

SIERRA JOINT COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

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

July 1, 1998, through June 30, 2011



BETTY T. YEE
California State Controller

March 2015



BETTY T. YEE
California State Controller

March 12, 2015

Bill Halldin, President
Board of Trustees
Sierra Joint Community College District
5000 Rocklin Road
Rocklin, CA 95677

Dear Mr. Halldin:

The State Controller's Office audited the costs claimed by the Sierra Joint 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 \$5,752,616 for the mandated program. Our audit found that \$525,048 is allowable (\$535,039 less a \$9,991 penalty for filing a late claim) and \$5,227,568 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, misstated student enrollment numbers, misstated the number of BOGG fee waivers, misstated indirect cost rates, misstated indirect costs, and misstated eligible offsetting revenues. The State paid the district \$250,886. Allowable costs claimed exceed the amount paid by \$274,162.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sa

cc: William H. Duncan, Superintendent/President
Sierra Joint Community College District
Linda Fisher, Director of Finance
Sierra Joint Community College District
Mario Rodriguez, Assistant Vice Chancellor
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Sierra Joint 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 \$5,752,616 for the mandated program. Our audit found that \$525,048 is allowable (\$535,039 less a \$9,991 penalty for filing a late claim) and \$5,227,568 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, misstated student enrollment numbers, misstated the number of BOGG fee waivers, misstated indirect cost rates, misstated indirect costs, and misstated eligible offsetting revenues. The State paid the district \$250,886. Allowable costs claimed exceed the amount paid by \$274,162.

Background

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

The sections were added and/or amended by:

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

On April 24, 2003, the Commission on State Mandates (Commission) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The Commission found that the test claim legislation constitutes a new program or higher level of service and imposes a

reimbursable state-mandated program on community college districts within the meaning of Article XIII B, Section 6 of the California Constitution and Government Code section 17514.

The Commission found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOGG fee waivers.
- Reporting to the Community Colleges Chancellor the number of and amounts provided for BOGG 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 the reimbursement criteria. The Commission adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies, school districts, and community college districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

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

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

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations.

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

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

Conclusion

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

For the audit period, Sierra Joint Community College District claimed \$5,752,616 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$525,048 is allowable (\$535,039 less a \$9,991 penalty for filing a late claim) and \$5,227,568 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$24,212. Our audit found that all costs claimed are unallowable. The State will offset \$24,212 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 2008-09 claims, the State made no payments to the district. Our audit found that \$278,766 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$278,766, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$226,674. Our audit found that \$112,428 is allowable. The State will offset \$114,246 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 payments to the district. Our audit found that \$133,854 is allowable. The State will pay this amount, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on February 9, 2015. Chris Yatooma, Vice President of Administrative Services, responded by later dated February 23, 2015 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Sierra Joint 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 12, 2015

**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:				
Calculating and collecting enrollment fees	\$ 156,746	\$ 29,392	\$ (127,354)	Finding 1
Total direct costs	156,746	29,392	(127,354)	
Indirect costs	71,978	3,721	(68,257)	Finding 3
Total direct and indirect costs	228,724	33,113	(195,611)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(14,761)	(51,292)	(36,531)	Finding 4
Adjustment for unused portion of offsets ²	—	18,179	18,179	Finding 4
Total program costs	<u>\$ 213,963</u>	—	<u>\$ (213,963)</u>	
Less amount paid by the State		<u>(24,212)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (24,212)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculating and collecting enrollment fees	\$ 163,849	\$ 31,583	\$ (132,266)	Finding 1
Total direct costs	163,849	31,583	(132,266)	
Indirect costs	68,882	4,248	(64,634)	Finding 3
Total direct and indirect costs	232,731	35,831	(196,900)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(15,639)	(48,097)	(32,458)	Finding 4
Adjustment for unused portion of offsets ²	—	12,266	12,266	Finding 4
Total enrollment fee collection	<u>217,092</u>	—	<u>(217,092)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	447	447	—	
Staff training	554	554	—	
Adopt procedures, record and maintain records	720	720	—	
Waiving student fees	32,677	37,050	4,373	Finding 2
Reporting BOGG fee waiver data to CCCCCO	457	457	—	
Total direct costs	34,855	39,228	4,373	
Indirect costs	14,654	5,276	(9,378)	Finding 3

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>				
Total direct and indirect costs	49,509	44,504	(5,005)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(34,856)	(56,492)	(21,636)	Finding 4
Adjustment for unused portion of offsets ²	—	11,988	11,988	Finding 4
Total enrollment fee waivers	<u>14,653</u>	<u>—</u>	<u>(14,653)</u>	
Total program costs	<u>\$ 231,745</u>	<u>—</u>	<u>\$ (231,745)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Calculating and collecting enrollment fees	\$ 171,866	\$ 33,010	\$ (138,856)	Finding 1
Total direct costs	171,866	33,010	(138,856)	
Indirect costs	<u>71,049</u>	<u>5,899</u>	<u>(65,150)</u>	Finding 3
Total direct and indirect costs	242,915	38,909	(204,006)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(16,230)	(58,516)	(42,286)	Finding 4
Adjustment for unused portion of offsets ²	—	19,607	19,607	Finding 4
Total enrollment fee collection	<u>226,685</u>	<u>—</u>	<u>(226,685)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	160	160	—	
Staff training	283	283	—	
Adopt procedures, record and maintain records	651	651	—	
Waiving student fees	39,393	44,881	5,488	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,416	1,416	—	
Total direct costs	41,903	47,391	5,488	
Indirect costs	<u>17,323</u>	<u>8,469</u>	<u>(8,854)</u>	Finding 3
Total direct and indirect costs	59,226	55,860	(3,366)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(41,903)	(77,167)	(35,264)	Finding 4
Adjustment for unused portion of offsets ²	—	21,307	21,307	Finding 4
Total enrollment fee waivers	<u>17,323</u>	<u>—</u>	<u>(17,323)</u>	
Total program costs	<u>\$ 244,008</u>	<u>—</u>	<u>\$ (244,008)</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, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 181,406	\$ 35,308	\$ (146,098)	Finding 1
Total direct costs	181,406	35,308	(146,098)	
Indirect costs	65,633	6,514	(59,119)	Finding 3
Total direct and indirect costs	247,039	41,822	(205,217)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(15,234)	(40,674)	(25,440)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee collection	231,805	1,148	(230,657)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	173	173	—	
Staff training	303	303	—	
Adopt procedures, record and maintain records	682	682	—	
Waiving student fees	43,211	49,280	6,069	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,513	1,513	—	
Total direct costs	45,882	51,951	6,069	
Indirect costs	16,600	9,585	(7,015)	Finding 3
Total direct and indirect costs	62,482	61,536	(946)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(45,882)	(82,960)	(37,078)	Finding 4
Adjustment for unused portion of offsets ²	—	21,424	21,424	Finding 4
Total enrollment fee waivers	16,600	—	(16,600)	
Total program costs	\$ 248,405	1,148	\$ (247,257)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 1,148		
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 185,105	\$ 34,276	\$ (150,829)	Finding 1
Total direct costs	185,105	34,276	(150,829)	
Indirect costs	68,100	7,219	(60,881)	Finding 3
Total direct and indirect costs	253,205	41,495	(211,710)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(14,747)	(52,124)	(37,377)	Finding 4
Adjustment for unused portion of offsets ²	—	10,629	10,629	Finding 4
Total enrollment fee collection	238,458	—	(238,458)	

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	182	182	—	
Staff training	318	318	—	
Adopt procedures, record and maintain records	718	718	—	
Waiving student fees	47,539	85,808	38,269	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,592	1,592	—	
Total direct costs	50,349	88,618	38,269	
Indirect costs	18,523	18,663	140	Finding 3
Total direct and indirect costs	68,872	107,281	38,409	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(50,349)	(89,224)	(38,875)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	18,523	18,057	(466)	
Total program costs	<u>\$ 256,981</u>	18,057	<u>\$ (238,924)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 18,057</u>		
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ —	\$ —	\$ —	
Staff training	—	—	—	
Calculating and collecting enrollment fees	182,280	33,268	(149,012)	Finding 1
Total direct costs	182,280	33,268	(149,012)	
Indirect costs	70,014	7,372	(62,642)	Finding 3
Total direct and indirect costs	252,294	40,640	(211,654)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(29,878)	(69,136)	(39,258)	Finding 4
Adjustment for unused portion of offsets ²	—	28,496	28,496	Finding 4
Total enrollment fee collection	222,416	—	(222,416)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	202	202	—	
Staff training	406	406	—	
Adopt procedures, record and maintain records	726	726	—	
Waiving student fees	56,208	101,973	45,765	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,587	1,587	—	
Total direct costs	59,129	104,894	45,765	
Indirect costs	22,712	23,245	533	Finding 3

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>				
Total direct and indirect costs	81,841	128,139	46,298	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(59,130)	(108,297)	(49,167)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	<u>22,711</u>	<u>19,842</u>	<u>(2,869)</u>	
Total program costs	<u>\$ 245,127</u>	19,842	<u>\$ (225,285)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 19,842</u>		
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 4,480	\$ 4,480	\$ —	
Staff training	—	—	—	
Calculating and collecting enrollment fees	<u>182,193</u>	<u>32,340</u>	<u>(149,853)</u>	Finding 1
Total direct costs	186,673	36,820	(149,853)	
Indirect costs	<u>76,349</u>	<u>11,878</u>	<u>(64,471)</u>	Finding 3
Total direct and indirect costs	263,022	48,698	(214,324)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(55,748)	(106,943)	(51,195)	Finding 4
Adjustment for unused portion of offsets ²	—	58,245	58,245	Finding 4
Total enrollment fee collection	<u>207,274</u>	<u>—</u>	<u>(207,274)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	215	215	—	
Staff training	431	431	—	
Adopt procedures, record and maintain records	757	757	—	
Waiving student fees	67,411	124,467	57,056	Finding 2
Reporting BOGG fee waiver data to CCCCCO	<u>1,795</u>	<u>1,795</u>	<u>—</u>	
Total direct costs	70,609	127,665	57,056	
Indirect costs	<u>28,879</u>	<u>41,185</u>	<u>12,306</u>	Finding 3
Total direct and indirect costs	99,488	168,850	69,362	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(70,609)	(147,874)	(77,265)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	<u>28,879</u>	<u>20,976</u>	<u>(7,903)</u>	
Total program costs	<u>\$ 236,153</u>	20,976	<u>\$ (215,177)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 20,976</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	\$ 5,144	\$ 5,144	\$ —	
Staff training	—	—	—	
Calculating and collecting enrollment fees	178,853	32,047	(146,806)	Finding 1
Total direct costs	183,997	37,191	(146,806)	
Indirect costs	65,687	14,616	(51,071)	Finding 3
Total direct and indirect costs	249,684	51,807	(197,877)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(52,990)	(108,650)	(55,660)	Finding 4
Adjustment for unused portion of offsets ²	—	56,843	56,843	Finding 4
Total enrollment fee collection	196,694	—	(196,694)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	25	25	—	
Staff training	101	101	—	
Adopt procedures, record and maintain records	47	47	—	
Waiving student fees	73,788	135,465	61,677	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,661	1,661	—	
Total direct costs	75,622	137,299	61,677	
Indirect costs	26,997	53,959	26,962	Finding 3
Total direct and indirect costs	102,619	191,258	88,639	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(75,622)	(135,763)	(60,141)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	26,997	55,495	28,498	
Total program costs	<u>\$ 223,691</u>	55,495	<u>\$ (168,196)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 55,495</u>		
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 266,994	\$ 52,148	\$ (214,846)	Finding 1
Total direct costs	266,994	52,148	(214,846)	
Indirect costs	102,766	18,174	(84,592)	Finding 3
Total direct and indirect costs	369,760	70,322	(299,438)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(60,738)	(109,335)	(48,597)	Finding 4
Adjustment for unused portion of offsets ²	—	39,013	39,013	Finding 4
Total enrollment fee collection	309,022	—	(309,022)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	136	136	—	
Staff training	337	337	—	
Adopt procedures, record and maintain records	591	591	—	
Waiving student fees	118,862	125,296	6,434	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,699	1,699	—	
Total direct costs	121,625	128,059	6,434	
Indirect costs	46,813	44,629	(2,184)	Finding 3
Total direct and indirect costs	168,438	172,688	(4,250)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(121,625)	(151,758)	(30,133)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	46,813	20,930	(25,883)	
Total program costs	<u>\$ 355,835</u>	20,930	<u>\$ (334,905)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 20,930</u>		
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 320,887	\$ 50,060	\$ (270,827)	Finding 1
Total direct costs	320,887	50,060	(270,827)	
Indirect costs	121,392	19,583	(101,809)	Finding 3
Total direct and indirect costs	442,279	69,643	(372,636)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(48,771)	(82,889)	(34,118)	Finding 4
Adjustment for unused portion of offsets ²	—	13,246	13,246	Finding 4
Total enrollment fee collection	393,508	—	(393,508)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	243	243		
Staff training	440	440		
Adopt procedures, record and maintain records	718	718		
Waiving student fees	72,170	138,590	66,420	Finding 2
Reporting BOGG fee waiver data to CCCCCO	1,635	1,635		
Total direct costs	75,206	141,626	66,420	
Indirect costs	28,450	55,404	26,954	Finding 3

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008 (continued)</u>				
Total direct and indirect costs	103,656	197,030	93,374	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(75,206)	(144,629)	(69,423)	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	<u>28,450</u>	<u>52,401</u>	<u>23,951</u>	
Total program costs	<u>\$ 421,958</u>	<u>52,401</u>	<u>\$ (369,557)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,401</u>		
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 776,468	\$ 63,210	\$ (713,258)	Finding 1
Total direct costs	776,468	63,210	(713,258)	
Indirect costs	366,803	28,628	(338,175)	Finding 3
Total direct and indirect costs	1,143,271	91,838	(1,051,433)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(46,662)	(97,050)	(50,388)	Finding 4
Adjustment for unused portion of offsets ²	—	5,212	5,212	Finding 4
Total enrollment fee collection	<u>1,096,609</u>	<u>—</u>	<u>(1,096,609)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	145,649	167,380	21,731	Finding 2
Total direct costs	145,649	167,380	21,731	
Indirect costs	68,805	75,806	7,001	Finding 3
Total direct and indirect costs	214,454	243,186	28,732	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(145,649)	(143,278)	2,371	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	<u>68,805</u>	<u>99,908</u>	<u>31,103</u>	
Subtotal	1,165,414	99,908	(1,065,506)	
Less late filing penalty	—	(9,991)	(9,991)	
Total program costs	<u>\$ 1,165,414</u>	<u>89,917</u>	<u>\$ (1,075,497)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 89,917</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	\$ 703,538	\$ 55,332	\$ (648,206)	Finding 1
Total direct costs	703,538	55,332	(648,206)	
Indirect costs	332,351	25,121	(307,230)	Finding 3
Total direct and indirect costs	1,035,889	80,453	(955,436)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(106,556)	(104,670)	1,886	Finding 4
Adjustment for unused portion of offsets ²	—	24,217	24,217	Finding 4
Total enrollment fee collection	929,333	—	(929,333)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	173,929	188,649	14,720	Finding 2
Total direct costs	173,929	188,649	14,720	
Indirect costs	82,164	85,647	3,483	Finding 3
Total direct and indirect costs	256,093	274,296	18,203	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(239,875)	(161,868)	78,007	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	16,218	112,428	96,210	
Total program costs	<u>\$ 945,551</u>	112,428	<u>\$ (833,123)</u>	
Less amount paid by the State		<u>(226,674)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (114,246)</u>		
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 706,519	\$ 56,582	\$ (649,937)	Finding 1
Total direct costs	706,519	56,582	(649,937)	
Indirect costs	331,640	28,353	(303,287)	Finding 3
Total direct and indirect costs	1,038,159	84,935	(953,224)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(97,773)	(97,773)	—	Finding 4
Adjustment for unused portion of offsets ²	—	12,838	12,838	Finding 4
Total enrollment fee collection	940,386	—	(940,386)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	201,030	216,005	14,975	Finding 2
Total direct costs	201,030	216,005	14,975	
Indirect costs	94,363	108,240	13,877	Finding 3
Total direct and indirect costs	295,393	324,245	28,852	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(271,994)	(190,391)	81,603	Finding 4
Adjustment for unused portion of offsets ²	—	—	—	Finding 4
Total enrollment fee waivers	23,399	133,854	110,455	
Total program costs	<u>\$ 963,785</u>	133,854	<u>\$ (829,931)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 133,854</u>		
<u>Summary: July 1, 1998, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 9,624	\$ 9,624	\$ —	
Calculating and collecting enrollment fees	4,176,704	538,556	(3,638,148)	
Total direct costs	4,186,328	548,180	(3,638,148)	
Indirect costs	1,812,644	181,326	(1,631,318)	
Total direct and indirect costs	5,998,972	729,506	(5,269,466)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(575,727)	(1,027,149)	(451,422)	
Adjustment for unused portion of offsets ²	—	298,791	298,791	
Total enrollment fee collection	5,423,245	1,148	(5,422,097)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	1,783	1,783	—	
Staff training	3,173	3,173	—	
Adopt procedures, record and maintain records	5,610	5,610	—	
Waiving student fees	1,071,867	1,414,844	342,977	
Reporting BOGG fee waiver data to CCCCCO	13,355	13,355	—	
Total direct costs	1,095,788	1,438,765	342,977	
Indirect costs	466,283	530,108	63,825	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1998, through June 30, 2011 (continued)</u>				
Total direct and indirect costs	1,562,071	1,968,873	406,802	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(1,232,700)	(1,489,701)	(257,001)	
Adjustment for unused portion of offsets ²	—	54,719	54,719	
Total enrollment fee waivers	<u>329,371</u>	<u>533,891</u>	<u>204,520</u>	
Subtotal	5,752,616	535,039	(5,217,577)	
Less late filing penalty	—	(9,991)	(9,991)	
Total program costs	<u>\$ 5,752,616</u>	525,048	<u>\$ (5,227,568)</u>	
Less amount paid by the State		<u>(250,886)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 274,162</u>		

¹ See the Findings and Recommendations section.

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

Findings and Recommendations

**FINDING 1—
Enrollment fee
collection: Calculating
and Collecting
Enrollment Fees cost
component—
unallowable ongoing
costs**

The district claimed \$4,176,704 in salaries and benefits for the Calculating and Collecting Enrollment Fees cost component during the audit period. We found that \$538,556 in salaries and benefits is allowable and \$3,638,148 is 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 when compared to the student enrollment data reported to us by the California Community College Chancellor's Office (CCCCO), and the number of students who paid their enrollment fees online rather than in person based on information provided to us by the district.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1998-99	\$ 156,746	\$ 29,392	\$ (127,354)
1999-2000	163,849	31,583	(132,266)
2000-01	171,866	33,010	(138,856)
2001-02	181,406	35,308	(146,098)
2002-03	185,105	34,276	(150,829)
2003-04	182,280	33,268	(149,012)
2004-05	182,193	32,340	(149,853)
2005-06	178,853	32,047	(146,806)
2006-07	266,994	52,148	(214,846)
2007-08	320,887	50,060	(270,827)
2008-09	776,468	63,210	(713,258)
2009-10	703,538	55,332	(648,206)
2010-11	706,519	56,582	(649,937)
Total, salaries and benefits	<u>\$ 4,176,704</u>	<u>\$ 538,556</u>	<u>\$(3,638,148)</u>

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

- i. Referencing student accounts and records to determine course workload, status of payments, and eligibility for fee waiver. Printing a list of enrolled courses. **(Activity 1)**
- ii. Calculating the total enrollment fee to be collected. Identifying method of payment. Collecting cash and making change as necessary. Processing credit card and other non-cash payment transactions (however, any fees that may be charged to a community college district by a credit card company or bank are not reimbursable). Preparing a receipt for a payment received. **(Activity 2)**

- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
- iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
- v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**
- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

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

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

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

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 from estimated time it took staff to complete various activities through the use of employees' annual survey forms. For the entire audit period, employees estimated the average time in minutes it took them to perform the six reimbursable activities per student per year on certification forms developed by the district's mandated cost consultant. Also, for the entire audit period, the district did not provide any source documentation based on actual data to support the estimated time allowances.

The mandated activities took place at the district during the audit period, therefore, 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 Bursar's Office that collects

enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

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 ranging from 15.7 minutes to 27.7 minutes per student for the audit period (as shown in the following table). Based on our observations, we found that the time allowances claimed for these activities for these years were overstated.

We held discussions with various district representatives during the audit in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Bursar's Office performing the reimbursable activities as well as other non-mandated activities. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. During 10 days of observations at the Bursar's Office window, we observed and documented a total of 308 transactions processed by district staff. Of these, 60 involved the payment of enrollment fees encompassing Activities 1 through 4. The average time to perform all four activities was 3.44 minutes; or 0.86 minutes per activity.

Activity 5—Collecting delinquent enrollment fees

Time Increment

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 ranging from 3 minutes to 6 minutes per student for the audit period (as shown in the following table).

District staff indicated that for FY 1998-99 through FY 2006-07 the district did not have a process to collect delinquent fees. During those years, if a student owed fees, a hold was assessed to the student's account until the district collected the fees due. In the Summer of 2010, the district activated a drop-for-non-payment system. However, the district stated that drop-for-non-payment is turned off the Thursday prior to the start of instruction for a term and students cannot be dropped for non-payment once courses begin. Also, students may continue to add courses through the second week of instruction, but cannot be dropped if they do not pay their enrollment fees. Therefore, the district performs various on-going activities to collect the enrollment fees.

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 ranging from 2 minutes to 4.6 minutes per student for the audit period (as shown in the following table).

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

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Minutes						
	Reimbursable Activity						Total
	1	2	3	4	5	6	
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds
1998-99	3.80	5.90	4.80	4.10	18.60	-	-
1999-2000	3.80	5.90	4.80	4.10	18.60	-	4.60
2000-01	3.80	5.90	4.80	4.10	18.60	-	4.60
2001-02	3.80	5.90	4.80	4.10	18.60	-	4.60
2002-03	3.80	5.90	4.80	4.10	18.60	-	4.60
2003-04	3.80	5.90	4.80	4.10	18.60	3.00	4.60
2004-05	3.80	5.90	4.80	4.10	18.60	3.00	4.60
2005-06	3.80	5.90	4.80	4.10	18.60	3.00	4.60
2006-07	2.70	4.00	6.70	2.30	15.70	-	2.00
2007-08	2.70	4.00	6.70	2.30	15.70	-	2.00
2008-09	12.10	4.30	8.10	3.20	27.70	-	3.20
2009-10	12.10	4.30	8.10	3.20	27.70	-	3.20
2010-11	12.10	4.30	8.10	3.20	27.70	6.00	-

Fiscal Year	Allowable Minutes						
	Reimbursable Activity						Total
	1	2	3	4	5	6	
Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds	
1998-99	0.86	0.86	0.86	0.86	3.44	-	-
1999-2000	0.86	0.86	0.86	0.86	3.44	-	4.60
2000-01	0.86	0.86	0.86	0.86	3.44	-	4.60
2001-02	0.86	0.86	0.86	0.86	3.44	-	4.60
2002-03	0.86	0.86	0.86	0.86	3.44	-	4.60
2003-04	0.86	0.86	0.86	0.86	3.44	3.00	4.60
2004-05	0.86	0.86	0.86	0.86	3.44	3.00	4.60
2005-06	0.86	0.86	0.86	0.86	3.44	3.00	4.60
2006-07	0.86	0.86	0.86	0.86	3.44	-	2.00
2007-08	0.86	0.86	0.86	0.86	3.44	-	2.00
2008-09	0.86	0.86	0.86	0.86	3.44	-	3.20
2009-10	0.86	0.86	0.86	0.86	3.44	-	3.20
2010-11	0.86	0.86	0.86	0.86	3.44	6.00	-

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 FY 1998-99 through FY 2006-07, the district used the number of total enrolled students as the multiplier for Activity 3. For FY 2007-08 through FY 2010-11, the district used the number of total enrolled students as the multiplier for Activities 1 and 3. In determining student enrollment, the district used the "Student Headcount by Unit Load" summary report obtained from the CCCC website (Data Mart). However, this report includes duplicated students 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 FY 1998-99 through FY 2006-07, the district used the number of total enrolled students less the number of Board of Governors Grant (BOGG) fee waivers granted as the multiplier for Activities 1, 2, and 4. For FY 2007-08 through FY 2010-11, the district used the number of total enrolled students less the number of BOGG fee waivers granted as the multiplier for Activities 2 and 4.

For the audit period, we updated the district's calculations of eligible students for Activities 1 and 3 based on the number of students enrolled that it reported to the CCCCO less non-resident students and special admit students (See Attachment). The CCCCO'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 CCCCO eliminates any duplicate students by term based on their Social Security number.

For the audit period, 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 CCCCO. The CCCCO 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 enrollment 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.

The district provided information which included total online payment transactions and total payment transactions for FY 2009-10 and FY 2010-11. Based on the information provided by the district, we calculated online transaction percentages for FY 2009-10 and FY 2010-11. The district indicated that the online system began in FY 2002-03. Therefore, 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 (collecting delinquent enrollment fees), the district provided, and we accepted, the number of delinquent fees processed. During the audit, the district provided reports with the student accounts. In addition, the claimed multiplier represents less than one percent of the allowable multiplier.

Activity 6

For Activity 6 (providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected), the district provided, and we accepted, the number of refunds processed for the audit period for students who established fee waiver eligibility after paying their enrollment fees. The claimed multiplier represents one percent of the allowable multiplier.

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	521,233	560,041	38,808
2	457,362	318,909	(138,453)
3	590,778	560,041	(30,737)
4	457,362	318,909	(138,453)
5	4,953	4,953	-
6	17,918	17,918	-
Total	<u>2,049,606</u>	<u>1,780,771</u>	<u>(268,835)</u>

Calculation of Hours Adjustments

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

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

Reimbursable Activity	Claimed Hours	Allowable Hours	Adjusted Hours
1	51,694.3	8,027.3	(43,667.0)
2	40,277.2	4,571.1	(35,706.1)
3	58,246.4	8,027.3	(50,219.1)
4	27,780.3	4,571.1	(23,209.2)
5	326.9	326.9	-
6	1,187.0	1,187.0	-
Total	<u>179,512.1</u>	<u>26,710.7</u>	<u>(152,801.4)</u>

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that \$538,556 in salaries and benefits is allowable and \$3,638,148 is unallowable.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Adjusted Salaries and Benefits
1	\$ 1,421,506	\$ 175,156	\$ (1,246,350)
2	786,810	80,372	(706,438)
3	1,397,043	175,156	(1,221,887)
4	543,845	80,372	(463,473)
5	8,257	8,257	-
6	19,243	19,243	-
Total	\$ 4,176,704	\$ 538,556	\$ (3,638,148)

Recommendation

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

District's Response

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 13-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for Activities 1 through 4 and accepted for Activities 5 and 6 even though the same forms and time survey methods were used.

For Activities 1 through 4, collecting the enrollment fee, the District claimed average times per student transaction of 15.7 to 27.7 minutes over the 13 year. The auditor decided that the good faith time estimates reported by District staff were "overstated." The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor observed 308 transactions at the Bursar's Office over ten days, of which 60 involved the payment of enrollment fees encompassing Activities 1 through 4. The average observed time to perform all four activities was 3.44 minutes, or 0.86 minutes per activity.

This 78% to 88% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited net enrollment transactions are 560,041 over the 13-year period, of which 308 student transactions were observed during the

audit period. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these District procedures have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 5, collecting delinquent fees, the District claimed for four of the years a time average of 3 minutes or 6 minutes per student derived from two staff surveys. The audit concludes from discussion with program staff that the District performed relevant ongoing activities to collect the enrollment fees and allowed the claimed average times.

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

B. Workload multipliers

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

These audit statistics are further reduced for the percentage of online enrollment fee collections. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no online fee collection, so it was not a factor for the annual claim workload statistics. The District workload multipliers treated all enrollment fee collection transactions as an "in-person" transaction at the cashier's office. However, commencing FY 2002-03, the District began to establish an automated process that later evolved into internet online method to collect the enrollment fee. At the auditor's request, the District surveyed the number of online and total payment transactions for FY2009-10 and FY 2010-11. The survey indicated that by the end of the audit period about 80% of the transactions were performed online. In the absence of documentation available in the usual course of business to determine the online percentage for each previous year, the audit reduced the online percentage by 9% each year retroactive to FY 2002-03. This method appears reasonable given the documentation constraints. However, the audit findings do not replace the time lost from these eliminated online transactions with the costs to operate the online payment collection process. Thus, no costs are recognized in the audit for the online transaction.

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

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

SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses two specific issues:

- Average activity time
- Workload multiplier

We addressed our comments in the same order as presented.

Average activity time

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

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

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

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

and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's certified estimates ranged from 15.7 to 27.7 minutes for Activities 1 through 4 over the 13-year audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 1 through 4 as high as 27.7 minutes, we observed an average time of 3.44 minutes for all four activities, or 0.86 minutes per activity. We advised district representatives about the results of our observations as early as August 7, 2013, and encouraged the district to contact us if there were any questions. We also later advised the district to perform its own time study if it did not agree with the observation results. However, on March 24, 2014, district representatives stated that the district did not wish to conduct its own time study.

The district states in its response that, "the auditor's observation sample size is statistically meaningless" in comparison to the enrollment fee collection transactions performed by the district throughout the audit period. However, the auditor spent ten days at the Bursar's Office observing students paying a variety of fees owed to the district. We observed 308 transactions processed by district staff, 60 of which involved the payment of enrollment fees encompassing Activities 1 through 4. The district states that it conducted 560,041 student transactions during the audit period and that our sample, therefore, "does not constitute a representative "time study" sample." However, the district did not provide *any* source documentation to support the time required to perform any of these transactions. Instead, all time increments were supported only by estimates. In addition, the district did not provide any evidence based on actual cost data supporting a conclusion different from ours despite our request for the district to perform its own time study, which it declined. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

We discussed our time study methodology with district staff in advance of its implementation and solicited comments from the district. However, the district did not provide any comments on our time study plan, did not observe our time study being conducted, and did not offer any alternatives in support of actual costs incurred.

The district states that the "District procedures have changed over the years" for collecting fees. Therefore, it is reasonable to assume that the time increments claimed by the district for the three most recent years of the audit period (FY 2008-09 through FY 2010-11) should have less variance from our observations conducted during FY 2013-14 than the time increments claimed for the earlier ten years of the audit period. However, this is not the case. The district claimed 18.6 minutes for Activities 1 through 4 for FY 1998-99 through FY 2005-06; 15.7 minutes for FY 2006-07 and FY 2007-08; and 27.7 minutes for FY 2008-09 through FY 2010-11. Based on the auditor's observations, it took staff an average of 3.44 minutes to perform Activities 1 through 4. The variance between the district's first time survey results (used for FY 1998-99

through FY 2005-06) and our observation results is 15.16 minutes. The variance between the district's third set of time survey results (used for FY 2008-09 through FY 2010-11) and our observation results is 24.26 minutes. As a result, the variance between the most recent years claimed is larger than the variance between the earlier years claimed in comparison to our observation results. Regardless, the district did not provide any evidence supporting how its procedures changed over the years or explain why its average time estimates increased by 76% for the last three years of the audit period compared to FY 2007-08, or by 49% compared to FY 2005-06.

Workload multiplier

The district states that it does not dispute the corrections made to the workload multiplier for Activities 1 through 4.

The district states that "the audit findings do not replace the time lost from these eliminated online transactions with the costs to operate the online payment collection process. Thus, no costs are recognized in the audit for the online transactions." However, the district is responsible to prepare documentation supporting mandated costs it incurred. We discussed with district representatives the implications to the district's claims of students paying their enrollment fees online rather than in person. However, the district did not provide any information for us to consider supporting costs to "operate the online payment collection process" or indicate to us that it would provide such information. The district did not provide any additional support in its response to the draft audit report.

**FINDING 2—
Enrollment fee
waivers: Waving
Student Fees cost
component—
Unallowable ongoing
costs**

The district claimed \$1,071,867 in salaries and benefits for the Waiving Student Fees cost component during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h), for students who apply for and are eligible for BOGG fee waivers. We found that \$1,414,844 in salaries and benefits is allowable. The allowable costs exceed the claimed costs by \$342,977. We noted variations in the number of students used in the district's calculations based on data the district reported to the CCCCCO.

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

Fiscal Year	Claimed Amount	Allowable Amount	Audit Adjustment
Salaries and Benefits:			
1999-2000	\$ 32,677	\$ 37,050	\$ 4,373
2000-01	39,393	44,881	5,488
2001-02	43,211	49,280	6,069
2002-03	47,539	85,808	38,269
2003-04	56,208	101,973	45,765
2004-05	67,411	124,467	57,056
2005-06	73,788	135,465	61,677
2006-07	118,862	125,296	6,434
2007-08	72,170	138,590	66,420
2008-09	145,649	167,380	21,731
2009-10	173,929	188,649	14,720
2010-11	201,030	216,005	14,975
Total, salaries and benefits	<u>\$ 1,071,867</u>	<u>\$ 1,414,844</u>	<u>\$ 342,977</u>

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

- a. Waiving student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h.) waiving fees for students who apply for and are eligible for BOG fee waiver (Cal. Code Regs., tit. 5, §§ 58612, 58613, 58620).
 - i. Answering student's questions regarding enrollment fee waivers or referring them to the appropriate person for an answer. **(Activity 7)**
 - ii. Receiving of waiver applications from students by mail, fax, computer online access, or in person, or in the form of eligibility information processed by the financial aid office. **(Activity 8)**
 - iii. Evaluating each application and verification documents (dependency status, household size and income, SSI and TANF/CalWorks, etc.) for compliance with eligibility standards utilizing information provided by the student, from the student financial aid records (e.g., Free Application for Federal Student Aid (FAFSA), and other records. **(Activity 9)**
 - iv. In the case of an incomplete application or incomplete documentation, notify the student of the additional required

information and how to obtain that information. Hold student application and documentation in suspense file until all information is received. **(Activity 10)**

- v. In the case of an approved application, copy all documentation and file the information for further review or audit. Entering the approved application information into district records and / or notifying other personnel performing other parts of the process (e.g., cashier's office). Providing the student with proof of eligibility or an award letter, and file paper documents in the annual file. **(Activity 11)**
- vi. In the case of a denied application, reviewing an evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. **(Activity 12)**

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

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

The parameters and guidelines also 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 these activities.

Salaries and Benefits

The district claimed salaries and benefits during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h) to waive fees for students who apply for and are eligible for BOGG fee waivers. For FY 1999-00 through FY 2010-11, the district claimed salaries and benefits for the reimbursable activities under the Waiving Student Fees cost component using estimated time it took staff to complete various activities documented on employees' annual survey forms. For the entire audit period, employees estimated, using certification forms developed by the district's mandated cost consultant, the average time in minutes it took them to perform the 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.

The mandated activities took place at the district during the audit, therefore, 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 to perform the reimbursable activities. We observed district staff in the Financial Aid Office that processes students' BOGG fee waiver applications and documented the average time increments spent by district staff to perform these activities based on our observations.

Activity 7—Answering student questions

We observed staff at the front counter of the Financial Aid Office answer BOGG fee waiver questions from students. In addition, district staff indicated that students can call and email the Financial Aid Office to ask BOGG fee waiver questions. Also, students can ask BOGG fee waiver questions during campus events and class tours conducted by Financial Aid staff.

Activity 8—Receiving enrollment fee waiver applications

We observed staff at the front counter of the Financial Aid Office receive paper BOGG fee waiver applications from students. In addition, we observed staff at the back counter of the Financial Aid Office receive student information from the FAFSA (Free Application for Federal Student Aid) system to process and grant BOGG fee waivers. Also, the college may receive BOGG fee waiver applications through the college account email, by fax, through a drop off box located outside the Financial Aid Office building, and during campus events and class tours conducted by Financial Aid staff.

Activity 9—Evaluating waiver applications and verifying documentation

We observed staff at the front counter of the Financial Aid Office manually evaluate paper BOGG fee waiver applications for eligibility and verify supporting documentation. For BOGG fee waiver A, the district has always requested documentation along with the application. For BOGG fee waiver B, the district began requesting tax documents from the IRS during FY 2011-12. Staff reviewed the applications for completeness and immediately notified the students if the application was incomplete. After reviewing the application for completeness, staff determined the eligibility status of the BOGG fee waiver application and inserted any necessary electronic notes in the student's account (district computer system).

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

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

Also, we observed district staff at the back counter of the Financial Aid Office notify students about their incomplete BOGG fee waiver application by phone, by email, and by sending a roam message through the district's computer system. In addition, staff updated the student's file in the district's computer system, summarized the conversation held with the student, and sent the summarized conversation via email.

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 Office manually enter the student's BOGG fee waiver application information into the district's computer system during the evaluation process. Once the BOGG fee waivers were approved, staff immediately posted the BOGG fee waiver to the student's account. Students can then view the BOGG fee waiver on their student college account as soon as it is posted by staff. Therefore, the application and the supporting documentation are kept by staff. Also, we observed staff file the paper BOGG fee waiver applications in alphabetical order.

In addition, we observed staff at the back counter of the Financial Aid Office process paperless BOGG fee waivers using the student's information provided by the FAFSA. Staff performs a batch process report which includes potential BOGG fee waiver eligible students. The computer system automatically selects the eligible BOGG fee waiver students. On occasion, certain student accounts with issues are selected for staff to perform a further review and manually verify the student's information. After students are awarded a BOGG fee waiver, an electronic message is sent to their college account confirming the BOGG fee waiver award.

Activity 12–Appealing a denied BOGG fee waiver application

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

Activities 7 through 11

Time Increments

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activities 7 through 11. Based on these certifications, the

district developed time allowances ranging from 24 minutes to 36.9 minutes per student (as shown in the following table). Based on our observations, we found that the time allowances claimed for these activities for these years were overstated.

During the audit, 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 Office performing the reimbursable activities and other non-mandated activities. Also, we observed staff at the back counter of the Financial Aid Office perform reimbursable activities. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. 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 staff at the front counter of the Financial Aid Office perform activities related to waiving student fees. We observed a total of 74 BOGG fee waiver related inquires, totaling 499 minutes. The average time to perform the front counter activities was 6.75 minutes.

For back counter Activity 10, we observed staff contact 22 students to notify them about the additional required information, totaling 208 minutes. Based on our observations, we found that it takes staff approximately 9.46 minutes to notify students of additional required information, in the case of an incomplete application.

For back counter activity 11, we observed staff awarding a total of 1,258 BOGG fee waivers in four batch processes by retrieving students' information from the FAFSA system. It took staff a total of 270 minutes to award the 1,258 BOGG fee waivers. The average time to award a BOGG fee waiver using the FAFSA system was 0.21 minutes. Also, for back counter activity 11, we observed staff filing 228 paper BOGG fee waiver applications by alphabetical order, totaling 197 minutes. The average time to file a paper BOGG fee waiver application was 0.86 minutes.

The average time to perform all five activities (7 through 11) was 17.3 minutes; or 3.46 minutes per activity.

Activity 12

Time Increments

District employees estimated the time required to perform reimbursable activity 12 by using certification forms developed by the district's mandate cost consultants. Based on these certifications, the district developed time allowances, per student for the audit period, of 7 minutes to 11.9 minutes (as shown in the following table).

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

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Minutes						Total	12 Appeals for Denied Waiver
	Reimbursable Activity							
	7	8	9	10	11			
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications			
1999-2000	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2000-01	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2001-02	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2002-03	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2003-04	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2004-05	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2005-06	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2006-07	3.9	4.5	8.6	10.2	9.7	36.9	11.9	
2007-08	4.0	2.0	4.0	10.0	4.0	24.0	7.0	
2008-09	4.7	4.2	7.5	-	7.7	24.1	-	
2009-10	4.7	4.2	7.5	11.3	7.7	35.4	10.0	
2010-11	4.7	4.2	7.5	11.3	7.7	35.4	-	

Fiscal Year	Allowable Minutes						Total	12 Denied Waiver
	Reimbursable Activity							
	7	8	9	10	11			
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications			
1999-2000	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2000-01	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2001-02	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2002-03	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2003-04	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2004-05	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2005-06	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2006-07	3.46	3.46	3.46	3.46	3.46	17.30	11.9	
2007-08	3.46	3.46	3.46	3.46	3.46	17.30	7.0	
2008-09	3.46	3.46	3.46	3.46	3.46	17.30	-	
2009-10	3.46	3.46	3.46	3.46	3.46	17.30	10.0	
2010-11	3.46	3.46	3.46	3.46	3.46	17.30	-	

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 applications 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 identified the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F.

For Activity 12 (appeals of denied BOGG fee waiver applications), the district provided, and we accepted, the number of appeals processed for the audit period.

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjustment Multiplier
7	96,952	143,479	46,527
8	96,952	143,479	46,527
9	96,952	143,479	46,527
10	5,517	143,479	137,962
11	92,300	137,962	45,662
12	5,517	5,517	-
Totals	394,190	717,395	323,205

Calculation of Hours Adjustments

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

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

Reimbursable Activity	Claimed Hours	Allowable Hours	Adjusted Hours
7	6,871.1	8,273.9	1,402.8
8	4,870.0	8,273.9	3,403.9
9	9,148.2	8,273.9	(874.3)
10	924.6	8,273.9	7,349.3
11	9,091.5	7,955.8	(1,135.7)
12	719.6	719.6	-
Total	31,625.0	41,771.0	10,146.0

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that the district understated allowable salaries and benefits by \$342,977.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Adjusted Salaries and Benefits
7	\$ 231,872	\$ 280,411	\$ 48,539
8	166,221	280,411	114,190
9	311,388	280,411	(30,977)
10	29,355	280,411	251,056
11	310,146	270,315	(39,831)
12	22,885	22,885	-
Total	<u>\$ 1,071,867</u>	<u>\$1,414,844</u>	<u>\$ 342,977</u>

Recommendation

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

District's Response

A. Average activity time

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

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

- for activities 7 through 11, 74 transactions at the "front-counter" over several days. The average observed time to perform all five front-counter activities was 6.75 minutes.
- for back-counter work for Activity 10, staff contacting 22 students to request additional information for an average of 9.46 minutes per student contact.

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

The audited average time to perform all five activities (7 through 11) was 17.3 minutes, or 3.46 minutes per activity. This 28% to 53% reduction in audited time allowed is a significant source of the claimed cost reduction, which is only mitigated by the increase in workload statistics below. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 143,479 over the 12-year period, of which 96 transactions were observed. The audit report does not state that the front- and back-counter procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 12, appealing a denied BOGG waiver, the District claimed average times per student of 7 minutes to 11.9 minutes for ten fiscal years in the audit period. The auditor was unable to observe this process during the week of fieldwork because no appeals were received. Without this observation, the audit report defaults to total disallowance of this activity. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

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

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

B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For Activities 7 through 11, the draft audit report replaces the workload data reported by the District and substitutes the workload data the auditor obtained from the Chancellor's Office which removes the number of duplicated BOGG recipients. These corrections made by the auditor are not disputed at this time. For Activity 12, the audited multiplier is zero because the auditor did not observe the appeal process, which will be a subject of the incorrect reduction claim.

SCO's Comments

Based on the district's response, we updated the audit finding to include allowable costs as claimed by the district for reimbursable Activity 12 (Appealing a denied BOGG fee waiver application). As a result, allowable costs increased by \$22,885 for enrollment fee waivers activities; from \$1,391,959 to \$1,414,844. We concur that our understanding of the process that the district performed to perform the reimbursable activity, based on our discussions with district representatives, is sufficient to determine that the time claimed was reasonable.

The district's response addresses two specific issues:

- Average activity time
- Workload multiplier

We addressed our comments in the same order as presented.

Average activity time

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

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

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

As the mandated activities took place at the district during the audit period, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. The certificated survey forms were completed by district employees for waiving student fee activities during the audit period. We held discussions with various district

representatives to determine the procedures that the district employees followed to perform the reimbursable activities. We observed district staff in the Financial Aid Office perform the mandate activities and documented the average time increments spent by district staff to perform these activities based on our observations.

The district's certified estimates ranged from 24 to 36.9 minutes for Activities 7 through 11 over the 13-year audit period. Our observations supported that the estimated time allowances claimed for these activities were overstated. For example, while the district claimed time to perform Activities 7 through 11 as high as 36.9 minutes, we observed an average time of 17.3 minutes for all five activities, or 3.46 minutes per activity. We advised district representatives about the results of our observations on March 3, 2014, and advised the district to contact us if there were any questions. Also, on March 20, 2014, we encouraged the district perform its own time study if it did not agree with the observation results. However, on March 24, 2014, district representatives stated that the district did not wish to conduct its own time study.

The district states in its response that "the auditor's observation sample size is statistically meaningless" in comparison to the number of waiver transactions performed by the district throughout the audit period. However, the auditor spent several days at the Financial Aid Office observing staff process BOGG waiver applications and documented the average time increments spent by district staff to perform these activities based on our observations. We observed 96 BOGG fee waiver-related activities performed by district staff. We observed that it took the staff members an average time of 17.3 minutes for Activities 7 through 11, or an average of 3.46 minutes for each of the five activities. The district states that it conducted 143,479 waiver transactions during the audit period and that our sample, therefore, "does not constitute a representative "time study" sample." However, the district did not provide *any* source documentation to support the time required to perform any of these transactions. Instead, all time increments were supported only by estimates. In addition, the district did not provide any evidence based on actual cost data supporting a conclusion different from ours despite our request for the district to perform its own time study, which it declined. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

We discussed our time study methodology with district staff in advance of its implementation and solicited comments from the district. However, the district did not provide any comments on our time study plan, did not observe our time study being conducted, and did not offer any alternatives in support of actual costs incurred.

For reimbursable Activity 12 (Appealing a denied BOGG fee waiver application), as noted above, we agreed with the district assertion that the evidence that we obtained through discussions with district personnel was sufficient to determine that the time being claimed to perform the activity was reasonable, even though we did not observe district staff performing this activity.

Workload multiplier

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

**FINDING 3—
Misstated indirect
costs**

The district claimed indirect costs during the audit period totaling \$1,812,644 for enrollment fee collection activities and \$466,283 for enrollment fee waiver activities. For enrollment fee collection activities, we found that \$181,326 is allowable and \$1,631,318 is unallowable. The costs are unallowable because the district incorrectly calculated the indirect cost rates using the FAM-29C methodology and overstated salaries and benefits for the audit period. For enrollment fee waiver activities, we found that \$530,108 is allowable; therefore, allowable costs exceed claimed costs by \$63,825. The allowable costs exceed claimed costs because the district incorrectly calculated the indirect cost rates using the FAM-29C methodology and understated salaries and benefits for the audit period.

Methodology Used by the District to Claim Indirect Cost Rates

For FY 1998-99 through FY 2007-08 and FY 2010-11, the district claimed indirect costs using the SCO's FAM-29C methodology and incorrectly calculated its indirect cost rates by using the prior year's information contained in the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311). For FY 2009-10, the district used the FY 2008-09 calculated rate. For the audit period, the district did not prepare its indirect cost rates in accordance with the SCO's claiming instructions.

Calculated Indirect Cost Rates

For FY 1998-99 through FY 2000-01 and FY 2010-11, we recalculated indirect cost rates using the SCO FAM-29C methodology using the pertinent year's CCFS-311.

Audited Indirect Cost Rates

For FY 2001-02, we used the audited indirect cost rates from the Health Fee Elimination (HFE) Program audit issued November 2006.

For FY 2002-03 and FY 2003-04, we used the audited indirect cost rates from the Collective Bargaining Program audit issued August 2010.

For FY 2004-05 through FY 2007-08, we used the audited indirect cost rates from the HFE Program audit issued January 2012.

For FY 2008-09 and FY 2009-10, we used the audited indirect cost rates from the HFE Program review issued July 2013.

Misstated Cost Rate Summary

Our calculations show that the district overstated its indirect cost rates for FY 1998-99 through FY 2004-05, FY 2006-07, FY 2008-09, and FY 2009-10 and understated its indirect cost rates for FY 2005-06, FY 2007-08, and FY 2010-11.

The following table summarizes the claimed, allowable, and adjusted indirect cost rates:

Fiscal Year	Claimed	Allowable	Difference
1998-99	45.92%	12.66%	-33.26%
1999-2000	42.04%	13.45%	-28.59%
2000-01	41.34%	17.87%	-23.47%
2001-02	36.18%	18.45%	-17.73%
2002-03	36.79%	21.06%	-15.73%
2003-04	38.41%	22.16%	-16.25%
2004-05	40.90%	32.26%	-8.64%
2005-06	35.70%	39.30%	3.60%
2006-07	38.49%	34.85%	-3.64%
2007-08	37.83%	39.12%	1.29%
2008-09	47.24%	45.29%	-1.95%
2009-10	47.24%	45.40%	-1.84%
2010-11	46.94%	50.11%	3.17%

Enrollment Fee Collection

The district claimed \$1,812,644 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that \$181,326 is allowable and \$1,631,318 is unallowable. The costs are unallowable because of the errors discussed previously in this finding and unallowable salaries and benefits identified in Finding 1.

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

Enrollment Fee Collection					
Fiscal Year	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Cost	Adjusted Indirect Costs
1998-99	\$ 29,392	12.66%	\$ 3,721	\$ 71,978	\$ (68,257)
1999-2000	31,583	13.45%	4,248	68,882	(64,634)
2000-01	33,010	17.87%	5,899	71,049	(65,150)
2001-02	35,308	18.45%	6,514	65,633	(59,119)
2002-03	34,276	21.06%	7,219	68,100	(60,881)
2003-04	33,268	22.16%	7,372	70,014	(62,642)
2004-05	36,820	32.26%	11,878	76,349	(64,471)
2005-06	37,191	39.30%	14,616	65,687	(51,071)
2006-07	52,148	34.85%	18,174	102,766	(84,592)
2007-08	50,060	39.12%	19,583	121,392	(101,809)
2008-09	63,210	45.29%	28,628	366,803	(338,175)
2009-10	55,332	45.40%	25,121	332,351	(307,230)
2010-11	56,582	50.11%	28,353	331,640	(303,287)
	<u>\$ 548,180</u>		<u>\$ 181,326</u>	<u>\$ 1,812,644</u>	<u>\$ (1,631,318)</u>

Enrollment Fee Waivers

The district claimed \$466,283 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We found that the district understated allowable costs by \$63,825.

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

Enrollment Fee Waivers					
Fiscal Year	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Cost	Adjusted Indirect Costs
1999-2000	\$ 39,228	13.45%	\$ 5,276	\$ 14,654	\$ (9,378)
2000-01	47,391	17.87%	8,469	17,323	(8,854)
2001-02	51,951	18.45%	9,585	16,600	(7,015)
2002-03	88,618	21.06%	18,663	18,523	140
2003-04	104,894	22.16%	23,245	22,712	533
2004-05	127,665	32.26%	41,185	28,879	12,306
2005-06	137,299	39.30%	53,959	26,997	26,962
2006-07	128,059	34.85%	44,629	46,813	(2,184)
2007-08	141,626	39.12%	55,404	28,450	26,954
2008-09	167,380	45.29%	75,806	68,805	7,001
2009-10	188,649	45.40%	85,647	82,164	3,483
2010-11	216,005	50.11%	108,240	94,363	13,877
	<u>\$ 1,438,765</u>		<u>\$ 530,108</u>	<u>\$ 466,283</u>	<u>\$ 63,825</u>

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

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

Recommendation

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

District’s Response

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

Direct Cost Adjustments

The District claimed indirect costs totaling \$1,812,644 for enrollment fee collection activities. The audit concluded that \$181,326 is allowable and \$1,631,318 is unallowable. Most of this 90% reduction is attributable to Finding 1. The District claimed indirect costs \$466,283 for enrollment fee waiver activities. The audit increased this amount by \$57,263 to \$523,546. Most of this increase is due to the increased audited number of enrollment fee waiver students used in Finding 2. If either of these findings are changed by the incorrect reduction claim, the indirect costs applied will change.

Calculation of the Rates

For FY 2001-02 through FY 2009-10, the Controller used the audited indirect cost rates from previous audits of the District’s Health Fee Elimination or Collective Bargaining program annual claims. The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with all of the audited rates.

Fiscal Year	Claimed	Allowable	Adjustment	Audit Source
1998-99	45.92%	12.66%	-33.26%	Auditor FAM-29C calculation
1999-00	42.04%	13.45%	-28.59%	Auditor FAM-29C calculation
2000-01	41.34%	17.87%	-23.47%	Auditor FAM-29C calculation
2001-02	36.18%	18.45%	-17.73%	HFE 2006 SCO audit
2002-03	36.79%	21.06%	-15.73%	CB 2010 SCO audit
2003-04	38.41%	22.16%	-16.25%	CB 2010 SCO audit
2004-05	40.90%	32.26%	-8.64%	HFE 2012 SCO audit
2005-06	35.70%	39.30%	3.60%	HFE 2012 SCO audit
2006-07	38.49%	34.85%	-3.64%	HFE 2012 SCO audit
2007-08	37.83%	39.12%	1.29%	HFE 2012 SCO audit
2008-09	47.24%	45.29%	-1.95%	HFE 2013 SCO audit
2009-10	47.24%	45.40%	-1.84%	HFE 2013 SCO audit
2010-11	46.94%	50.11%	3.17%	Auditor FAM-29C calculation

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

As the source of major differences prior to FY 2005-06, the District included capital costs and thereafter used the depreciation costs obtained from the District's CPA audited annual financial statements. The audit excluded the capital costs every year until FY 2004-05 and thereafter also used CPA depreciation expense. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. There are no regulations or pertinent generally accepted industry methods for the calculation of the indirect cost rate, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act. The burden of proof is on the Controller to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

SCO's Comments

As the result of additional allowable costs for Waiving Student Fees, as discussed in our comments for Finding 2, related indirect costs increased by \$6,562 for the audit period, from \$523,546 to \$530,108.

Section V.B of the parameters and guidelines (Claim Preparation – Indirect Cost Rates) states that community colleges have the option of claiming indirect costs using one of three options, a federally approved rate based on OMB Circular A-21, a rate using SCO's FAM-29C methodology, or a flat 7% indirect cost rate. The district chose the option of using the SCO's FAM-29C methodology for the entire audit period by using the FAM-29C forms to document its indirect cost rate calculations. However, the district did not follow the SCO's claiming instructions. We recalculated indirect costs under the FAM-29C methodology using the applicable SCO's claiming instructions. The SCO's claiming instructions allow depreciation under the FAM-29C methodology commencing in FY 2004-05.

The district believes that the SCO's claiming instructions are unenforceable because they "have not been adopted as regulations under the Administrative Procedures Act." However, Title 2, *California Code of Regulations* (CCR), section 1186, allows districts to request that the Commission review the SCO's claiming instructions. The district did not request that the Commission review the SCO's claiming instructions applicable to the Enrollment Fee Collection and Waivers Program. 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."

We summarized the common errors related to indirect costs that we found in the district's claims for FY 1998-99 through FY 2011-12:

- For every year of the audit period except FY 2008-09, the district used expenditure amounts obtained from the prior year's California Community Colleges Annual Financial Budget Report – Expenditures by Activity Report (CCFS-311) when calculating its indirect cost rates. Initial claims for this mandated program covering FY 1998-99 through FY 2004-05 were due to the SCO on August 1, 2006. The annual claim for FY 2005-06 was due to the SCO on January 16, 2007. Claims filed for FY 2006-07 and beyond were due to the SCO by February 15 of the following calendar year. Title 5, CCR, section 58305, subdivision (d), states "on or before the 10th day of October, each district shall submit a copy of its adopted annual financial and budget report to the Chancellor." Based on this requirement, the CFS-311 financial report information was available at the time that the claims were due to the SCO to prepare indirect cost rates using financial data relevant to the proper fiscal year.

- For FY 2004-05 through FY 2006-07, the district did not include depreciation or use allowance amounts for building and equipment in its indirect cost pool used for calculating indirect cost rates. This information originates within the notes to the district's audited financial statements. For FY 2007-08 and FY 2009-10 through FY 2011-12, the district used depreciation and use allowance amounts from the prior year audited financial statements instead of current year amounts to compute its indirect cost rates. We used audited financial statements provided by the district as the source for annual depreciation amounts beginning in FY 2004-05. Audited financial statements are based on financial statement data provided by the district to its outside auditors relative to June 30 of each fiscal year.
- For FY 2007-08, the district calculated its indirect cost rate by using total direct costs as a base instead of salaries and benefits. The SCO's claiming instructions for that fiscal year requires the use of salaries and benefits as a base.

The district made the following specific errors in its indirect cost rate calculations:

- FY 1998-99 through FY 2003-04
 - Misclassified costs within the accounts groups of Instruction, Instructional Administration and Instructional Governance, Instructional Support Services, Admission and Records, Counseling and Guidance, Other Student Services, Staff Development, Staff Diversity, Other General Institutional Support Services, Community Services, and Ancillary Services as indirect. However, all costs within these account groups should be classified as direct costs.
 - Misclassified 100% of the costs within account group Operation and Maintenance of Plant as indirect. The SCO's claiming instructions allow claimants the option of using 7% of the expenses reported within this account group as indirect costs or a higher expense percentage if the district can support the higher amount. The district did not provide any support for using a percentage higher than 7%.
 - Misclassified costs within the account group of Physical Property Acquisition as indirect in its indirect cost rate calculations for FY 2002-03 and FY 2003-04. However, costs within this account group are unallowable for the purposes of calculating a FAM-29C indirect cost rate.
- FY 2004-05 through FY 2007-08
 - Misclassified costs within the accounts groups of Instruction, Instructional Administration and Instructional Governance, Instructional Support Services, Community Relations, Community Services and Economic Development, Ancillary Services, and Ancillary Operations as indirect. However, all

costs within these account groups should be classified as direct costs.

- FY 2000-01 through FY 2001-02 and FY 2004-05 through FY 2010-11
 - Misclassified costs within the account of Community Relations as indirect. Costs within this account should be classified as direct costs.

**FINDING 4—
Misstated offsetting
reimbursements**

The district claimed offsetting reimbursements totaling \$575,727 for enrollment fee collection and \$1,232,700 for enrollment fee waivers. We found that offsetting reimbursements were misstated by \$152,631 (overstated by \$47,174 and understated by \$199,805) for enrollment fee collection and misstated by \$196,165 (overstated by \$161,981 and understated by \$358,146) for enrollment fee waivers. The offsetting reimbursements were understated because the district did not report the correct amounts that it received from the CCCCCO for enrollment fee collection or enrollment fee waivers.

Enrollment Fee Collection

For the audit period, the district claimed offsetting reimbursements for enrollment fee collection related to the offset of 2% of revenues from enrollment fees. We obtained a report from the CCCCCO confirming enrollment fee collection offsets paid to the district totaling \$1,027,149 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 \$729,506. The district misstated offsetting reimbursements by \$152,631 (overstated by \$47,174 and understated by \$199,805), consisting of offsets applicable to the audit period of \$728,358 less offsets claimed of \$575,727.

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

Enrollment Fee Collection Offsets					
Fiscal Year	Allowable		Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
	Direct and Related Indirect Costs	Claimed Offsets (A)			
1998-99	\$ 33,113	\$ (14,761)	\$ (51,292)	\$ (33,113)	\$ (18,352)
1999-2000	35,831	(15,639)	(48,097)	(35,831)	(20,192)
2000-01	38,909	(16,230)	(58,516)	(38,909)	(22,679)
2001-02	41,822	(15,234)	(40,674)	(40,674)	(25,440)
2002-03	41,495	(14,747)	(52,124)	(41,495)	(26,748)
2003-04	40,640	(29,878)	(69,136)	(40,640)	(10,762)
2004-05	48,698	(55,748)	(106,943)	(48,698)	7,050
2005-06	51,807	(52,990)	(108,650)	(51,807)	1,183
2006-07	70,322	(60,738)	(109,335)	(70,322)	(9,584)
2007-08	69,643	(48,771)	(82,889)	(69,643)	(20,872)
2008-09	91,838	(46,662)	(97,050)	(91,838)	(45,176)
2009-10	80,453	(106,556)	(104,670)	(80,453)	26,103
2010-11	84,935	(97,773)	(97,773)	(84,935)	12,838
Total	\$ 729,506	\$ (575,727)	\$ (1,027,149)	\$ (728,358)	\$ (152,631)

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs totals \$298,791 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (51,292)	\$ (33,113)	\$ (18,179)
1999-2000	(48,097)	(35,831)	(12,266)
2000-01	(58,516)	(38,909)	(19,607)
2001-02	(40,674)	(40,674)	-
2002-03	(52,124)	(41,495)	(10,629)
2003-04	(69,136)	(40,640)	(28,496)
2004-05	(106,943)	(48,698)	(58,245)
2005-06	(108,650)	(51,807)	(56,843)
2006-07	(109,335)	(70,322)	(39,013)
2007-08	(82,889)	(69,643)	(13,246)
2008-09	(97,050)	(91,838)	(5,212)
2009-10	(104,670)	(80,453)	(24,217)
2010-11	(97,773)	(84,935)	(12,838)
Total	\$ (1,027,149)	\$ (728,358)	\$ (298,791)

Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$1,489,701 for the audit period.

We also limited offsetting reimbursements received by the district to allowable direct and indirect costs.

Allowable direct and indirect costs applicable to the audit period related to enrollment fee waivers activities totaled \$1,968,873. The district

misstated offsetting reimbursements by \$202,282 (overstated by \$161,981 and understated by \$364,263), consisting of offsets applicable to the audit period of \$1,434,982 less offsets claimed of \$1,232,700.

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

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1999-2000	\$ 44,504	\$ (34,856)	\$ (56,492)	\$ (44,504)	\$ (9,648)
2000-01	55,860	(41,903)	(77,167)	(55,860)	(13,957)
2001-02	61,536	(45,882)	(82,960)	(61,536)	(15,654)
2002-03	107,281	(50,349)	(89,224)	(89,224)	(38,875)
2003-04	128,139	(59,130)	(108,297)	(108,297)	(49,167)
2004-05	168,850	(70,609)	(147,874)	(147,874)	(77,265)
2005-06	191,258	(75,622)	(135,763)	(135,763)	(60,141)
2006-07	172,688	(121,625)	(151,758)	(151,758)	(30,133)
2007-08	197,030	(75,206)	(144,629)	(144,629)	(69,423)
2008-09	243,186	(145,649)	(143,278)	(143,278)	2,371
2009-10	274,296	(239,875)	(161,868)	(161,868)	78,007
2010-11	324,245	(271,994)	(190,391)	(190,391)	81,603
Total	<u>\$ 1,968,873</u>	<u>\$(1,232,700)</u>	<u>\$ (1,489,701)</u>	<u>\$ (1,434,982)</u>	<u>\$ (202,282)</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$54,719 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (56,492)	\$ (44,504)	\$ (11,988)
2000-01	(77,167)	(55,860)	(21,307)
2001-02	(82,960)	(61,536)	(21,424)
2002-03	(89,224)	(89,224)	-
2003-04	(108,297)	(108,297)	-
2004-05	(147,874)	(147,874)	-
2005-06	(135,763)	(135,763)	-
2006-07	(151,758)	(151,758)	-
2007-08	(144,629)	(144,629)	-
2008-09	(143,278)	(143,278)	-
2009-10	(161,868)	(161,868)	-
2010-11	(190,391)	(190,391)	-
Total	<u>\$ (1,489,701)</u>	<u>\$ (1,434,982)</u>	<u>\$ (54,719)</u>

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

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

Enrollment Fee Collection Program:

The costs of the Enrollment Fee Collection program are subject to an offset of two percent (2%) of the revenue from enrollment fees (Education Code section 76000(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 of the parameters and guidelines to provide additional clarification.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district report the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its 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 statewide statutory rates and not actual cost of the program to the District. The offsetting program revenue amounts are applied to the audited direct and indirect costs. The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01,

and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00 only). The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs.

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

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

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

SCO's Comments

As a result of the additional allowable costs for Waiving Student Fees, as discussed in our comments for Finding 2, the audit adjustment for offsetting revenues received for the costs of the enrollment fee waivers program during the audit period increased by \$6,117, from \$196,165 to \$202,282 (overstated by \$161,981 and understated by \$364,263).

The district does not dispute the "potential" revenue offset amounts. However, the district states its belief that the audited revenue offsets for FY 2002-03 through FY 2010-11 should be reduced by the same percentage of online transaction costs "in order to properly match revenues and costs." In other words, the district believes that offsets

should only be based on enrollment fees collected through “in-person” transactions. We disagree.

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

The revenues received by the district from the CCCCCO were based on two percent of the revenue from enrollment fees received by the district from students and were intended to cover the costs incurred by the district to implement the program of calculating and collecting enrollment fees from students. The specific costs subject to mandate reimbursement are those identified in Section IV.A. of the parameters and guidelines (Reimbursable Activities – Enrollment Fee Collection). The costs claimed by the district for FY 2002-03 through FY 2010-11 under this section of the parameters and guidelines included the one-time activity of preparing policies and procedures as well as all six ongoing activities for calculating and collecting enrollment fees from students.

However, the pro-ration of costs to reflect the payment of enrollment fees online only applied to reimbursable Activity 2 (Calculating and Collecting the Fee) and Activity 4 (Updating Written and Computer Records). To determine the allowable costs, we applied the time increments required to perform these activities by the number of students appearing in-person to pay their enrollment fees based on the applicable productive hourly rates of district staff that performed these activities. Based on the results of our audit, the district has already been fully reimbursed for these costs for FY 2002-03 through FY 2010-11 through the receipt of offsetting revenues from the CCCCCO. Further, our audit report identifies that the district has received offsetting revenues beyond the actual costs that it incurred to perform these reimbursable activities.

**OTHER ISSUE —
Documentation
standards**

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

District’s Response

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

SCO’s Comments

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

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

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

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

**OTHER ISSUE —
Public Records
Request**

The district’s response included a public records request.

District’s Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings 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**

SIERRA COLLEGE

February 23, 2015

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
Sierra Joint Community College District

Dear Mr. Spano:

This letter is the response of the Sierra Joint Community College District to the draft audit report dated February 9, 2015, received by e-mail on February 17, 2015, for the above referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Ninety-one 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 the documentation of staff time to implement the mandate program is needed. The majority of the direct costs claimed is the staff time, and most of that cost is disallowed by the audit. The draft audit report essentially asserts that the provided source documents are inappropriately or insufficiently documented. The report cites the parameters and guidelines as the legal standard for source documentation:

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

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

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

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

This District utilized forms prepared by its consultant to document staff time spent on the mandates. These forms are in the nature of certified declarations that are within the scope of the parameters and guidelines documentation standards. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed

the claimed costs for insufficient documentation. In some cases, average staff time per activity was claimed, and disallowed. The auditor then substituted audited average staff time based on personal observation of the activities as currently implemented. By substituting their own time observations for some of the activities, Controller staff are validating the concept of using average times as an acceptable method for the calculation of the mandate costs. The difference becomes one of fact, how much time to allow for each activity. Also, where the District's reported time and workload statistics were accepted by the auditor for some activities, the Controller is validating the District's good faith method and the mandate consultant's forms as an acceptable method for estimating average time. Since all of these choices are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

AUDIT FINDINGS

FINDING 1 Enrollment fee Collection: Calculating and Collecting Enrollment Fees Cost Component– unallowable ongoing costs

The District claimed \$4,176,704 in salaries and benefits for the enrollment fees cost component during the audit period. The cost of staff time to implement this mandate component (Activities 1 through 6) is based on average times to implement each activity, multiplied by the average productive hourly rate for the relevant positions (not adjusted by the audit), then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee).

The draft audit states that \$538,556 is allowable and \$3,638,148 is unallowable, because the District estimated the amount of time required to perform the reimbursable activities and did not provide any "source" documentation based on actual data. The audit report also replaces the number of students used in the District calculation with student enrollment data obtained by the auditor from the Chancellor's Office and reduces the number of students who paid their enrollment fees online rather than in person. The collective effect of these adjustments is an 85% reduction of the 179,512 claimed mandate program hours to 26,711. There is a similar magnitude of reduction of the \$4,176,704 in claimed costs to \$538,556. Based on the audited net enrollment of 560,041 for the audit period, the imputed audited average time for all six activities is an improbable 2.9 minutes and 96 cents per enrollment.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, program staff who implemented the mandate responded to three surveys conducted over the 13-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual averages were then combined and an average calculated for all staff implementing each activity. These averages were rejected by the auditor for

Activities 1 through 4 and accepted for Activities 5 and 6 even though the same forms and time survey methods were used.

For Activities 1 through 4, collecting the enrollment fee, the District claimed average times per student transaction of 15.7 to 27.7 minutes over the 13 years. The auditor decided that the good faith time estimates reported by District staff were "overstated." The auditor held discussions with program staff in order to determine the procedures used to perform the reimbursable activities. The auditor observed 308 transactions at the Bursar's Office over ten days, of which 60 involved the payment of enrollment fees encompassing Activities 1 through 4. The average observed time to perform all four activities was 3.44 minutes, or 0.86 minutes per activity.

This 78% to 88% reduction in time allowed for in-person transactions is the first and largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited net enrollment transactions are 560,041 over the 13-year period, of which 308 student transactions were observed during the audit period. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these District procedures have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 5, collecting delinquent fees, the District claimed for four of the years a time average of 3 minutes or 6 minutes per student derived from two staff surveys. The audit concludes from discussion with program staff that the District performed relevant ongoing activities to collect the enrollment fees and allowed the claimed average times.

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

B. Workload multipliers

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

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

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

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

FINDING 2 Enrollment Fee Waivers: Waiving Student Fees cost component

The District claimed \$1,071,867 in salaries and benefits for waiving enrollment fees for students who are eligible for BOGG fee waivers. The cost of staff time to implement this mandate component (Activities 7 through 12) is based on average time to implement each activity, multiplied by the average productive hourly rate (not adjusted by the audit) for the relevant positions, then multiplied by the relevant workload statistic.

The audit determined that \$1,391,959 is allowable, which exceeds claimed costs by \$320,092, attributable to a significant audited increase in the number of waivers processed. The audit reduces some of the reported average staff times to implement the mandate because the District estimated the amount of time required to perform the reimbursable activities and did not provide any "source" documentation based on actual data. The audit report replaces the number of students used in the District calculation with student enrollment waiver data

obtained by the auditor from the Chancellor's Office. The collective effect of these adjustments is a 30% increase to the 31,625 claimed mandate program hours to 41,051. There is a similar increase of the \$1,071,867 in claimed costs to \$1,391,959. However, based on the audited number of waivers of 143,479 for the audit period, the imputed audited average time for all six activities is an unlikely 17.2 minutes and \$9.70 per waiver.

A. Average activity time

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

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

- for activities 7 through 11, 74 transactions at the "front-counter" over several days. The average observed time to perform all five front-counter activities was 6.75 minutes.
- for back-counter work for Activity 10, staff contacting 22 students to request additional information for an average of 9.46 minutes per student contact.
- for back-counter work for Activity 11, staff completing 1,258 waivers in four batch processes by retrieving student's information from the FAFSA system, for an average time of 0.21 minutes. Also, staff filing 228 paper applications, for an average per application of 0.86 minutes.

The audited average time to perform all five activities (7 through 11) was 17.3 minutes, or 3.46 minutes per activity. This 28% to 53% reduction in audited time allowed is a significant source of the claimed cost reduction, which is only mitigated by the increase in workload statistics below. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 143,479 over the 12-year period, of which 96 transactions were observed. The audit report does not state that the front- and back-counter

procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 12, appealing a denied BOGG waiver, the District claimed average times per student of 7 minutes to 11.9 minutes for ten fiscal years in the audit period. The auditor was unable to observe this process during the week of fieldwork because no appeals were received. Without this observation, the audit report defaults to total disallowance of this activity. However, the audit report indicates that the auditor obtained an understanding of the scope the process from the program staff:

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

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

B. Workload multipliers

The average staff time for each activity is multiplied by a specific workload factor for each activity to determine the claimable staff time. Both the District and the auditor used this method. For Activities 7 through 11, the draft audit report replaces the workload data reported by the District and substitutes the workload data the auditor obtained from the Chancellor's Office which removes the number of duplicated BOGG recipients. These corrections made by the auditor are not disputed at this time. For Activity 12, the audited multiplier is zero because the auditor did not observe the appeal process, which will be a subject of the incorrect reduction claim.

FINDING 3 Misstated indirect costs

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

previously adjusted to which the indirect cost rate is applied and the calculation of the indirect cost rate.

Direct Cost Adjustments

The District claimed indirect costs totaling \$1,812,644 for enrollment fee collection activities. The audit concluded that \$181,326 is allowable and \$1,631,318 is unallowable. Most of this 90% reduction is attributable to Finding 1. The District claimed indirect costs \$466,283 for enrollment fee waiver activities. The audit increased this amount by \$57,263 to \$523,546. Most of this increase is due to the increased audited number of enrollment fee waiver students used in Finding 2. If either of these findings are changed by the incorrect reduction claim, the indirect costs applied will change.

Calculation of the Rates

For FY 2001-02 through FY 2009-10, the Controller used the audited indirect cost rates from previous audits of the District's Health Fee Elimination or Collective Bargaining program annual claims. The District accepts the use of the indirect cost rates calculated for other mandate audits. However, the District disagrees with all of the audited rates.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>	<u>Audit Source</u>
1998-99	45.92%	12.66%	-33.26%	Auditor FAM-29C calculation
1999-00	42.04%	13.45%	-28.59%	Auditor FAM-29C calculation
2000-01	41.34%	17.87%	-23.47%	Auditor FAM-29C calculation
2001-02	36.18%	18.45%	-17.73%	HFE 2006 SCO audit
2002-03	36.79%	21.06%	-15.73%	CB 2010 SCO audit
2003-04	38.41%	22.16%	-16.25%	CB 2010 SCO audit
2004-05	40.90%	32.26%	- 8.64%	HFE 2012 SCO audit
2005-06	35.70%	39.30%	3.60%	HFE 2012 SCO audit
2006-07	38.49%	34.85%	- 3.64%	HFE 2012 SCO audit
2007-08	37.83%	39.12%	1.29%	HFE 2012 SCO audit
2008-09	47.24%	45.29%	- 1.95%	HFE 2013 SCO audit
2009-10	47.24%	45.40%	- 1.84%	HFE 2013 SCO audit
2010-11	46.94%	50.11%	3.17%	Auditor FAM-29C calculation

Both the District and the auditor used the Controller's FAM-29C methodology to calculate the indirect cost rate each year. Both the District and the Controller used the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311) to calculate the rates. As a source of some minor annual differences, the District used the prior year CCFS-311 and the auditor used the current audit year report, which is a choice of consistent methods. Another source of minor differences derives from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each

CCFS-311 account and the audit findings have not indicated otherwise. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method.

As the source of major differences prior to FY 2005-06, the District included capital costs and thereafter used the depreciation costs obtained from the District's CPA audited annual financial statements. The audit excluded the capital costs every year until FY 2004-05 and thereafter also used CPA depreciation expense. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. There are no regulations or pertinent generally accepted industry methods for the calculation of the indirect cost rate, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act. The burden of proof is on the Controller to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

FINDING 4 Misstated offsetting reimbursements

The offsetting amounts are not actually "reimbursements," rather they are funds provided by the state to implement the program and are based on statewide statutory rates and not actual cost of the program to the District. The offsetting program revenue amounts are applied to the audited direct and indirect costs. The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00 only). The District concurs and complied with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs.

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

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

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

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,



Chris Yatooma, Vice President Administrative Services
Sierra Joint Community College District

**State Controller's Office
Division of Audits
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