance Handbook. It is anticipated that more staff time would have been approved by the auditor if more of the staff who claimed time over the long audit period were still available for personal interview.

The interviews apparently also resulted in the characterization of some of all of the remainder of the time as either training or the ongoing waiver process. This of course highlights the problem in all mandate reporting that each individual must interpret the activity descriptions on the forms used to collect staff time. In the case of the forms we used that were prepared by our mandate consultant, the activity descriptions are taken from the parameters and guidelines language and not modified, even where it is vague or confusing, since any modification has been criticized over the years by state agency personnel as soliciting a preferred response. Thus, as is often the case, the parameters and guidelines language is inadequate for the task of cost accounting, but since the Controller provides no forms for this purpose, and the state agencies criticize any interpretation by the claimants of the parameters and guidelines language, this problem will persist. Given these constraints, it is the District's position that, absent information to the contrary, the individual staff person's interpretation of the parameters and guidelines language, since they implement the mandate program, is more valid than a post facto interpretation by an auditor, who does not implement the mandate program.

SCO's Comments

The finding and recommendation remain unchanged.

The district states that about 70% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when the parameters and guidelines became available. We agree. Refer to the SCO's comments in Finding 1 for a discussion related to documentation requirements.

For the entire audit period, employees estimated the time it took to perform the activities of adopting procedures, and recording and maintaining records related to enrollment fee waivers, generally per year, on certification forms developed by the district's mandated cost consultant. These forms were not prepared contemporaneously. The hours noted on the time record sheets ranged from 11 to 8,441 hours per year. During our analysis of this component, we noted large variations in the number of staff and hours claimed and staff classifications per fiscal year.

We met with district staff on March 15, 2013 to discuss setting up interviews with district personnel to get a better understanding of their

involvement with the mandated activities. During those interviews, district personnel indicated that they were not given direction as to how to fill out the form. Specifically, they were not told that they had to itemize their time spent on a specific activity.

The district stated that verbiage in the forms used by district personnel were “not modified, even where it is vague or confusing, since any modification has been criticized over the years by state agency personnel as soliciting a preferred response.” The issue is not the forms that were used by district personnel. The issue is that time recorded on these forms were misclassified, based on estimates, and unreasonable.

**FINDING 7—
Enrollment Fee
Waivers: Waiving
Student Fees Cost
Component –
unallowable ongoing
costs**

The district claimed \$5,045,462 (\$5,034,972 in salaries and benefits and \$10,490 in contract services) for the Waiving Student Fees cost component during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h), and waiving student fees for students who apply for and are eligible for BOGG fee waivers. We found that \$3,381,758 (\$3,371,268 in salaries and benefits and \$10,490 in contract services) is allowable and \$1,663,704 in salaries and benefits is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. In addition, we noted variations in the number of students used in the district’s calculations based on data the district reported to the CCCCO. We also made adjustments to the average productive hourly rates used in the district’s claims.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1999-2000	\$ 183,689	\$ 82,171	\$ (101,518)
2000-01	209,628	95,937	(113,691)
2001-02	244,415	115,166	(129,249)
2002-03	276,095	192,194	(83,901)
2003-04	389,962	225,496	(164,466)
2004-05	428,481	250,256	(178,225)
2005-06	444,612	306,578	(138,034)
2006-07	441,101	359,823	(81,278)
2007-08	639,953	448,716	(191,237)
2008-09	479,298	409,306	(69,992)
2009-10	509,096	443,738	(65,358)
2010-11	788,642	441,887	(346,755)
Total, salaries and benefits	<u>5,034,972</u>	<u>3,371,268</u>	<u>(1,663,704)</u>
Contract Services:			
2006-07	2,000	2,000	—
2007-08	2,060	2,060	—
2008-09	2,101	2,101	—
2009-10	2,143	2,143	—
2010-11	2,186	2,186	—
Subtotal, contract services	<u>10,490</u>	<u>10,490</u>	<u>—</u>

Total	<u>\$ 5,045,462</u>	<u>\$ 3,381,758</u>	<u>\$(1,663,704)</u>
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The parameters and guidelines (section IV.B.2.b – Reimbursable Activities – Enrollment Fee Waivers – Ongoing Activities) allow the following ongoing reimbursable activities:

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

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

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

Salaries and Benefits

The district claimed salaries and benefits during the audit period to waive student fees allowed by 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 2010-11, the district claimed salaries and benefits for the six reimbursable activities under the Waiving Student Fees cost component using time allowances developed, through the use of employees' annual survey forms, from estimated time it took staff to complete various activities. For the entire audit period, employees estimated, on certification forms developed by the district's mandated cost consultant, the average time in minutes it took them to perform the six reimbursable activities per student per year. Also, for the entire audit period, the district did not provide any source documentation that was based on actual data to support the estimated time allowances.

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

Activity 7: Answering Student Questions

We observed staff at the front counter of the Financial Aid Offices answering BOGG fee waiver questions from students. The district staff members indicated that students can also call or e-mail the Financial Aid Offices with questions.

Activity 8: Receiving Enrollment Fee Waiver Applications

We observed staff at the front counter of the Financial Aid Offices receiving hard copy BOGG fee waiver applications from students. In addition, we observed staff at the back counter of the Financial Aid Offices receiving student information from the FAFSA (Free Application for Federal Student Aid) system to process and grant BOGG fee waivers. The district colleges may receive BOGG fee waiver applications through e-mail, fax, regular mail, or through the district's online process.

Activity 9: Evaluating waiver applications and verifying documentation

We observed staff at the front counter of the Financial Aid Offices manually evaluating hard copy BOGG fee waiver applications and supporting documentation for eligibility. Staff reviewed the applications and immediately notified students if information was missing or if the applications were approved or denied. In addition, we observed staff at the back counter of the Financial Aid Offices re-evaluating the hard copy BOGG fee waiver applications that were already processed at the front counter.

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

We observed district staff at the back counter of the Financial Aid Offices contacting students, by phone or by regular mail, regarding their incomplete BOGG fee waiver applications. Staff may also contact students by e-mail to indicate why applications are incomplete.

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

We observed staff at the front counter of the Financial Aid Offices manually entering the approved BOGG fee waiver application information into the district's computer system during the evaluation process. For approved BOGG fee waiver applications, we observed staff post the BOGG fee waiver on the student's account and provide a written receipt for proof of eligibility. For approved BOGG fee waivers granted through the district's online system, the system automatically generates and sends an award letter e-mail.

In addition, we observed staff at the back counter of the Financial Aid Offices process paperless BOGG fee waivers using the student's information provided by the FAFSA. Staff performs a batch process report with potential BOGG fee waiver eligible students depending on the unmet need. The computer system automatically selects and sends an award acceptance letter e-mail to the students eligible for a BOGG fee waiver. Staff also manually scan and file paper BOGG fee waiver applications.

Activity 12–Appealing a denied BOGG fee waiver application

District staff members indicated that they do not have an appeal process for denied BOGG fee waiver applications. The BOGG fee waiver applications are denied based on income, household size, and residency. Students denied a BOGG fee waiver are provided an explanation for the denial and advised to complete the FAFSA for potential eligibility. During fieldwork, district staff did not review any appeals for denied BOGG fee waivers.

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 reimbursable Activities 7 through 11. Based on these certifications, the district developed time allowances per student for the audit period ranging from 17.6 minutes to 27.8 minutes (as shown in the table on page 38). Based on our observations, we determined that the time allowances claimed for these activities for these years were overstated.

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

For front-counter Activities 7 through 11, we observed 121 related to BOGG fee waiver inquiries, totaling 511 minutes. The average time to perform the front-counter activities is 4.23 minutes. For back-counter Activity 9, we observed staff re-evaluate 153 paper BOGG fee waiver applications, totaling 156 minutes. The average time to re-evaluate a hard copy BOGG fee waiver is 1.02 minutes. For back-counter Activity 10, we observed staff contact 20 students to notify them about the additional required information, totaling 50 minutes. Based on our observations, we determined that it takes staff approximately 2.52 minutes to notify students of additional required information in the case of an incomplete application. For back-counter Activity 11, we observed staff award 294 paperless BOGG fee waivers through the FAFSA system, totaling 95 minutes. The average time to award a paperless BOGG fee waiver through the FAFSA system is 0.32 minutes. Also, we observed staff scan 42 paper BOGG fee waiver applications, totaling 42 minutes. The average time to scan a hard copy BOGG fee waiver application is 1 minute. In addition, we observed staff file 160 paper BOGG fee waiver applications totaling 25 minutes. The average time to file a paper BOGG fee waiver application is 0.15 minutes. Based on our observations, we determined it takes staff approximately 9.25 minutes to perform Activities 7 through 11.

Activity 12 Time Increments

District employees estimated the time required to perform reimbursable Activity 12 by using certification forms developed by the district's mandated cost consultants. Based on these certifications, the district developed time allowances, per student for the audit period, of 2.9 minutes to 6.7 minutes (as shown in the following table).

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed						Total Activities 1-11	Appeals for Denied Waiver
	Reimbursable Activity							
	7	8	9	10	11	12		
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications			
1999-2000	4.5	3.9	3.8	5.6	5.6	23.4	6.2	
2000-01	4.3	3.7	4.0	5.4	5.5	22.9	6.3	
2001-02	4.0	3.6	3.9	5.3	5.5	22.3	6.3	
2002-03	4.2	3.4	4.0	5.0	7.7	24.3	5.9	
2003-04	4.3	4.3	4.6	6.3	8.3	27.8	6.6	
2004-05	4.5	3.9	4.8	6.3	7.1	26.6	6.7	
2005-06	4.0	3.5	4.0	5.2	6.8	23.5	6.1	
2006-07	4.0	3.5	4.0	5.2	6.8	23.5	6.1	
2007-08	4.0	3.5	4.0	5.2	6.8	23.5	6.1	
2008-09	2.9	2.3	5.3	3.0	4.3	17.8	2.9	
2009-10	3.2	2.5	4.8	3.6	3.5	17.6	3.0	
2010-11	4.9	5.2	4.6	4.9	5.2	24.8	5.3	

Fiscal Year	Allowable						Total Activities 1-11	Appeals for Denied Waiver
	Reimbursable Activity							
	7	8	9	10	11	12		
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications			
1999-2000	1.85	1.85	1.85	1.85	1.85	9.25	—	
2000-01	1.85	1.85	1.85	1.85	1.85	9.25	—	
2001-02	1.85	1.85	1.85	1.85	1.85	9.25	—	
2002-03	1.85	1.85	1.85	1.85	1.85	9.25	—	
2003-04	1.85	1.85	1.85	1.85	1.85	9.25	—	
2004-05	1.85	1.85	1.85	1.85	1.85	9.25	—	
2005-06	1.85	1.85	1.85	1.85	1.85	9.25	—	
2006-07	1.85	1.85	1.85	1.85	1.85	9.25	—	
2007-08	1.85	1.85	1.85	1.85	1.85	9.25	—	
2008-09	1.85	1.85	1.85	1.85	1.85	9.25	—	
2009-10	1.85	1.85	1.85	1.85	1.85	9.25	—	
2010-11	1.85	1.85	1.85	1.85	1.85	9.25	—	

Multiplier Calculation

For Activities 7 through 12, the district claimed costs by multiplying the number of students who received a BOGG fee waiver by a uniform time allowance and an annual average productive hourly rate. For Activities 7, 8, and 9, the district used the number of students who received a BOGG fee waiver plus the number of incomplete BOGG fee waiver applications as the multiplier. For Activity 10, the district used the number of incomplete BOGG fee waiver applications. For Activity 11, the district used the number of students who received a BOGG fee waiver. For Activity 12, the district used the same number of incomplete applications for all fiscal years of the audit period.

For Activities 7 through 10, we applied the time required to perform the reimbursable activities by the number of students who received BOGG fee waivers, according to statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO identified the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. For Activities 7 through 10, we adjusted the CCCCCO information by including the number of incomplete application claimed by the district.

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

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

For Activity 12 (appeals of denied BOGG fee waiver applications), we did not apply any time increments to the number of student appeals of denied BOGG fee waiver applications claimed by the district. Staff indicated that the district does not have an appeal process for denied BOGG fee waivers and we did not observe staff perform this activity.

Calculation of Multiplier Adjustment—Number of BOGG Fee Waivers

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

<u>Reimbursable Activity</u>	<u>Claimed Multiplier</u>	<u>Allowable Multiplier</u>	<u>Adjustment Multiplier</u>
7	585,517	777,558	192,041
8	585,517	777,558	192,041
9	585,517	777,558	192,041
10	55,234	777,558	722,324
11	530,283	722,324	192,041
12	55,234	—	(55,234)
Total	<u>2,397,302</u>	<u>3,832,556</u>	<u>1,435,254</u>

Calculation of Hours Adjustments

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

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

<u>Reimbursable Activity</u>	<u>Hours Claimed</u>	<u>Hours Allowable</u>	<u>Adjusted Hours</u>
7	39,200.5	23,974.8	(15,225.7)
8	35,207.9	23,974.8	(11,233.1)
9	43,198.3	23,974.8	(19,223.5)
10	4,707.5	23,974.8	19,267.3
11	51,200.2	22,271.9	(28,928.3)
12	5,135.0	—	(5,135.0)
Total	<u>178,649.4</u>	<u>118,171.1</u>	<u>(60,478.3)</u>

Productive Hourly Rates

For Activities 7 through 12, we made minor adjustments to the average productive hourly rates to 11 of the 13 years claimed. The district overstated the average productive hourly rates for FY 1999-00 through FY 2005-06 and FY 2010-11 and understated the average productive hourly rate for FY 2006-07 and FY 2007-08. As explained in Finding 11, we recalculated the annual productive hourly rate based on actual employees involved in waiving student enrollment fee activities and made minor adjustments to the claimed rates.

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We determined that salaries and benefits totaling \$3,371,268 are allowable and \$1,663,704 are unallowable.

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

<u>Reimbursable Activity</u>	<u>Salaries and Benefits Claimed</u>	<u>Salaries and Benefits Allowable</u>	<u>Audit Adjustment</u>
7	\$ 1,099,923	\$ 683,359	\$ (416,564)
8	984,350	683,359	(300,991)
9	1,219,800	683,359	(536,441)
10	127,366	683,359	555,993
11	1,464,583	637,832	(826,751)
12	138,950	—	(138,950)
Total	<u>\$ 5,034,972</u>	<u>\$ 3,371,268</u>	<u>\$ (1,663,704)</u>

Recommendation

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 \$5,045,462 (\$5,034,972 in salaries and benefits and \$10,490 in contract services) for waiving enrollment fees for students who are eligible for BOGG fee waivers. The audit report determined that \$3,381,758 (\$3,371,268 in salaries and benefits and \$10,490 in contract services) is allowable and \$1,663,704 is unallowable. The cost of staff time to implement this mandate component is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic. The audit report adjusts all three components.

Average activity time

Activities 7 through 11: Using certification forms developed by the District's mandated cost consultant, dozens of District staff who implement the mandate in ten different surveys conducted over the 12-year audit period (FY 1998-99 excluded), each person estimated their individual times required to perform the reimbursable activities. These individual times resulted in the average times per student transaction of 17.6 to 27.8 minutes for Activities 7 through 11 over the 12 years. The draft audit concludes that the good faith estimates reported by District staff are not acceptable source documentation of actual costs and rejects the time estimates for the five activities.

Instead, the auditor observed District staff in the financial aid offices process a total of 121 in-person inquiries regarding BOGG waiver applications, 153 paper application re-evaluations, and 294 paperless applications during an observation period of a few days which yielded an average time to perform all five activities of 9.25 minutes or 1.85 minutes per activity. This 50% to 80% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. The auditor's observation sample size is not statistically adequate. The audited number of waivers is 777,558 over the 12-year period, of which less than 600 student transactions were observed in 2012. For this, and other reasons, the auditor'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 workload data reported by the District with BOGG award data obtained from the Chancellor's Office and removes the number of unduplicated BOGG recipients. These corrections made by the auditor are not disputed at this time.

Productive hourly rates

Discussed at Finding 11.

SCO's Comments

The dollar finding and recommendation remain unchanged.

The district's response addresses four specific issues in its response:

- Average Activity Time
- Workload multipliers
- Productive hourly rates

We will address our comments in the same order as presented.

Average Activity Time

The district claims that our sample size is not statistically adequate, stating that the "audited number of waivers is 777,558 over the 12-year audit period, of which less than 600 student transactions were observed in 2012." Our sample provided actual source documentation for the reimbursable activities and provided a reasonable basis on which to calculate allowable costs, whereas the information provided by the district was based on estimates.

For the entire audit period, employees estimated the average time in minutes it took to perform Activities 7 through 11, generally per year, on certification forms developed by the district's mandated cost consultant. The district estimates ranged from 17.6 to 27.8 minutes per student per year.

During the audit, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. We held discussions with various district representatives to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Financial Aid Offices process BOGG waiver applications and we documented the average time increments spent by district staff to perform these activities based on our observations. Our observation showed that it took the staff members an average time of 9.25 minutes for Activities 7 through 11, or an average of 1.85 minutes for each of the five activities.

We discussed our time study methodology with district staff in advance of its implementation. We solicited comments from staff members and encouraged them to participate in our observations. In addition, we shared our results with them and solicited comments. The district did not provide any comments on our time study plan, did not observe our time study, and did not offer any alternatives in support of actual costs incurred.

Workload Multiplier

The district states that it does not dispute the workload multiplier calculations at this time.

Productive Hourly Rates

The district addressed its comments related to productive hourly rates in Finding 11.

**FINDING 8—
Enrollment Fee
Waivers: Reporting
to the CCCCCO the
number of and
amounts provided for
BOGG fee waivers
cost component-
unallowable ongoing
costs**

The district claimed \$143,357 in salaries and benefits during the audit period related to reporting to the CCCCCO the number of, and amounts provided for, BOGG fee waivers. We found that \$31,812 is allowable and \$111,545 is unallowable. The costs are unallowable because the time claimed was overstated based on an estimated time to perform the reimbursable activity.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and Benefits :			
1999-2000	\$ —	\$ 1,828	\$ 1,828
2000-01	564	2,035	1,471
2001-02	25,673	2,206	(23,467)
2002-03	14,820	2,319	(12,501)
2003-04	43,585	2,550	(41,035)
2004-05	37,878	2,421	(35,457)
2005-06	206	2,542	2,336
2006-07	1,115	2,846	1,731
2007-08	11,928	3,287	(8,641)
2008-09	2,782	3,210	428
2009-10	4,333	3,300	(1,033)
2010-11	473	3,268	2,795
Total salaries and benefits	<u>\$ 143,357</u>	<u>\$ 31,812</u>	<u>\$ (111,545)</u>

For the audit period, the district estimated the time it takes to perform the reimbursable activities. Staff completed Time Record Sheets to estimate the hours claimed by the district ranging from 5 to 805 hours per year.

During our analysis of this component, we noted variations in the number of staff and the number of hours claimed per fiscal year. Also, we noted various staff classifications were claimed. We advised the district to provide an explanation of the process of reporting to the CCCCCO the number of and amounts provided for BOGG fee waivers. The district indicated that the IT Analyst who performs this activity spends approximately 40 hours per fiscal year doing so. Based on the district’s explanation of the process involved in performing this activity, we determined that the time claimed is excessive and unreasonable, and that 40 hours per fiscal year to perform this activity is reasonable. Therefore, we based allowable costs on 40 hours per fiscal year for the IT Analyst.

Based on the explanation and additional information provided by the district, the following table summarizes the allowable hours for reporting to the CCCCO the number of and amounts provided for BOGG fee waivers:

<u>Fiscal Year</u>	<u>Claimed</u>		<u>Allowed</u>
	<u>Total Number of Staff</u>	<u>Total Hours</u>	<u>Total Hours</u>
1999-2000	—	—	40
2000-01	3	21	40
2001-02	4	463	40
2002-03	4	249	40
2003-04	7	787	40
2004-05	9	805	40
2005-06	1	5	40
2006-07	2	16	40
2007-08	3	300	40
2008-09	3	44	40
2009-10	2	60	40
2010-11	1	8	40

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

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

The parameters and guidelines (section 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

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 \$143,357 in salaries and benefits during the audit period related to reporting to the Chancellor the number of and amounts provided for BOGG fee waivers. The draft audit report states that \$31,812 is allowable and \$111,545 is unallowable because “the time claimed was overstated based on an estimated time to perform the reimbursable activity.” Based on information from the district’s current IT staff, the time to perform this activity is currently 40 hours per fiscal year. About 90% of the disallowed staff time (\$112,460 of \$122,134)

occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in previous findings, the audit report cites the parameters and guideline's general documentation standards and the requirement that claimed costs to be supported by source documents created at or near the same time the actual cost was incurred. However, there is no prohibition against claiming good faith estimates of actual time and the auditor has accepted these estimates here and for other findings. Not included in this finding is an explanation of what activities the auditor determined to be excessive or unreasonable. It is the District's position for this and other findings, that absent information to the contrary, the individual staff person's interpretation of the parameters and guidelines language, since they implement the mandate program, is more valid than a post facto interpretation by an auditor who does not implement the mandate program. In fact, it is our understanding that the employee's interpretation was accepted in other Statewide audits.

SCO's Comments

The dollar finding and recommendation remain unchanged.

The district states that approximately 90% of the disallowed staff time occurred before FY 2006-07 (first 8 of the 13 fiscal-year audit period), when the parameters and guidelines became available. We agree. Refer to the SCO's comments in Finding 1 for a discussion related to documentation requirements.

For the entire audit period, employees estimated the time it took to report to the CCCCCO the number of, and amounts provided for, BOGG fee waivers, generally per year, on certification forms developed by the district's mandated cost consultant. These forms were not prepared contemporaneously. The hours noted on the certifications ranged from 5 to 805 hours per year to perform the activity. We adjusted the estimated time claimed to hours the district was able to support.

FINDING 9— Unallowable indirect costs

The district claimed indirect costs during the audit period totaling \$4,620,805 for enrollment fee collection activities and \$2,251,288 for enrollment fee waiver activities. For enrollment fee collection activities, we found that \$610,003 is allowable and \$4,010,802 is unallowable. For enrollment fee waiver activities, we found that \$1,205,886 is allowable and \$1,045,402 is unallowable. The costs are unallowable because the district incorrectly calculated its indirect cost rates using the FAM-29C methodology for FY 1998-99 through FY 2004-05 and FY 2007-08 through FY 2010-11, incorrectly applied its indirect cost rates to employee benefits for FY 2005-06, and claimed unallowable salaries and benefits identified in Findings 1 through 8.

Methodology used by the District to claim Indirect Cost Rates

For FY 1998-99 through FY 2010-11, not including FY 2005-06, the district claimed indirect costs using the SCO's FAM-29C methodology. For FY 2005-06, the district claimed indirect costs based on indirect cost rates that it prepared using the principles of Title 2, Code of Federal Regulations, Part 220 (Office of Management and Budget (OMB) Circular A-21).

Audited Indirect Cost Rates

For FY 1998-99 through FY 2000-01, we used the audited indirect cost rates from our audit report of the district's Health Fee Elimination Program claims issued on June 24, 2004. We calculated the rate consistent with the claiming instructions. For FY 1998-99 through FY 2000-01, the district incorrectly calculated its indirect cost rates by including Capital Outlay as indirect costs, including 100% of Operation and Maintenance costs as indirect costs, and applying certain direct costs as indirect costs. Also, for FY 1999-2000 and FY 2000-01, the district used the prior year's California Community College Annual Financial Budget Report Expenditures by Activity Report (CCFS-311) to prepare its indirect cost rates.

For FY 2001-02, we used the audited indirect cost rates from our audit report of the district's Collective Bargaining Program claims issued on December 2007. We calculated the rate consistent with the claiming instructions. The district incorrectly calculated its indirect cost rates by using the prior year's CCFS-311s, including Capital Outlay as indirect costs, including 100% of Operation and Maintenance costs as indirect costs, and applying certain direct costs as indirect costs.

For FY 2002-03 through FY 2004-05, we used the audited indirect cost rates from our audit report of the district's Health Fee Elimination Program claims issued on May 21, 2008. We calculated the rates consistent with the claiming instructions. For FY 2002-03 and FY 2003-04, the district incorrectly calculated its indirect cost rates by using the prior year's CCFS-311s, including Capital Outlay as indirect costs, including 100% of Operation and Maintenance costs as indirect costs, and applying certain direct costs as indirect costs. For FY 2004-05, the district did not provide the auditor with its indirect cost rate calculations.

For FY 2005-06, the district provided support for the federally approved A-21 rate; therefore, we used the claimed rate. The district applied the indirect cost rate to salaries and benefits; however, the federal rate was calculated using only a base of salary and wages. Accordingly, we limited our application of the indirect cost rate to allowable salaries and wages.

Calculated Indirect Cost Rates

For FY 2006-07 through FY 2010-11, we recalculated the indirect cost rates using the SCO's FAM-29C methodology. We calculated the rates consistent with the claiming instructions and used the district's financial information contained in the CCFS-311s.

For FY 2006-07, the district correctly calculated the indirect cost rate in accordance with the claiming instructions.

For FY 2007-08 and FY 2008-09, the district did not calculate its indirect cost rates in accordance with the claiming instructions; the district incorrectly included Operation Expenses as direct costs.

For FY 2009-10, the district did not calculate its indirect cost rates in accordance with the claiming instructions; the district incorrectly included Community Relations as an indirect cost.

For FY 2010-11, the district used the FY 2009-10 indirect cost rate.

Applied Indirect Cost Rates

For FY 1998-99 through FY 2004-05, the district correctly applied its indirect cost rates to total direct costs. For FY 2005-06, the district incorrectly applied its indirect cost rate to salaries and benefits instead of salaries only. For FY 2006-07, the district incorrectly applied its indirect rate to salaries and benefits instead of total direct costs. For FY 2007-08 through FY 2010-11, the district correctly applied its indirect cost rates to salaries and benefits.

Misstated Indirect Cost Rates

Our calculations show that the district misstated its indirect cost rates for FY 1998-99 through FY 2004-05 and FY 2007-08 through FY 2010-11.

The following table summarizes the claimed, allowable, and audit adjustments for indirect cost rates:

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Difference</u>
1998-99	33.73%	14.72%	-19.01%
1999-2000	33.68%	15.61%	-18.07%
2000-01	34.00%	14.93%	-19.07%
2001-02	32.79%	15.95%	-16.84%
2002-03	31.09%	16.47%	-14.62%
2003-04	30.88%	16.26%	-14.62%
2004-05	31.96%	35.76%	3.80%
2005-06	30.00%	30.00%	0.00%
2006-07	37.70%	37.70%	0.00%
2007-08	36.16%	38.75%	2.59%
2008-09	37.02%	40.28%	3.26%
2009-10	43.60%	42.37%	-1.23%
2010-11	43.60%	43.22%	-0.38%

Enrollment Fee Collection

The district claimed \$4,620,805 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that \$610,003 is allowable and \$4,010,802 is unallowable. The costs are unallowable because of the errors discussed previously and the unallowable salaries and benefits identified in Findings 1, 2, and 3.

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

Fiscal Year	Enrollment Fee Collection				
	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
1998-99	\$ 110,534	14.72%	\$ 16,271 ¹	\$ 212,610	\$ (196,339)
1999-2000	125,158	15.61%	19,537 ¹	232,094	(212,557)
2000-01	138,432	14.93%	20,668 ¹	256,976	(236,308)
2001-02	143,175	15.95%	22,836 ¹	286,369	(263,533)
2002-03	147,056	16.47%	24,220 ¹	305,429	(281,209)
2003-04	136,217	16.26%	22,149 ¹	294,071	(271,922)
2004-05	134,987	35.76%	48,271 ¹	302,122	(253,851)
2005-06	150,134	30.00%	32,403 ²	272,976	(240,573)
2006-07	201,533	37.70%	75,978 ¹	351,736	(275,758)
2007-08	213,008	38.75%	82,541 ³	379,816	(297,275)
2008-09	230,425	40.28%	92,815 ³	567,768	(474,953)
2009-10	201,290	42.37%	85,287 ³	682,235	(596,948)
2010-11	155,083	43.22%	67,027 ³	476,603	(409,576)
	<u>\$ 2,087,032</u>		<u>\$ 610,003</u>	<u>\$ 4,620,805</u>	<u>\$(4,010,802)</u>

¹ Applied base to total direct costs

² Applied base to salaries

³ Applied base to salaries and benefits

Enrollment Fee Waivers

The district claimed \$2,251,288 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We found that \$1,205,886 is allowable and \$1,045,402 is unallowable. The costs are unallowable because of the errors discussed previously and unallowable salaries and benefits identified in Findings 4 through 8.

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

Fiscal Year	Enrollment Fee Waivers				
	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
1999-2000	\$ 89,706	15.61%	\$ 14,003 ¹	\$ 78,915	\$ (64,912)
2000-01	110,618	14.93%	16,515 ¹	83,445	(66,930)
2001-02	127,009	15.95%	20,258 ¹	125,765	(105,507)
2002-03	201,416	16.47%	33,173 ¹	130,900	(97,727)
2003-04	235,529	16.26%	38,297 ¹	186,940	(148,643)
2004-05	264,547	35.76%	94,602 ¹	182,307	(87,705)
2005-06	338,376	30.00%	73,031 ²	181,662	(108,631)
2006-07	413,565	37.70%	156,668 ¹	175,362	(18,694)
2007-08	511,908	38.75%	198,364 ³	355,352	(156,988)
2008-09	423,502	40.28%	170,587 ³	181,225	(10,638)
2009-10	457,150	42.37%	193,694 ³	224,587	(30,893)
2010-11	455,100	43.22%	196,694 ³	344,828	(148,134)
	<u>\$ 3,628,426</u>		<u>\$ 1,205,886</u>	<u>\$ 2,251,288</u>	<u>\$ (1,045,402)</u>

¹ Applied base to total direct costs

² Applied base to salaries

³ Applied base to salaries and benefits

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

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 indirect costs during the audit period totaling \$4,620,805 for enrollment fee collection activities and \$2,251,288 for enrollment fee waiver activities. The audit report states that for enrollment fee collection activities, \$610,003 is allowable and \$4,010,802 is unallowable. For enrollment fee waiver activities, \$1,205,886 is allowable and \$1,045,402 is unallowable. The indirect costs are reduced as a result of Findings 1 through 8 and differences in how the Controller’s FAM-29C methodology was used, except FY 2005-06 when a federal rate method was used.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
1998-99	33.73%	14.72%	-19.01%
1999-00	33.68%	15.61%	-18.07%
2000-01	34.00%	14.93%	-19.07%
2001-02	32.79%	15.95%	-16.84%
2002-03	31.09%	16.47%	-14.62%
2003-04	30.88%	16.26%	-14.62%
2004-05	31.96%	35.76%	3.80%
2005-06	30.00%	30.00%	0.00%
2006-07	37.70%	37.70%	0.00%
2007-08	36.16%	38.75%	2.59%
2008-09	37.02%	40.28%	3.26%
2009-10	43.60%	42.37%	-1.23%
2010-11	43.60%	43.22%	-0.38%

For FY 1998-99 through FY 2000-01, the Controller used the audited indirect cost rates from a previous audit of the District's Health Fee Elimination Program issued in June 2004. For FY 2001-02, the Controller used the audited indirect cost rates from a previous audit of the District's Collective Bargaining Program issued in December 2007. For FY 2002-03 through FY 2004-05, the Controller used the audited indirect cost rates a previous audit of the District's Health Fee Elimination Program issued in May 2008. The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with those audited rates, and has already filed incorrect reduction claims for those other mandate audits.

The large differences prior to FY 2004-05 are the result of the District including capital costs and the Controller excluding capital costs from the calculation. The annual claims used the "capital costs" reported in the CCFS-311 until after FY 2004-05 when the annual CPA-audited financial statement depreciation expense was used in lieu of capital costs. The audit excluded the capital costs every year until FY 2004-05 when depreciation was included by change in Controller policy. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs.

For FY 2005-06, the District used a federally approved rate which was accepted by the auditor, except that the District applied the indirect cost rate to salaries and benefits and the auditor limited the application of the indirect cost rates to salaries only. The draft audit report provides no citation for this limitation.

For FY 2006-07 through FY 2010-11, both the District and the auditor calculated the indirect cost rates using the SCO FAM-29C methodology based on the CCFS-311. The minor differences between the claimed rates and audited rates beginning FY 2007-08, derive from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method.

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

SCO's Comments

The dollar finding and recommendation remain unchanged. We updated the narrative to reference FY 2003-04 that was inadvertently omitted in paragraph five of the finding.

The finding discusses the SCO's calculation of indirect costs. For FY 1998-99 through FY 2004-05, and 2006-07 through FY 2010-11, the SCO calculated indirect costs consistent with the claiming instructions for community colleges. For FY 2005-06, the SCO calculated indirect costs using the federally approved rate and related distribution base.

For FY 1998-99 through FY 2004-05, the district disagrees with the SCO's claiming instructions for preparing the FAM-29C that excluded capital costs every year until FY 2004-05. The Enrollment Fee Collections and Waiver Program's parameters and guidelines direct districts to claim an indirect cost in accordance with the SCO's claiming instructions. The claiming instructions require the district to claim indirect costs using the SCO's FAM-29C methodology. The FAM-29C methodology is specified in the SCO's claiming instructions. Title 2, *California Code of Regulations* (CCR), section 1186, allows districts to request that the CSM review the SCO's claiming instructions. Neither this district nor any other district requested that the CSM review the SCO's claiming instructions. The district may not now request a review of the claiming instructions applicable to the audit period. Title 2, CCR, section 1186, subdivision (j)(2), states, "A request for review filed after the initial claiming deadline must be submitted on or before January 15, following a fiscal year in order to establish eligibility for reimbursement for that fiscal year."

For FY 2005-06, the district disagrees with the use of the federally approved rate distribution base of salaries and wages. On June 30, 2005, the U.S. Department of Health and Human Services stipulated in a letter that the application of indirect cost rate is to be applied to "direct salaries and wages, excluding all fringe benefits." However, the district applied the rate to salaries and benefits. If the district does not wish to apply the federally approved indirect cost rate to the approved base, then it should alternatively use one of the other two allowable indirect cost rate options.

For FY 2007-08 through FY 2009-10, the district believes that the minor differences between the SCO and district calculation are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported. We disagree. For FY 2007-08 and FY 2008-09, the

district did not follow the SCO claiming instructions for preparing the FAM-29C. For FY 2009-10, the district incorrectly included Community Relations as an indirect cost.

**FINDING 10—
Misstated offsetting
reimbursements**

The district claimed offsetting reimbursements totaling \$2,490,136 for enrollment fee collection and \$6,812,932 for enrollment fee waivers. We found that offsetting reimbursements were misstated by \$12,835 (overstated by \$318,751 and understated by \$331,586) for enrollment fee collection and misstated by \$1,951,815 (overstated \$2,163,452 and understated by \$211,637) for enrollment fee waivers. The offsetting reimbursements were misstated because the district did not report the correct amounts that it received from the CCCCCO for enrollment fee collection or enrollment fee waivers in any fiscal year of the audit period.

Enrollment Fee Collection

For the audit period, the district claimed offsetting reimbursements for enrollment fee collection related to the offset of 2% of revenues from enrollment fees. We obtained a report from the CCCCCO confirming enrollment fee collection offsets paid to the district totaling \$2,838,284 during the audit period.

We limited offsetting reimbursements received by the district to allowable direct and indirect costs. Allowable direct and indirect costs applicable for the audit period related to enrollment fee collection activities totaled \$2,697,035. The district misstated offsetting reimbursements by \$12,835 (overstated by \$318,751 and understated by \$331,586), consisting of offsets applicable to the audit period of \$2,502,971 less offsets claimed of \$2,490,136.

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

Fiscal Year	Enrollment Fee Collection Offsets				
	Allowable Direct and Related Indirect Costs (A)	Offsets Claimed (B)	Actual Offsets Confirmed by the CCCCCO (C)	Offsets Applicable to Audit (D)	Audit Adjustment (E)= (D-B)
1998-99	\$ 126,805	\$ (63,923)	\$ (139,610)	\$ (126,805)	\$ (62,882)
1999-2000	144,695	(75,176)	(135,818)	(135,818)	(60,642)
2000-01	159,100	(76,965)	(134,879)	(134,879)	(57,914)
2001-02	166,011	(73,469)	(148,533)	(148,533)	(75,064)
2002-03	171,276	(78,534)	(147,068)	(147,068)	(68,534)
2003-04	158,366	(158,465)	(225,089)	(158,366)	99
2004-05	183,258	(334,101)	(305,460)	(183,258)	150,843
2005-06	182,537	(317,575)	(299,332)	(182,537)	135,038
2006-07	277,511	(291,730)	(276,331)	(276,331)	15,399
2007-08	295,549	(252,954)	(250,105)	(250,105)	2,849
2008-09	323,240	(264,258)	(250,584)	(250,584)	13,674
2009-10	286,577	(287,426)	(286,718)	(286,577)	849
2010-11	222,110	(215,560)	(238,757)	(222,110)	(6,550)
Total	\$ 2,697,035	\$ (2,490,136)	\$ (2,838,284)	\$ (2,502,971)	\$ (12,835)

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$335,313, as follows:

<u>Fiscal Year</u>	<u>Actual Offsets Confirmed by the CCCCCO (A)</u>	<u>Offset Applicable to Audit (B)</u>	<u>Unused Portion of Offsets (C) = (A-B)</u>
1998-99	\$ (139,610)	\$ (126,805)	\$ (12,805)
1999-2000	(135,818)	(135,818)	—
2000-01	(134,879)	(134,879)	—
2001-02	(148,533)	(148,533)	—
2002-03	(147,068)	(147,068)	—
2003-04	(225,089)	(158,366)	(66,723)
2004-05	(305,460)	(183,258)	(122,202)
2005-06	(299,332)	(182,537)	(116,795)
2006-07	(276,331)	(276,331)	—
2007-08	(250,105)	(250,105)	—
2008-09	(250,584)	(250,584)	—
2009-10	(286,718)	(286,577)	(141)
2010-11	(238,757)	(222,110)	(16,647)
Total	<u>\$ (2,838,284)</u>	<u>\$ (2,502,971)</u>	<u>\$ (335,313)</u>

Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$8,099,575 for the audit period. We also limited offsetting reimbursements received by the district to allowable direct and indirect costs. Allowable direct and indirect costs applicable to the audit period related to enrollment fee waivers activities totaled \$4,861,117; therefore, this amount represents offsets applicable to the audit period. The district claimed \$6,812,932. Consequently, the district misstated enrollment fee waiver offsets by \$1,951,815 (overstated \$2,163,452 and understated by \$211,637).

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

<u>Enrollment Fee Waivers Offsets</u>					
<u>Fiscal Year</u>	<u>Allowable Direct and Related Indirect Costs (A)</u>	<u>Offsets Claimed (B)</u>	<u>Actual Offsets Confirmed by the CCCCCO (C)</u>	<u>Offsets Applicable to Audit (D)</u>	<u>Audit Adjustment (E) = (D-B)</u>
1999-2000	\$ 103,709	\$ (234,309)	\$ (328,276)	\$ (103,709)	\$ 130,600
2000-01	127,133	(245,427)	(380,746)	(127,133)	118,294
2001-02	147,267	(383,546)	(413,343)	(147,267)	236,279
2002-03	234,589	(421,036)	(482,916)	(234,589)	186,447
2003-04	273,826	(605,376)	(588,648)	(273,826)	331,550
2004-05	359,149	(570,422)	(823,840)	(359,149)	211,273
2005-06	427,722	(621,855)	(758,864)	(427,722)	194,133
2006-07	572,233	(465,151)	(777,100)	(572,233)	(107,082)
2007-08	712,332	(894,435)	(768,423)	(712,332)	182,103
2008-09	596,190	(491,635)	(795,286)	(596,190)	(104,555)
2009-10	652,987	(741,836)	(922,574)	(652,987)	88,849
2010-11	653,980	(1,137,904)	(1,059,559)	(653,980)	483,924
Total	<u>\$ 4,861,117</u>	<u>\$ (6,812,932)</u>	<u>\$ (8,099,575)</u>	<u>\$ (4,861,117)</u>	<u>\$ 1,951,815</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$3,238,458, as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (C)= (A-B)
1999-2000	\$ (328,276)	\$ (103,709)	\$ (224,567)
2000-01	(380,746)	(127,133)	(253,613)
2001-02	(413,343)	(147,267)	(266,076)
2002-03	(482,916)	(234,589)	(248,327)
2003-04	(588,648)	(273,826)	(314,822)
2004-05	(823,840)	(359,149)	(464,691)
2005-06	(758,864)	(427,722)	(331,142)
2006-07	(777,100)	(572,233)	(204,867)
2007-08	(768,423)	(712,332)	(56,091)
2008-09	(795,286)	(596,190)	(199,096)
2009-10	(922,574)	(652,987)	(269,587)
2010-11	(1,059,559)	(653,980)	(405,579)
Total	\$ (8,099,575)	\$ (4,861,117)	\$ (3,238,458)

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

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate from any source, including, but not limited to services fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

Enrollment Fee Collection Program:

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

Enrollment Fee Waiver Program:

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

July 1, 1999 to July 4, 2000:

- For low income students² or recipients of public assistance³, or dependents or surviving spouses of National Guard soldiers killed in the line of duty⁴ as defined:
 - an offset identified in Education Code section 76300, subdivision (m), that requires the community college Board of Governors, from funds in the annual budget act, to allocated to community college two percent (2%) of the fees waived, under subdivision (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and

- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined), or dependents or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived:
 - from funds provided in the annual State Budget Act, the board of governors shall allocate to community college districts, pursuant to this subdivision, an amount equal to seven (7%) of the fee waivers provided, pursuant to subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].⁵

Beginning July 5, 2000:

- For low-income students (as defined), or recipient of public assistance (as defined) or dependent or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived (as defined):
 - an offset identified in Education Code section 76300, subdivision (m), that requires the Community College Board of Governors, from funds in the annual budget act, to allocate to community colleges two (2%) of the fees waived, under subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and (h) [dependents of California National Guard soldiers killed in the line of duty as defined] of section 76300;
- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined) for whom fees are waived:
 - requires the Board of Governors to allocate from funds in the annual State Budget Act ninety-one cents (\$0.91) per credit unit waived pursuant to subdivisions (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or California National Guard soldiers killed in the line of duty as defined].
- Any budget augmentation received under the Board Financial Assistance Program Administrative Allowance, or any other state budget augmentation received for administering the fee waiver program.

Note: Footnotes 2 through 5 are included on page 7 and 8 of the parameters and guidelines to provide additional clarification.

Recommendation

We recommend that the district report the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its mandate cost claims based on information provided by the CCCCCO.

District's Response

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

The District claimed offsetting program revenues totaling \$2,490,136 for enrollment fee collection and \$6,812,932 for enrollment fee waivers. The draft audit reports states that offsetting revenues were misstated by \$12,835 (overstated by \$318,751 and understated by \$331,586) for enrollment fee collection and misstated by \$1,951,815 (overstated \$2,163,452 and understated by \$211,37) [sic] for enrollment fee waivers. The offsetting revenues are only "misstated" because the District claims did not match the same revenue amounts as the Chancellor's Office data for enrollment fee collection or enrollment fee waivers in any fiscal year of the audit period. The auditor's amounts are based on a post- facto data query to the Chancellor's data using seasoned data not available at the time of the claim preparation. Claimants, at the time the annual claims are prepared, must calculate the amounts based on available district enrollment information and the number of units waived, which would be a continuing source of minor differences.

However, the differences here are not minor. The magnitude of the offsetting revenue adjustment results from the amount of the disallowed activity costs in Findings 1 through 9, since the offset cannot exceed the reimbursable cost. As the amount of audited cost decreases, there is a corresponding decrease in applicable offsetting revenues. For example, for the enrollment fee waiver component, the offset exceeds the audited program cost each and every year. If the approved program costs increase as a result of the incorrect reduction claim, these offsetting revenue differences will increase in the same amount.

The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. The District reported amounts based on information available at the time of claim preparation. There is no dispute of these audited amounts at this time.

SCO's Comments

The finding and recommendation remain unchanged.

The district does not dispute the audited amounts at this time. The district stated that it reported amounts based on information available at the time of claim preparation.

**FINDING 11—
Misstated productive
hourly rates for
Calculating and
Collecting Enrollment
Fees and Waiving
Student Fees cost
component**

The district misstated productive hourly rates (PHR) for the audit period. The district calculated the average PHR separately for employees involved in calculating and collecting enrollment fee activities (Activities 1 through 6) and for employees involved in the waiving student fee activities (Activities 7 through 12). In addition, the district calculated its average PHR using a straight average methodology.

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

For FY 1999-2000, FY 2003-04, and FY 2004-05, the district used the incorrect PHR classification average for one staff member. Also, for FY 2000-01, the district used the incorrect PHR classification average for two staff members. For FY 2005-06 through FY 2007-08, the district used FY 2004-05 PHR information. For FY 2009-10, the district used the incorrect PHR information for an Account Clerk. For FY 2010-11, the district used the incorrect PHR information for a Financial Aid Officer. We recalculated the PHR averages using actual PHR information the district provided.

The following table summarizes the claimed, allowable, and adjustment average PHR for calculating and collecting enrollment fee activities by fiscal year:

<u>Fiscal Year</u>	<u>Claimed Average Productive Hourly Rate</u>	<u>Allowable Average Productive Hourly Rate</u>	<u>Adjustment Average Productive Hourly Rate</u>
1998-99	\$ 17.70	\$ 17.76	\$ 0.06
1999-2000	17.81	17.85	0.04
2000-01	19.77	19.94	0.17
2001-02	20.72	20.72	—
2002-03	20.95	20.95	—
2003-04	22.31	22.23	(0.08)
2004-05	22.79	22.67	(0.12)
2005-06	24.97	25.28	0.31
2006-07	25.15	28.34	3.19
2007-08	26.75	32.08	5.33
2008-09	33.36	33.36	—
2009-10	29.44	29.16	(0.28)
2010-11	27.89	27.82	(0.07)

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

The district used an incorrect PHR classification average for three staff members for FY 1999-2000, seven staff members for FY 2000-01 and FY 2003-04, four staff members for FY 2001-02 and FY 2003-04, and 11 staff members for FY 2004-05. For FY 2005-06 through FY 2007-08, the district used FY 2004-05 PHR information. For FY 2009-10, the district used the incorrect PHR information for an Account Clerk. For FY 2010-11, the district used the incorrect PHR information for a Financial Aid Clerk and a Financial Aid Officer. We recalculated the PHR averages using the PHR information the district provided.

The following table summarizes the claimed, allowable, and adjustment average PHRs for waiving student enrollment fee activities by fiscal year:

<u>Fiscal Year</u>	<u>Claimed Average Productive Hourly Rate</u>	<u>Allowable Average Productive Hourly Rate</u>	<u>Adjustment Average Productive Hourly Rate</u>
1999-2000	\$ 22.32	\$ 22.02	\$ (0.30)
2000-01	24.26	24.07	(0.19)
2001-02	25.95	25.80	(0.15)
2002-03	25.93	25.52	(0.41)
2003-04	28.12	27.15	(0.97)
2004-05	27.96	27.37	(0.59)
2005-06	29.66	29.62	(0.04)
2006-07	29.66	33.64	3.98
2007-08	37.85	37.84	(0.01)
2008-09	30.45	30.45	—
2009-10	26.99	26.99	—
2010-11	25.32	24.25	(1.07)

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

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

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

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

Recommendation

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

As described in Findings 3 and 7, an average hour salary and benefit rate is used for the activities in which several staff of the same position implement the same mandate activities. The District used a simple average of the individual rates. The draft audit report concludes that the District erred by not weighting productive hourly rates for the twelve program activities. 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 audit report. The average of variances are less than one dollar and most of the audited variances are less than thirty cents, or about 2% for any one position calculation, except where a weighted average was used. The District accepts the auditor's extensive work on calculating the individual rates, but disputes the unfounded requirement to use weighted averages.

SCO's Comments

The finding and recommendation remain unchanged.

The district accepts our extensive work on calculating the individual's PHR, but disputes the "unfounded requirement" to use weighted averages rather than simple average of the individual PHR.

As noted in the finding, the SCO's claiming instructions state that one of three options may be used to compute productive hourly rates:

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

Using a simple average of the individual's PHR is inconsistent with the claiming instructions and unreasonable, as all individuals do not perform the mandated activities at the same level. The weighted averages weighs individual PHR to the extent that person performs the mandated activity. Consequently, an individual who spends many hours performing mandated activities is given greater weight than an individual who spends only a few hours performing mandated activities.

Other Issues— Public records request

The district's response included a public records request. The district's response and SCO's comments are as follows:

District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comments

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

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

LOS RIOS

COMMUNITY
COLLEGE
DISTRICT



March 4, 2014

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

Re: Enrollment Fee Collection and Waivers
FY 1998-99 through FY 2010-11
Los Rios Community College District

Dear Mr. Spano:

This letter is the response of the Los Rios Community College District to the draft audit report dated February 19, 2014, received by e-mail on February 20, 2014, for the above-referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Ninety-nine percent of the amounts claimed for reimbursement for all fiscal years audited have been disallowed by the audit. An audit appeal will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates. 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 staff labor time documentation is needed. The majority of the direct costs claimed is the staff time spent to implement the mandated activities. Most of this time is disallowed by the audit. The draft audit report essentially asserts that the provided source documents are inappropriately or insufficiently documented. The report cites the parameters and guidelines as the legal standard for source documentation:

American River College
Cosumnes River College
Folsom Lake College
Sacramento City College

1919 Spanos Court
Sacramento, CA 95825
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Fax: 916 568-3023
www.losrios.edu

“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.’ ”

It should be remembered that the parameters and guidelines were adopted January 26, 2006, and the first claiming instructions were issued April 3, 2006, which is seven years after the first fiscal year in the audit period. Thus, claimants were not on notice of the activities approved for reimbursement that should be documented until the eighth year of the eligibility period. It would seem patently unreasonable to require contemporaneous documentation of daily staff time 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. While the District agrees with the audit report recommendation that claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard only for the fiscal year annual claims filed after the initial fiscal year claims.

None of the governmental entities that establish the accounting standards and reporting requirements that community college districts are subject to publish any standards or reporting requirements for state mandate cost accounting. Nor does the Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years, publish cost accounting forms for use by claimants to record staff time spent on mandates. In the absence of governmental standards, districts must retroactively rely upon documentation produced in the regular course of business, as well as additional forms designed usually by mandate consultants, for the collection of staff mandate time not otherwise available from regular business records. Uniform compliance would be more likely if the Controller published forms for this purpose, as the Controller has done for other programs within the Controller’s payment and audit jurisdiction.

This District utilized forms prepared by its consultant to document staff time spent on the mandates. These forms are in the nature of certified declarations that are within the scope of the parameters and guidelines documentation standards. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed the claimed costs for insufficient documentation. In some cases, average staff time per activity was claimed, and disallowed. The auditor then substituted audited average staff time based on personal observation of the activities as currently implemented. By substituting their own time observations for some of the

activities, Controller staff is validating the concept of using average times as an acceptable method for the calculation of the mandate costs. The difference becomes one of fact, how much time to allow for each activity. Also, where the District's reported time and workload statistics were accepted by the auditor for some activities, the Controller is validating the District's good faith method and the mandate consultant's forms as an acceptable method for estimating average time. Since all of these choices of are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

AUDIT FINDINGS

FINDING 1 Enrollment Fee Collection: Preparing Policies and Procedures Cost Component – unallowable one-time

The District claimed \$201,959 in salaries and benefits during the audit period for the activity of preparing district policies and procedures for the collection of enrollment fees. The draft audit states that \$271 is allowable and \$201,688 is unallowable because, "the district did not provide support that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the collection of enrollment fees." About 98% of the disallowed staff time occurred before FY 2006-07 when the parameters and guidelines became available to the claimants.

The parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. There is no stated requirement to distinguish this work as either discretionary or a result of changes in state law as asserted by the draft audit report. The audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 1998-99 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.

FINDING 2 Enrollment Fee Collection: Training Cost Component – unallowable one-time costs

The District claimed \$16,308 in salaries and benefits during the audit period for the activity of training district staff who implement the program on the procedures for the collection of enrollment fees. The audit report states that \$30,662 is allowable and \$14,354 is unallowable. The increase is generally related to additional allowed trainers'

hours not claimed by the district for FY 2006-07. Hours disallowed are for trainee staff claimed more than once by name, or for hours claimed without documentation related to the nature of the training, the length of the training, and which district employees attended the training. About 90% of the disallowed staff time occurred before FY 2006-07, when the parameters and guidelines became available to the district.

The draft audit report disallows claimed training time for employees who were claimed more than once during the thirteen fiscal years in the audit period. However, it should be considered that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections as may have been updated by the Board of Governors. It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

FINDING 3 Enrollment fee Collection: Calculating and Collecting Enrollment Fees Cost Component– unallowable ongoing costs

The District claimed \$12,872,870 (\$12,695,196 in salaries and benefits and \$177,674 in contract services) for the calculating and collecting enrollment fees cost component during the audit period. The draft audit report states the \$2,056,099 (\$2,056,099 in salaries and benefits and no costs for contract services) is allowable and \$10,816,771 is unallowable. The cost of staff time to implement this mandate component is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee). The audit report adjusts all three components.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, dozens of District staff who implemented the mandate, estimated their individual times required to perform the reimbursable activities in nine different surveys conducted over the 13-year audit period. These individual times resulted in the average times per student enrollment payment transaction of 13.1 to 15.9 minutes for Activities 1 through 4 over the 13 years. The draft audit concludes that the good faith estimates reported by District staff are not acceptable source documentation of actual costs and rejects the time estimates for the four activities. Instead, the auditor observed at the cashier offices a total of 610 in-person payment transactions processed by a few district staff during an eight-day observation period which yielded a average time to perform all four activities of 2.52 minutes or 0.63 minutes per activity, with no distinction between the activities.

This 80% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. The auditor's observation sample size is not statistically adequate. The audited net enrollment is 2,228,868 over the 13 year period and each student typically enrolls for at least two semesters each year (or about 4.4 million enrollments), of which 610 student transactions were observed in 2012. For this, and other reasons, the auditor's observation process does not constitute a representative "time study" sample.

B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. The draft audit report rejects the enrollment data reported by the District and substitutes the enrollment data the auditor obtained from the Chancellor's Office, and removes from the workload calculation the number of students who paid their enrollment fees online rather than in person. The workload multipliers for Activities 1-4 rely upon enrollment statistics with relevant adjustments.

For Activities 1 and 3, the audited amounts are based on a post-facto specific data query from the Chancellor's MIS database that eliminated specific elements (e.g., duplicated students by term and special admit students) not available in the usual course of business at the time of the claim preparation. These corrections made by the auditor are not disputed at this time.

For activities 2 and 4, after other corrections, the auditor deducted the number of students who paid their enrollment fees through the District's online system. A percentage was derived by dividing the number of fees paid in person by the total number of fees paid. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no significant online activity, and so it was not factored into the annual claim workload statistics. The online transaction percentages further reduced the number of claimed transactions by 30-80% over the audit period. However, the audit findings do not replace the time lost from these eliminated transactions with any time to operate the online payment collection system. Thus, no costs are recognized for these transactions. This action is a matter of Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

C. Productive Hourly Rates

Discussed at Finding 11.

D. Contract Services

The District claimed \$177,674 in contract services costs (XAP contract). The draft audit report disallows the entire cost without explanation. The District does not dispute this adjustment at this time.

FINDING 4 Enrollment Fee Waivers: Preparing Policies and Procedures Cost Component – unallowable one-time costs

The District claimed \$72,494 (\$66,602 in salaries and benefits and \$5,892 in contract services) during the audit period to prepare district policies and procedures for determining which students are eligible for a waiver of the enrollment fees. The audit report states that \$8,083 (\$2,191 in salaries and benefits and \$5,892 in contract services) is allowable and \$64,411 is unallowable because “the district did not provide documentation supporting that the costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the waiver of enrollment fees.” About 70% of the disallowed staff time occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in Finding 1, the parameters and guidelines state that preparing district policies and procedures is reimbursable as a one-time activity. There is no stated requirement to distinguish this work as either discretionary or a result of changes in state law as asserted by the draft audit report. Also, as in Finding 1, the audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 2000-01 as a duplication of one-time costs without regard to subsequent changes made to the policies and procedures.

FINDING 5 Enrollment Fee Waiver: Staff Training Cost Component – unallowable one-time costs

The District claimed \$48,447 for the one-time activity of staff training for District staff that implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. The audit determined that \$120,493 is allowable. Amounts were disallowed for five fiscal years for trainee staff claimed more than once by name, or for hours claimed without documentation related to the nature of the training, the length of the training, and which district employees attended the training. About 95% of the disallowed staff time (\$7,825) occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in Finding 2, the audit report cites the parameters and guideline’s general documentation standards, the requirement that claimed costs to be supported by source documents created at or near the same time the actual cost was incurred and that training existing staff for changes in the community college district's policies and procedures is not reimbursable. Also, as in Finding 2, the draft audit report disallows claimed training

time for employees who were claimed more than once during the audit period. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

FINDING 6 Enrollment Fee Waivers: Adopting Procedures, Recording and Maintaining Records cost component – unallowable ongoing costs

The District claimed \$1,026,104 (\$1,015,681 in salaries and benefits and \$10,423 in contract services costs) related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. The audit report states that \$113,085 (\$102,662 in salaries and benefits and \$10,423 in contract services) is allowable and \$913,019 in salaries and benefits are unallowable because they were based on estimates of time to perform the reimbursable activities. The auditor also concluded that some staff hours claimed under this component were for waiving student fees and for training, but those amounts are not specifically identified in either this finding where the hours are excluded or the findings where those hours may have been transferred. About 70% of the disallowed staff time (\$936,080) occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in previous findings, the audit report cites the parameters and guideline's general documentation standards and the requirement that claimed costs be supported by source documents created at or near the same time the actual cost was incurred. The audit report states that the allowable costs for salaries and benefits were based on six staff interviews. These interviews resulted in allowable time for three functions: 48 hours per year for the computer system function; 192 to 256 hours per year for changes to the BOGG application process which includes 64 hours per staff for each of the four colleges; and, 5 hours for all years to update the BOGG fee waiver section in the Financial Aid Assistance Handbook. It is anticipated that more staff time would have been approved by the auditor if more of the staff who claimed time over the long audit period were still available for personal interview.

The interviews apparently also resulted in the characterization of some of all of the remainder of the time as either training or the ongoing waiver process. This of course highlights the problem in all mandate reporting that each individual must interpret the activity descriptions on the forms used to collect staff time. In the case of the forms we used that were prepared by our mandate consultant, the activity descriptions are taken from the parameters and guidelines language and not modified, even where it is vague or confusing, since any modification has been criticized over the years by state agency personnel as soliciting a preferred response. Thus, as is often the case, the parameters and guidelines language is inadequate for the task of cost accounting, but since the Controller provides no forms for this purpose, and the state agencies criticize any interpretation by the claimants of the parameters and guidelines language, this problem will persist. Given these constraints, it is the District's position that, absent information to the contrary, the individual staff person's interpretation of the parameters and

guidelines language, since they implement the mandate program, is more valid than a post facto interpretation by an auditor, who does not implement the mandate program.

FINDING 7 Enrollment Fee Waivers: Waiving Student Fees Cost Component – unallowable ongoing costs

The District claimed \$5,045,462 (\$5,034,972 in salaries and benefits and \$10,490 in contract services) for waiving enrollment fees for students who are eligible for BOGG fee waivers. The audit report determined that \$3,381,758 (\$3,371,268 in salaries and benefits and \$10,490 in contract services) is allowable and \$1,663,704 is unallowable. The cost of staff time to implement this mandate component is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic. The audit report adjusts all three components.

A. Average activity time

Activities 7 through 11: Using certification forms developed by the District's mandated cost consultant, dozens of District staff who implement the mandate in ten different surveys conducted over the 12-year audit period (FY 1998-99 excluded), each person estimated their individual times required to perform the reimbursable activities. These individual times resulted in the average times per student transaction of 17.6 to 27.8 minutes for Activities 7 through 11 over the 12 years. The draft audit concludes that the good faith estimates reported by District staff are not acceptable source documentation of actual costs and rejects the time estimates for the five activities.

Instead, the auditor observed District staff in the financial aid offices process a total of 121 in-person inquiries regarding BOGG waiver applications, 153 paper application re-evaluations, and 294 paperless applications during an observation period of a few days which yielded a average time to perform all five activities of 9.25 minutes or 1.85 minutes per activity. This 50% to 80% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. The auditor's observation sample size is not statistically adequate. The audited number of waivers is 777,558 over the 12-year period, of which less than 600 student transactions were observed in 2012. For this, and other reasons, the auditor's observation process does not constitute a representative "time study" sample.

B. Workload multipliers

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

C. Productive Hourly Rates

Discussed at Finding 11.

FINDING 8 Enrollment Fee Waivers: Reporting to the Community Colleges Chancellor (CCC) the number of and amounts provided for BOGG fee waivers cost component- unallowable ongoing costs

The District claimed \$143,357 in salaries and benefits during the audit period related to reporting to the Chancellor the number of and amounts provided for BOGG fee waivers. The draft audit report states that \$31,812 is allowable and \$111,545 is unallowable because “the time claimed was overstated based on an estimated time to perform the reimbursable activity.” Based on information from the district’s current IT staff, the time to perform this activity is currently 40 hours per fiscal year. About 90% of the disallowed staff time (\$112,460 of \$122,134) occurred before FY 2006-07, when the parameters and guidelines became available to district.

As in previous findings, the audit report cites the parameters and guideline’s general documentation standards and the requirement that claimed costs to be supported by source documents created at or near the same time the actual cost was incurred. However, there is no prohibition against claiming good faith estimates of actual time and the auditor has accepted these estimates here and for other findings. Not included in this finding is an explanation of what activities the auditor determined to be excessive or unreasonable. It is the District’s position for this and other findings, that absent information to the contrary, the individual staff person’s interpretation of the parameters and guidelines language, since they implement the mandate program, is more valid than a post facto interpretation by an auditor who does not implement the mandate program. In fact, it is our understanding that the employee’s interpretation was accepted in other Statewide audits.

FINDING 9 Unallowable indirect costs

The District claimed indirect costs during the audit period totaling \$4,620,805 for enrollment fee collection activities and \$2,251,288 for enrollment fee waiver activities. The audit report states that for enrollment fee collection activities, \$610,003 is allowable and \$4,010,802 is unallowable. For enrollment fee waiver activities, \$1,205,886 is allowable and \$1,045,402 is unallowable. The indirect costs are reduced as a result of Findings 1 through 8 and differences in how the Controller’s FAM-29C methodology was used, except FY 2005-06 when a federal rate method was used.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
1998-99	33.73%	14.72%	-19.01%
1999-00	33.68%	15.61%	-18.07%
2000-01	34.00%	14.93%	-19.07%
2001-02	32.79%	15.95%	-16.84%

2002-03	31.09%	16.47%	-14.62%
2003-04	30.88%	16.26%	-14.62%
2004-05	31.96%	35.76%	3.80%
2005-06	30.00%	30.00%	0.00%
2006-07	37.70%	37.70%	0.00%
2007-08	36.16%	38.75%	2.59%
2008-09	37.02%	40.28%	3.26%
2009-10	43.60%	42.37%	- 1.23%
2010-11	43.60%	43.22%	- 0.38%

For FY 1998-99 through FY 2000-01, the Controller used the audited indirect cost rates from a previous audit of the District's Health Fee Elimination Program issued in June 2004. For FY 2001-02, the Controller used the audited indirect cost rates from a previous audit of the District's Collective Bargaining Program issued in December 2007. For FY 2002-03 through FY 2004-05, the Controller used the audited indirect cost rates from a previous audit of the District's Health Fee Elimination Program issued in May 2008. The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with those audited rates, and has already filed incorrect reduction claims for those other mandate audits.

The large differences prior to FY 2004-05 are the result of the District including capital costs and the Controller excluding capital costs from the calculation. The annual claims used the "capital costs" reported in the CCFS-311 until after FY 2004-05 when the annual CPA-audited financial statement depreciation expense was used in lieu of capital costs. The audit excluded the capital costs every year until FY 2004-05 when depreciation was included by change in Controller policy. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs.

For FY 2005-06, the District used a federally approved rate which was accepted by the auditor, except that the District applied the indirect cost rate to salaries and benefits and the auditor limited the application of the indirect cost rates to salaries only. The draft audit report provides no citation for this limitation.

For FY 2006-07 through FY 2010-11, both the District and the auditor calculated the indirect cost rates using the SCO FAM-29C methodology based on the CCFS-311. The minor differences between the claimed rates and audited rates beginning FY 2007-08, derive from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method.

There are no regulations or pertinent generally accepted methods for the calculation of the indirect cost rate, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as

regulations under the Administrative Procedure Act. The burden of proof is on the Controller to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

FINDING 10 Misstated offsetting reimbursements

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

The District claimed offsetting program revenues totaling \$2,490,136 for enrollment fee collection and \$6,812,932 for enrollment fee waivers. The draft audit reports states that offsetting revenues were misstated by \$12,835 (overstated by \$318,751 and understated by \$331,586) for enrollment fee collection and misstated by \$1,951,815 (overstated \$2,163,452 and understated by \$211,37) for enrollment fee waivers. The offsetting revenues are only "misstated" because the District claims did not match the same revenue amounts as the Chancellor's Office data for enrollment fee collection or enrollment fee waivers in any fiscal year of the audit period. The auditor's amounts are based on a post-facto data query to the Chancellor's data using seasoned data not available at the time of the claim preparation. Claimants, at the time the annual claims are prepared, must calculate the amounts based on available district enrollment information and the number of units waived, which would be a continuing source of minor differences.

However, the differences here are not minor. The magnitude of the offsetting revenue adjustment results from the amount of the disallowed activity costs in Findings 1 through 9, since the offset cannot exceed the reimbursable cost. As the amount of audited cost decreases, there is a corresponding decrease in applicable offsetting revenues. For example, for the enrollment fee waiver component, the offset exceeds the audited program cost each and every year. If the approved program costs increase as a result of the incorrect reduction claim, these offsetting revenue differences will increase in the same amount.

The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. The District reported amounts based on information available at the time of claim preparation. There is no dispute of these audited amounts at this time.

Finding 11 Misstated productive hourly rates for Calculating and Collecting Enrollment Fees and Waiving Student Fees cost component

As described in Findings 3 and 7, an average hour salary and benefit rate is used for the activities in which several staff of the same position implement the same mandate activities. The District used a simple average of the individual rates. The draft audit report concludes that the District erred by not weighting productive hourly rates for the twelve program activities. 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 audit report. The average of variances are less than one dollar and most of the audited variances are less than thirty cents, or about 2% for any one position calculation, except where a weighted average was used. The District accepts the auditor's extensive work on calculating the individual rates, but disputes the unfounded requirement to use weighted averages.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Jon Sharpe, Deputy Chancellor
Los Rios Community College District

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