

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

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

July 1, 1998, through June 30, 2012



BETTY T. YEE
California State Controller

May 2015



BETTY T. YEE
California State Controller

May 29, 2015

Patricia Miljanich, President, Board of Trustees
San Mateo County Community College District
3401 CSM Drive
San Mateo, CA 94402

Dear Ms. Miljanich:

The State Controller's Office audited the costs claimed by the San Mateo County Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program for the period of July 1, 1998, through June 30, 2012.

The district claimed \$12,563,532 for the mandated program. Our audit found that \$517,193 is allowable (\$537,274 less a \$20,081 penalty for filing late claims) and \$12,046,339 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time; overstated student enrollment numbers; claimed ineligible contract services costs; claimed unsupported costs for adopting procedures, recording, and maintaining records for BOGG fee waivers; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$259,083. Allowable costs exceed the amount paid by \$258,110.

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: Ron Galatolo, Chancellor

San Mateo County Community College District
Raymond Chow, Chief Financial Officer
San Mateo County Community College District
Steve Pang, Compliance Officer
San Mateo County Community College District
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Mateo County Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program, Education Code Section 76300 and Title 5, *California Code of Regulations*, sections 58501-58503, 58611-58613, 58620, and 58630 for the period of July 1, 1998, through June 30, 2012.

The district claimed \$12,563,532 for the mandated program. Our audit found that \$517,193 is allowable (\$537,274 less a \$20,081 penalty for filing late claims) and \$12,046,339 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation; claimed ineligible time; overstated student enrollment numbers; claimed ineligible contract services costs; claimed unsupported costs for adopting procedures, recording, and maintaining records for BOGG fee waivers; overstated indirect costs; misstated eligible offsetting revenues; and misstated productive hourly rates. The State paid the district \$259,083. Allowable costs exceed the amount paid by \$258,110.

Background

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

The sections were added and/or amended by:

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

On April 24, 2003, the Commission on State Mandates (Commission) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The Commission found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on community college districts within the meaning of Article XIII B, Section 6 of the California

Constitution and Government Code section 17514.

The Commission found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOGG fee waivers.
- Reporting to the Community Colleges Chancellor the number of and amounts provided for BOGG fee waivers.
- Adopting procedures that will document all financial assistance provided on behalf of students pursuant to Chapter 9, 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 mandated and define the reimbursement criteria. The Commission adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Enrollment Fee Collection Waivers Program for the period of July 1, 1998, through June 30, 2012.

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

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

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

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

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

Conclusion

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

For the audit period, the San Mateo County Community College District claimed \$12,563,532 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$517,193 is allowable (\$537,274 less a \$20,081 penalty for filing late claims) and \$12,046,339 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$68,545. Our audit found that \$10,666 is allowable. The State will offset \$57,879 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 2007-08 claims, the State made no payment to the district. Our audit found that \$330,993 is allowable. The State will pay allowable costs claimed totaling \$330,993, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$190,538. Our audit found that \$92,053 is allowable. The State will offset \$98,485 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 through FY 2011-12 claims, the State made no payment to the district. Our audit found that \$83,481 is allowable. The State will pay allowable costs claimed totaling \$83,481, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on May 1, 2015. Kathy Blackwood, Executive Vice Chancellor, responded by letter dated May 12, 2015 (Attachment), agreeing with the audit results except for Findings 1, 2, 3, 4, 5, 6, 7, and 10. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the San Mateo County 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

May 29, 2015

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

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,733	\$ 1,733	\$ —	Finding 1
Staff training	1,142	1,142	—	Finding 2
Calculating and collecting enrollment fees	480,279	65,442	(414,837)	Finding 3
Total direct costs	483,154	68,317	(414,837)	
Indirect costs	144,946	20,495	(124,451)	Finding 9
Total direct and indirect costs	628,100	88,812	(539,288)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(22,371)	(78,146)	(55,775)	Finding 10
Total program costs	<u>\$ 605,729</u>	10,666	<u>\$ (595,063)</u>	
Less amount paid by the State		(68,545)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (57,879)</u>		

¹ See the Findings and Recommendations section.

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

³ The district's claims included \$30,000 in late penalties (\$10,000 for FY 2006-07, \$10,000 for FY 2007-08, and \$10,000 for FY 2009-10). The SCO assesses the penalty on allowable costs for claims filed after filing deadline specified in the Controller's claiming instructions. FY 2006-07, FY 2007-08, and FY 2009-10 claims were annual reimbursement claims filed after the filing deadline and subject to the late penalty as specified within Government Code section 17568, equal to 10% of allowable costs, not to exceed \$10,000. However, the late filing penalties for those years is \$4,041 for FY 2006-07, \$10,000 for FY 2007-08, and \$6,040 for FY 2009-10 based on allowable costs.

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,611	\$ 1,611	\$ —	Finding 1
Staff training	3,092	—	(3,092)	Finding 2
Calculating and collecting enrollment fees	486,522	67,304	(419,218)	Finding 3
Total direct costs	491,225	68,915	(422,310)	
Indirect costs	147,367	20,675	(126,692)	Finding 9
Total direct and indirect costs	638,592	89,590	(549,002)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(18,962)	(72,624)	(53,662)	Finding 10
Total enrollment fee collection	619,630	16,966	(602,664)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	5,138	5,138	—	Finding 4
Staff training	2,935	2,935	—	Finding 5
Adopt procedures, record and maintain records	74,167	11,348	(62,819)	Finding 6
Waiving student fees	49,396	3,741	(45,655)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	3,391	2,261	(1,130)	Finding 8
Total direct costs – salaries and benefits	135,027	25,423	(109,604)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	135,027	25,528	(109,499)	
Indirect costs	40,507	7,627	(32,880)	Finding 9
Total direct and indirect costs	175,534	33,155	(142,379)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(73,669)	(113,430)	(39,761)	Finding 10
Adjustment for unused portion of offsets ²	—	80,275	80,275	Finding 10
Total enrollment fee waivers	101,865	—	(101,865)	
Total program costs	\$ 721,495	16,966	\$ (704,529)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 16,966		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 1,705	\$ 1,705	\$ —	Finding 1
Staff training	3,481	—	(3,481)	Finding 2
Calculating and collecting enrollment fees	517,961	68,871	(449,090)	Finding 3
Total direct costs	523,147	70,576	(452,571)	
Indirect costs	156,944	21,173	(135,771)	Finding 9
Total direct and indirect costs	680,091	91,749	(588,342)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(18,024)	(67,004)	(48,980)	Finding 10
Total enrollment fee collection	662,067	24,745	(637,322)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	3,158	—	(3,158)	Finding 4
Staff training	3,332	—	(3,332)	Finding 5
Adopt procedures, record and maintain records	77,623	12,690	(64,933)	Finding 6
Waiving student fees	58,547	4,670	(53,877)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	3,580	2,484	(1,096)	Finding 8
Total direct costs – salaries and benefits	146,240	19,844	(126,396)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	146,240	19,949	(126,291)	
Indirect costs	43,871	5,953	(37,918)	Finding 9
Total direct and indirect costs	190,111	25,902	(164,209)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(89,402)	(103,046)	(13,644)	Finding 10
Adjustment for unused portion of offsets ²	—	77,144	77,144	Finding 10
Total enrollment fee waivers	100,709	—	(100,709)	
Total program costs	\$ 762,776	24,745	\$ (738,031)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 24,745		

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				
Prepare policies and procedures	\$ 2,002	\$ 2,002	\$ —	Finding 1
Staff training	10,300	—	(10,300)	Finding 2
Calculating and collecting enrollment fees	527,593	80,126	(447,467)	Finding 3
Total direct costs	539,895	82,128	(457,767)	
Indirect costs	161,969	24,638	(137,331)	Finding 9
Total direct and indirect costs	701,864	106,766	(595,098)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(15,881)	(67,036)	(51,155)	Finding 10
Total enrollment fee collection	685,983	39,730	(646,253)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	2,127	2,127	—	Finding 4
Staff training	3,464	—	(3,464)	Finding 5
Adopt procedures, record and maintain records	83,509	14,281	(69,228)	Finding 6
Waiving student fees	79,158	6,638	(72,520)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	3,768	2,658	(1,110)	Finding 8
Total direct costs – salaries and benefits	172,026	25,704	(146,322)	
Direct costs - contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	172,026	25,809	(146,217)	
Indirect costs	51,607	7,711	(43,896)	Finding 9
Total direct and indirect costs	223,633	33,520	(190,113)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(106,091)	(92,768)	13,323	Finding 10
Adjustment for unused portion of offsets ²	—	59,248	59,248	Finding 10
Total enrollment fee waivers	117,542	—	(117,542)	
Total program costs	\$ 803,525	39,730	\$ (763,795)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 39,730		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 2,161	\$ 2,161	\$ —	Finding 1
Staff training	8,171	—	(8,171)	Finding 2
Calculating and collecting enrollment fees	659,316	89,709	(569,607)	Finding 3
Total direct costs	669,648	91,870	(577,778)	
Indirect costs	200,895	27,561	(173,334)	Finding 9
Total direct and indirect costs	870,543	119,431	(751,112)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(16,874)	(70,815)	(53,941)	Finding 10
Total enrollment fee collection	853,669	48,616	(805,053)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	3,543	—	(3,543)	Finding 4
Staff training	3,612	—	(3,612)	Finding 5
Adopt procedures, record and maintain records	96,861	16,003	(80,858)	Finding 6
Waiving student fees	84,397	13,768	(70,629)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	4,059	2,738	(1,321)	Finding 8
Total direct costs – salaries and benefits	192,472	32,509	(159,963)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	192,472	32,614	(159,858)	
Indirect costs	57,742	9753	(47,989)	Finding 9
Total direct and indirect costs	250,214	42,367	(207,847)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(123,813)	(105,877)	17,936	Finding 10
Adjustment for unused portion of offsets ²	—	63,510	63,510	Finding 10
Total enrollment fee waivers	126,401	—	(126,401)	
Total program costs	\$ 980,070	48,616	\$ (931,454)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 48,616		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 2,237	\$ 2,237	—	Finding 1
Staff training	10,044	—	(10,044)	Finding 2
Calculating and collecting enrollment fees	514,208	67,852	(446,356)	Finding 3
Total direct costs- salaries and benefits	526,489	70,089	(456,400)	
Direct costs- contract services				
Calculating and collecting enrollment fees	—	33,084	33,084	Finding 3
Total direct costs- contract services	—	33,084	33,084	
Total direct costs	526,489	103,173	(423,316)	
Indirect costs	157,947	21,027	(136,920)	Finding 9
Total direct and indirect costs	684,436	124,200	(560,236)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(35,734)	(100,160)	(64,426)	Finding 10
Total enrollment fee collection	648,702	24,040	(624,662)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	3,728	869	(2,859)	Finding 4
Staff training	2,278	2,278	—	Finding 5
Adopt procedures, record and maintain records	107,275	16,912	(90,363)	Finding 6
Waiving student fees	123,441	19,879	(103,562)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	4,181	2,820	(1,361)	Finding 8
Total direct costs - salaries and benefits	240,903	42,758	(198,145)	
Direct costs - contracted services				
Adopt procedures, record and maintain records	—	105	105	
Waiving student fees	33,084	—	(33,084)	Finding 7
Total direct costs - contracted services	33,084	105	(32,979)	
Total direct costs	273,987	42,863	(231,124)	
Indirect costs	72,271	12,827	(59,444)	Finding 9
Total direct and indirect costs	346,258	55,690	(290,568)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(180,971)	(140,979)	39,992	Finding 10
Adjustment for unused portion of offsets ²	—	85,289	85,289	Finding 10
Total enrollment fee waivers	165,287	—	(165,287)	
Total program costs	\$ 813,989	24,040	\$ (789,949)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 24,040		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 2,676	\$ 2,676	\$ —	Finding 1
Staff training	9,908	—	(9,908)	Finding 2
Calculating and collecting enrollment fees	692,505	70,997	(621,508)	Finding 3
Total direct costs- salaries and benefits	<u>705,089</u>	<u>73,673</u>	<u>(631,416)</u>	
Direct costs- contract services				
Calculating and collecting enrollment fees	—	34,006	34,006	Finding 3
Total direct costs- contract services	<u>—</u>	<u>34,006</u>	<u>34,006</u>	
Total direct costs	705,089	107,679	(597,410)	
Indirect costs	<u>211,526</u>	<u>22,102</u>	<u>(189,424)</u>	Finding 9
Total direct and indirect costs	916,615	129,781	(786,834)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(75,866)	(133,547)	(57,681)	Finding 10
Adjustment for unused portion of offsets ²	—	3,766	3,766	Finding 10
Total enrollment fee collection	<u>840,749</u>	<u>—</u>	<u>\$ (840,749)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	1,404	1,404	—	Finding 4
Staff training	3,790	—	(3,790)	Finding 5
Adopt procedures, record and maintain records	118,577	17,056	(101,521)	Finding 6
Waiving student fees	139,746	22,686	(117,060)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	4,475	2,890	(1,585)	Finding 8
Total direct costs - salaries and benefits	<u>267,992</u>	<u>44,036</u>	<u>(223,956)</u>	
Direct costs - contracted services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Waiving student fees	34,006	—	(34,006)	Finding 7
Total direct costs - contracted services	<u>34,006</u>	<u>105</u>	<u>(33,901)</u>	
Total direct costs	301,998	44,141	(257,857)	
Indirect costs	<u>80,397</u>	<u>13,211</u>	<u>(67,186)</u>	Finding 9
Total direct and indirect costs	382,395	57,352	(325,043)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(216,397)	(203,409)	12,988	Finding 10
Adjustment for unused portion of offsets ²	—	146,057	146,057	Finding 10
Total enrollment fee waivers	<u>165,998</u>	<u>—</u>	<u>(165,998)</u>	
Total program costs	<u>\$ 1,006,747</u>	<u>—</u>	<u>\$ (1,006,747)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 3,499	\$ —	\$ (3,499)	Finding 1
Staff training	21,081	—	(21,081)	Finding 2
Calculating and collecting enrollment fees	646,091	69,906	(576,185)	Finding 3
Total direct costs- salaries and benefits	670,671	69,906	(600,765)	
Direct costs- contract services				
Calculating and collecting enrollment fees	—	34,456	34,456	Finding 3
Total direct costs- contract services	—	34,456	34,456	
Total direct costs	670,671	104,362	(566,309)	
Indirect costs	201,202	20,972	(180,230)	Finding 9
Total direct and indirect costs	871,873	125,334	(746,539)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(72,111)	(132,075)	(59,964)	Finding 10
Adjustment for unused portion of offsets ²	—	6,741	6,741	Finding 10
Total enrollment fee collection	799,762	—	(799,762)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	1,524	1,524	—	Finding 4
Staff training	5,235	—	(5,235)	Finding 5
Adopt procedures, record and maintain records	134,928	18,003	(116,925)	Finding 6
Waiving student fees	155,779	66,797	(88,982)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	5,040	3,327	(1,713)	Finding 8
Total direct costs - salaries and benefits	302,506	89,651	(212,855)	
Direct costs - contracted services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Waiving student fees	34,456	—	(34,456)	Finding 7
Total direct costs - contracted services	34,456	105	(34,351)	
Total direct costs	336,962	89,756	(247,206)	
Indirect costs	90,752	26,895	(63,857)	Finding 9
Total direct and indirect costs	427,714	116,651	(311,063)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(214,235)	(186,704)	27,531	Finding 10
Adjustment for unused portion of offsets ²	—	70,053	70,053	Finding 10
Total enrollment fee waivers	213,479	—	(213,479)	
Total program costs	<u>\$ 1,013,241</u>	—	<u>\$ (1,013,241)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ —	\$ 2,161	\$ 2,161	Finding 1
Calculating and collecting enrollment fees	311,116	67,420	(243,696)	Finding 3
Total direct costs - salaries and benefits	311,116	69,581	(241,535)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	231,847	66,714	(165,133)	Finding 3
Total direct costs - contracted services	231,847	66,714	(165,133)	
Total direct costs	542,963	136,295	(406,668)	
Indirect costs	93,335	20,874	(72,461)	Finding 9
Total direct and indirect costs	636,298	157,169	(479,129)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(76,873)	(116,757)	(39,884)	Finding 10
Total enrollment fee collection	559,425	40,412	(519,013)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	—	19,021	19,021	Finding 6
Waiving student fees	171,545	70,520	(101,025)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	—	3,469	3,469	Finding 8
Total direct costs – salaries and benefits	171,545	93,010	(78,535)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	171,545	93,115	(78,430)	
Indirect costs	51,463	27,903	(23,560)	Finding 9
Total direct and indirect costs	223,008	121,018	(101,990)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(171,545)	(204,541)	(32,996)	Finding 10
Adjustment for unused portion of offsets ²	—	83,523	83,523	Finding 10
Total enrollment fee waivers	51,463	—	(51,463)	
Subtotal	610,888	12,936	(597,952)	
Less late filing penalty ³	—	(4,041)	(4,041)	
Total program costs	<u>\$ 610,888</u>	36,371	<u>\$ (574,517)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 36,371</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 340,690	\$ 71,928	\$ (268,762)	Finding 3
Total direct costs - salaries and benefits	340,690	71,928	(268,762)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	267,774	163,632	(104,142)	Finding 3
Total direct costs - contracted services	267,774	163,632	(104,142)	
Total direct costs	608,464	235,560	(372,904)	
Indirect costs				
	102,207	21,578	(80,629)	Finding 9
Total direct and indirect costs	710,671	257,138	(453,533)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(62,499)	(106,613)	(44,114)	Finding 10
Total enrollment fee collection	648,172	150,525	(497,647)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	—	21,436	21,436	Finding 6
Waiving student fees	181,557	77,601	(103,956)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	—	3,595	3,595	Finding 8
Total direct costs – salaries and benefits	181,557	102,632	(78,925)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	181,557	102,737	(78,820)	
Indirect costs				
	54,467	30,790	(23,677)	Finding 9
Total direct and indirect costs	236,024	133,527	(102,497)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(181,557)	(198,590)	(17,033)	Finding 10
Adjustment for unused portion of offsets ²	—	65,063	65,063	Finding 10
Total enrollment fee waivers	54,467	—	(54,467)	
Subtotal	702,639	120,519	(582,120)	
Less late filing penalty ³	—	(10,000)	(10,000)	
Total program costs	\$ 702,639	140,525	\$ (562,114)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 140,525		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,059	\$ 1,059	\$ —	Finding 1
Staff training	706	706	—	Finding 2
Calculating and collecting enrollment fees	721,140	77,151	(643,989)	Finding 3
Total direct costs - salaries and benefits	<u>722,905</u>	<u>78,916</u>	<u>643,989</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	127,104	100,803	(26,301)	Finding 3
Total direct costs - contracted services	<u>127,104</u>	<u>100,803</u>	<u>(26,301)</u>	
Total direct costs	850,009	179,719	(670,290)	
Indirect costs	<u>216,873</u>	<u>23,675</u>	<u>(193,198)</u>	Finding 9
Total direct and indirect costs	1,066,882	203,394	(863,488)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(59,204)	(111,341)	(52,137)	Finding 10
Total enrollment fee collection	<u>1,007,678</u>	<u>92,053</u>	<u>(915,625)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	203	203	—	Finding 4
Staff training	609	609	—	Finding 5
Adopt procedures, record and maintain records	13,705	22,181	8,476	Finding 6
Waiving student fees	412,911	88,097	(324,814)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	1,015	3,697	2,682	Finding 8
Total direct costs – salaries and benefits	<u>428,443</u>	<u>114,787</u>	<u>(313,656)</u>	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	<u>—</u>	<u>105</u>	<u>105</u>	
Total direct costs	428,443	114,892	(313,551)	
Indirect costs	<u>128,533</u>	<u>34,436</u>	<u>(94,097)</u>	Finding 9
Total direct and indirect costs	556,976	149,328	(407,648)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(326,966)	(197,476)	129,490	Finding 10
Adjustment for unused portion of offsets ²	—	48,148	48,148	Finding 10
Total enrollment fee waivers	<u>230,010</u>	<u>—</u>	<u>(230,010)</u>	
Total program costs	<u>\$ 1,237,688</u>	92,053	<u>\$ (1,145,635)</u>	
Less amount paid by the State		<u>(190,538)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (98,485)</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				
Prepare policies and procedures	\$ 2,546	\$ 2,546	\$ —	Finding 1
Calculating and collecting enrollment fees	1,095,510	85,737	(1,009,773)	Finding 3
Total direct costs - salaries and benefits	1,098,056	88,283	(1,009,773)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	77,064	74,261	(2,803)	Finding 3
Total direct costs - contracted services	77,064	74,261	(2,803)	
Total direct costs	1,175,120	162,544	(1,012,576)	
Indirect costs	455,694	39,701	415,993)	Finding 9
Total direct and indirect costs	1,630,814	202,245	(1,428,569)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(132,386)	(141,850)	(9,464)	Finding 10
Total enrollment fee collection	1,498,428	60,395	(1,438,033)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	214	214	—	Finding 4
Staff training	427	427	—	Finding 5
Adopt procedures, record and maintain records	21,486	22,445	959	Finding 6
Waiving student fees	431,815	104,490	(327,325)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	1,641	3,741	2,100	Finding 8
Total direct costs – salaries and benefits	455,583	131,317	(324,266)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	455,583	131,422	(324,161)	
Indirect costs	189,067	59,053	(130,014)	Finding 9
Total direct and indirect costs	644,650	190,475	(454,175)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(277,568)	(217,940)	59,628	Finding 10
Adjustment for unused portion of offsets ²	—	27,465	27,465	Finding 10
Total enrollment fee waivers	367,082	—	(367,082)	
Subtotal	1,865,510	60,395	(1,805,115)	
Less late filing penalty ³	—	(6,040)	(6,040)	
Total program costs	\$ 1,865,510	54,355	\$ (1,811,155)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 54,355		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment Fee Collection</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 28,835	\$ —	\$ (28,835)	Finding 1
Staff training	759	759	—	Finding 2
Calculating and collecting enrollment fees	337,668	80,051	(257,617)	Finding 3
Total direct costs - salaries and benefits	367,262	80,810	(286,452)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	23,428	32,365	8,937	Finding 3
Total direct costs – contracted services	23,428	32,365	8,937	
Total direct costs	390,690	113,175	(277,515)	Finding 3
Indirect costs	172,174	45,383	(126,791)	Finding 9
Total direct and indirect costs	562,864	158,558	(404,306)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(133,005)	(133,005)	—	Finding 10
Total enrollment fee collection	429,859	25,553	(404,306)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	26,122	—	(26,122)	Finding 4
Staff training	1,710	1,710	—	Finding 5
Adopt procedures, record and maintain records	57,347	23,696	(33,651)	Finding 6
Waiving student fees	538,645	115,752	(422,893)	Finding 7
Reporting BOGG fee waiver data to CCCCCO	11,603	3,638	(7,965)	Finding 8
Total direct costs – salaries and benefits	635,427	144,796	(490,631)	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	—	105	105	
Total direct costs	635,427	144,901	(490,526)	
Indirect costs	297,888	81,317	(216,571)	Finding 9
Total direct and indirect costs	933,315	226,218	(707,097)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(294,274)	(245,301)	48,973	Finding 10
Adjustment for unused portion of offsets ²	—	19,083	19,083	Finding 10
Total enrollment fee waivers	639,041	—	(639,041)	
Total program costs	<u>\$ 1,068,900</u>	25,553	<u>\$ (1,043,347)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 25,553</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2011, through June 30, 2012</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 30,988	\$ 2,161	\$ (28,827)	Finding 1
Staff training	767	767	—	Finding 2
Calculating and collecting enrollment fees	<u>216,892</u>	<u>72,271</u>	<u>(144,621)</u>	Finding 3
Total direct costs - salaries and benefits	<u>248,647</u>	<u>75,199</u>	<u>(173,448)</u>	
Direct costs - contracted services				
Calculating and collecting enrollment fees	<u>24,472</u>	<u>54,571</u>	<u>30,099</u>	Finding 3
Total direct costs - contracted services	<u>24,472</u>	<u>54,571</u>	<u>30,099</u>	
Total direct costs	273,119	129,770	(143,349)	
Indirect costs	<u>146,204</u>	<u>45,443</u>	<u>(100,761)</u>	Finding 9
Total direct and indirect costs	419,323	175,213	(244,110)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	<u>(48,988)</u>	<u>(171,640)</u>	<u>(122,652)</u>	Finding 10
Total enrollment fee collection	<u>370,335</u>	<u>3,573</u>	<u>(366,762)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Adopt procedures, record and maintain records	—	29,534	29,534	Finding 6
Waiving student fees	—	134,467	134,467	Finding 7
Reporting BOGG fee waiver data to CCCCCO	—	3,699	3,699	Finding 8
Total direct costs - salaries and benefits	<u>—</u>	<u>167,700</u>	<u>167,700</u>	
Direct costs – contract services				
Adopt procedures, record and maintain records	—	105	105	Finding 6
Total direct costs – contract services	<u>—</u>	<u>105</u>	<u>105</u>	
Total direct costs	—	167,805	167,805	
Indirect costs	<u>—</u>	<u>101,341</u>	<u>101,341</u>	Finding 9
Total direct and indirect costs	—	269,146	269,146	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	—	(272,459)	(272,459)	Finding 10
Adjustment for unused portion of offsets ²	<u>—</u>	<u>3,313</u>	<u>3,313</u>	Finding 10
Total enrollment fee waivers	<u>—</u>	<u>—</u>	<u>—</u>	
Total program costs	<u>\$ 370,335</u>	<u>3,573</u>	<u>\$ (366,762)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,573</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
Summary: July 1, 1998, through June 30, 2012				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 81,052	\$ 22,052	\$ (59,000)	
Staff training	69,451	3,374	(66,077)	
Calculating and collecting enrollment fees	7,547,491	1,034,765	(6,512,726)	
Total direct costs - salaries and benefits	7,697,994	1,060,191	(6,637,803)	
Direct costs - contracted services				
Calculating and collecting enrollment fees	751,689	593,892	(157,797)	
Total direct costs - contracted services	751,689	593,892	(157,797)	
Total direct costs	8,449,683	1,654,083	(6,795,600)	
Indirect costs	2,569,283	375,297	(2,193,986)	
Total direct and indirect costs	11,018,966	2,029,380	(8,989,586)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(788,778)	(1,502,613)	(713,835)	
Adjustment for unused portion of offsets ²	—	10,507	10,507	
Total enrollment fee collection	10,230,188	537,274	(9,692,914)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	47,161	11,479	(35,682)	
Staff training	27,392	7,959	(19,433)	
Adopt procedures, record and maintain records	785,478	244,606	(540,872)	
Waiving student fees	2,426,937	729,106	(1,697,831)	
Reporting BOGG fee waiver data to CCCCCO	42,753	41,017	(1,736)	
Total direct costs - salaries and benefits	3,329,721	1,034,167	(2,295,554)	
Direct costs - contracted services				
Adopt procedures, record and maintain records	—	1,365	1,365	
Waiving student fees	101,546	—	(101,546)	
Total direct costs - contracted services	101,546	1,365	(100,181)	
Total direct costs	3,431,267	1,035,532	(2,395,735)	
Indirect costs	1,158,565	418,817	(739,748)	
Total direct and indirect costs	4,589,832	1,454,349	(3,135,483)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(2,256,488)	(2,282,520)	(26,032)	
Adjustment for unused portion of offsets ²	—	828,171	828,171	
Total enrollment fee waivers	2,333,344	—	(2,333,344)	
Subtotal	12,563,532	537,274	(12,026,258)	
Less late filing penalty ³	—	(20,081)	(20,081)	
Total program costs	\$ 12,563,532	517,193	\$ (12,046,339)	
Less amount paid by the State		(259,083)		
Allowable costs claimed in excess of (less than) amount paid		\$ 258,110		

Findings and Recommendations

**FINDING 1—
Enrollment Fee
Collection: Prepare
Policies and
Procedures cost
component –
unallowable one-time
costs**

The district claimed \$81,052 in salaries and benefits during the audit period for the one-time activity to prepare district policies and procedures for the collection of enrollment fees. We found that \$22,052 is allowable and \$59,000 is unallowable. The costs are unallowable primarily because they were based on estimates of time spent by district staff during years in which there were no changes made to state laws requiring the district to update its policies and procedures more than one time.

The district claimed costs for six of the seven years in which the State made changes to the enrollment fees charged to students (FY 1998-99, FY 1999-2000, FY 2003-04, FY 2004-05, FY 2009-10, and FY 2011-12). Based on our discussion with district staff and our understanding of activities performed, we found that costs claimed in five of these years (FY 1998-99, FY 1999-2000, FY 2003-04, FY 2004-05, and FY 2009-10) were reasonable. For these five years, the district claimed average costs per year of \$2,161. The district did not include any costs for this component in its claims for FY 2006-07. For FY 2011-12, the district did not support costs claimed totaling \$30,988, which consisted of 607 estimated hours. However, we determined allowable costs for FY 2006-07 and FY 2011-12 based on the average of costs claimed for the five years identified above.

Costs claimed for FY 2005-06 and FY 2010-11 are unallowable, as the district did not support that it incurred costs to prepare policies and procedures in these years. The district claimed costs for these years based on estimates of time spent performing the reimbursable activities. In addition, the district did not support that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures for the collection of enrollment fees. The district did not claim any costs for FY 2007-08.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ 1,733	\$ 1,733	\$ -
1999-2000	1,611	1,611	-
2000-01	1,705	1,705	-
2001-02	2,002	2,002	-
2002-03	2,161	2,161	-
2003-04	2,237	2,237	-
2004-05	2,676	2,676	-
2005-06	3,499	-	(3,499)
2006-07	-	2,161	2,161
2007-08	-	-	-
2008-09	1,059	1,059	-
2009-10	2,546	2,546	-
2010-11	28,835	-	(28,835)
2011-12	30,988	2,161	(28,827)
Total	\$ 81,052	\$ 22,052	\$ (59,000)

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

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

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

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

Recommendation

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

District's Response

The District claimed \$81,052 in salaries and benefits during the audit period for the activity of preparing District policies and procedures for the collection of enrollment fees. The draft audit [sic] states that \$22,052 is allowable and \$59,000 is unallowable. The audit adjusted FY 2005-06, FY 2006-07, FY 2010-11, and FY 2011-12 only: The other years were stated to be below the Controller's materiality threshold. The audit report states that the adjustments were made because the District claimed costs for these years based on estimates of time spent performing the reimbursable activities, and did not prove that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the District to update its own policies and procedures.

The parameters and guidelines state that preparing District policies and procedures is reimbursable as a one-time activity. When there is a need

to update a policy or procedure, this is a new one-time activity. There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report. There have been numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors.

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

SCO's Comments

The finding and recommendation remains unchanged.

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

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

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

The district states that "policies and program procedures are the work product for this activity." However, the district did not provide evidence related to updated written policies and program procedures that supported costs claimed for any fiscal year of the audit period. The district also states that "this staff time should be reinstated because there is no basis to disallow staff declarations." We disagree. Staff declarations are corroborating documents. The parameters and guidelines state that "corroborating documents cannot be substituted for source documents." The district has not provided source documents supporting actual costs incurred. Therefore, such costs are not eligible for reimbursement. In addition, only costs incurred for updates made to district accounting software due to changes made in applicable state laws are reimbursable.

Based on information that we obtained from the California Community Colleges Chancellor's Office (CCCCO), changes were made to

enrollment fees chargeable by districts for seven fiscal years of the audit period (FY 1998-99, FY 1999-2000, FY 2003-04, FY 2004-05, FY 2006-07, FY 2009-10, and FY 2011-12). The audit report identifies that policies and procedures costs claimed totaling \$10,803 for all of the years, except FY 2006-07 and FY 2011-12, are allowable. For FY 2011-12, the district claimed \$30,988 to prepare district policies and procedures, based on 607 estimated hours spent by district staff to perform the activity. The district's FY 2011-12 claim was filed after the initial filing period for the mandated program. The parameters and guidelines require that claimed costs be supported with actual costs documentation. Therefore, we determined that costs totaling \$2,161 were allowable for FY 2011-12 based on the average of allowable costs claimed for FY 1998-99, FY 1999-2000, FY 2003-04, FY 2004-05, and FY 2009-10. For FY 2006-07, the district did not claim any costs for this activity; therefore, we determined that costs totaling \$2,161 were also allowable for this year. The costs were allowable because of changes made to state laws.

**FINDING 2—
Enrollment Fee
Collection: Staff
Training cost
component –
unallowable one-time
costs**

The district claimed \$69,451 in salaries and benefits during the audit period for the activity of training district staff who implement the program on the procedures for the collection of enrollment fees (one-time per employee). We found that \$3,374 is allowable and \$66,077 is unallowable.

The district claimed costs for FY 1999-2000 through FY 2005-06 based on 1,830.5 estimated hours spent by various district staff members to perform the one-time reimbursable activity. We did not review costs claimed for the other years as the costs were below our materiality threshold; we allowed costs claimed.

The costs are unallowable because the district claimed estimated costs and did not provide documentation related to the nature of the training provided, the length of the training, which employees attended the training, or whether any of the training costs related to the trainers' time. In addition, the activity is reimbursable only on a one-time basis per employee and costs were claimed for several district staff members multiple times covering a seven-year period. The district did not support that training costs claimed more than once per employee resulted from changes in state law.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ 1,142	\$ 1,142	\$ -
1999-00	3,092	-	(3,092)
2000-01	3,481	-	(3,481)
2001-02	10,300	-	(10,300)
2002-03	8,171	-	(8,171)
2003-04	10,044	-	(10,044)
2004-05	9,908	-	(9,908)
2005-06	21,081	-	(21,081)
2008-09	706	706	-
2010-11	759	759	-
2011-12	767	767	-
Total	\$ 69,451	\$ 3,374	\$ (66,077)

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

Section IV.A.1.b states that staff training is reimbursable as a one-time cost per employee for training district staff that implement the program based on the procedures for the collection of enrollment fees. Consistent with the Final Staff Analysis for policies and procedures, training existing staff for changes in the community college district’s policies and procedures is not reimbursable.

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

Recommendation

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

District’s Response

The audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were

claimed more than once during the seven fiscal years in the audit period. However, at the exit conference, the auditor stated that none of the amounts were adjusted for duplicate training, so this is not a true finding.

The audit report also ostensibly disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The audit does not indicate how this documentation was not actual cost documentation. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

SCO's Comments

The finding and recommendation remain unchanged.

The district states that "The District provided documentation in the form of declarations, which are acceptable source documentation." We disagree. The audit report for this finding references section IV of the parameters and guidelines, which defines actual costs, source documents, and corroborating documents. The district supported costs claimed only with corroborating documents rather than source documents. The parameters and guidelines state that corroborating documents cannot be substituted for source documents.

The district stated that none of the unallowable costs are based on employees who were claimed more than once during the seven years of the audit period based on the discussion of the audit findings which took place during the audit's exit conference. However, we noted in the audit report that costs are unallowable because the district claimed costs based solely on estimates, did not provide any information related to the nature of training activities conducted during the audit period, *and* claimed some district staff multiple times for an activity that is reimbursable on a one-time basis. The district did not support that costs claimed were allowable.

**FINDING 3—
Enrollment Fee
Collection:
Calculating and
Collecting Enrollment
Fees cost component –
unallowable ongoing
costs**

The district claimed \$8,299,180 (\$7,547,491 in salaries and benefits and \$751,689 in contract services) for the Calculating and Collecting Enrollment Fees cost component during the audit period. We found that \$1,628,657 (\$1,034,765 in salaries and benefits and \$593,892 in contract services) is allowable and \$6,670,523 (\$6,512,726 in salaries and benefits and \$157,797 in contract services) is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities and claimed ineligible costs for contract services. We recalculated reimbursable costs based on our observation of the process to calculate and collect enrollment fees. We also adjusted the number of students used in the district's calculations to the student enrollment data the district reported to the California Community College Chancellor's Office (CCCCO) and the number of students who paid their enrollment fees online rather than in person, based on information the district provided to us. In addition, we adjusted the average productive hourly rates (PHR) the district claimed based on salary and PHR information the district provided us.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1998-99	\$ 480,279	\$ 65,442	\$ (414,837)
1999-2000	486,522	67,304	\$ (419,218)
2000-01	517,961	68,871	(449,090)
2001-02	527,593	80,126	(447,467)
2002-03	659,316	89,709	(569,607)
2003-04	514,208	67,852	(446,356)
2004-05	692,505	70,997	(621,508)
2005-06	646,091	69,906	(576,185)
2006-07	311,116	67,420	(243,696)
2007-08	340,690	71,928	(268,762)
2008-09	721,140	77,151	(643,989)
2009-10	1,095,510	85,737	(1,009,773)
2010-11	337,668	80,051	(257,617)
2011-12	216,892	72,271	(144,621)
Subtotal, salaries and benefits	<u>\$ 7,547,491</u>	<u>\$ 1,034,765</u>	<u>\$(6,512,726)</u>
Contract Services:			
2003-04	\$ -	\$ 33,084	\$ 33,084
2004-05	-	34,006	34,006
2005-06	-	34,456	34,456
2006-07	231,847	66,714	(165,133)
2007-08	267,774	163,632	(104,142)
2008-09	127,104	100,803	(26,301)
2009-10	77,064	74,261	(2,803)
2010-11	23,428	32,365	8,937
2011-12	24,472	54,571	30,099
Subtotal, contract services	<u>\$ 751,689</u>	<u>\$ 593,892</u>	<u>\$ (157,797)</u>
Total	<u>\$ 8,299,180</u>	<u>\$ 1,628,657</u>	<u>\$(6,670,523)</u>

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

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

- collection agencies, or small claims court action. **(Activity 5)**
- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

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

The parameters and guidelines also state that salaries and benefits are reimbursable if claimants report each employee implementing the reimbursable activities by name, job classification, PHR, 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 2005-06, and FY 2008-09 through FY 2010-11, the district claimed salaries and benefits for each of the six reimbursable activities under the Calculating and Collecting Enrollment Fees cost component. The district claimed costs for reimbursable Activities 1, 3, and 4 for FY 2006-07 and FY 2007-08, and for reimbursable Activities 1 through 4 for FY 2011-12.

For each fiscal year, the district claimed salaries and benefits using time allowances developed from the 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 reimbursable activities per student, per year, on certification forms developed by the district’s mandated cost consultant. The district did not provide source documentation based on actual data to support the estimated time allowances.

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Cashier’s Office 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

District employees estimated the time required to perform the reimbursable activities using certification forms developed by the district’s mandated cost consultant. Based on these certifications, the

district developed time allowances ranging from 6.6 minutes to 19.1 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 were overstated.

We held discussions with various district representatives during the audit in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Cashier'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 four days of observations at the Cashier's Office window, we observed and documented a total of 220 transactions processed by district staff. Of these transactions, 75 involved the payment of enrollment fees encompassing Activities 1 through 4. The average time to perform all four activities was 2.26 minutes. We recalculated the reimbursable costs using 2.26 minutes.

Activity 5: Collecting Delinquent Enrollment Fees

Time Increments

District employees estimated the time required to perform reimbursable Activity 5 using certification forms developed by the district's mandated cost consultant. Based on these certifications, the district developed time allowances ranging from 3.1 minutes to 4 minutes per student for the audit period.

District staff provided us with an explanation of the district's process for collecting delinquent enrollment fees. Based on staff's explanation of the process, we found the time claimed to be reasonable. Based on subsequent discussions with the district, we applied a time increment of 3.5 minutes for FY 2006-07, FY 2007-08, and FY 2011-12. The average is based on the district's claims for FY 2008-09 through FY 2010-11.

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

Time Increments

District employees estimated the time required to perform reimbursable Activity 6 using certification forms developed by the district's mandated cost consultant. Based on these certifications, the district developed time allowances ranging from 2.6 minutes to 6.2 minutes per student for the audit period.

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

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Minutes						
	Reimbursable Activity						
	1	2	3	4	Total	5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds
1998-99	3.70	4.10	2.10	3.30	13.20	3.50	3.50
1999-2000	3.70	4.10	2.10	3.30	13.20	3.30	3.40
2000-01	3.80	4.20	2.20	3.50	13.70	3.30	3.40
2001-02	3.40	4.10	2.20	3.00	12.70	3.60	3.50
2002-03	3.40	4.50	2.20	3.40	13.50	3.80	3.60
2003-04	2.30	3.30	2.10	2.60	10.30	3.10	2.60
2004-05	3.60	4.10	3.10	3.10	13.90	4.00	3.70
2005-06	3.60	4.10	3.10	3.10	13.90	4.00	3.70
2006-07	2.20	-	2.10	2.30	6.60	-	-
2007-08	2.20	-	2.30	2.40	6.90	-	-
2008-09	3.00	5.00	3.00	3.00	14.00	4.00	3.00
2009-10	5.10	4.50	4.40	5.10	19.10	3.50	6.20
2010-11	1.80	3.60	2.40	2.50	10.30	3.20	3.80
2011-12	2.20	4.40	2.70	2.90	12.20	-	-

Fiscal Year	Allowable Minutes						
	Reimbursable Activity						
	1	2	3	4	Total	5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records		Collecting Delinquent Fees	Providing Refunds
1998-99	0.57	0.56	0.57	0.56	2.26	3.50	3.50
1999-2000	0.57	0.56	0.57	0.56	2.26	3.30	3.40
2000-01	0.57	0.56	0.57	0.56	2.26	3.30	3.40
2001-02	0.57	0.56	0.57	0.56	2.26	3.60	3.50
2002-03	0.57	0.56	0.57	0.56	2.26	3.80	3.60
2003-04	0.57	0.56	0.57	0.56	2.26	3.10	2.60
2004-05	0.57	0.56	0.57	0.56	2.26	4.00	3.70
2005-06	0.57	0.56	0.57	0.56	2.26	4.00	3.70
2006-07	0.57	0.56	0.57	0.56	2.26	3.50	-
2007-08	0.57	0.56	0.57	0.56	2.26	3.50	-
2008-09	0.57	0.56	0.57	0.56	2.26	4.00	3.00
2009-10	0.57	0.56	0.57	0.56	2.26	3.50	6.20
2010-11	0.57	0.56	0.57	0.56	2.26	3.20	3.80
2011-12	0.57	0.56	0.57	0.56	2.26	3.50	-

Multiplier Calculation

Activities 1 through 4

Claimed

For Activities 1 through 4, the district claimed costs by multiplying the number of students (multiplier) by a uniform time allowance and an annual average PHR. For FY 1998-99 through FY 2006-07 and for FY 2008-09 through FY 2011-12, the district used the number of total enrolled students as the multiplier for Activities 1 and 3. For FY 2006-07 through FY 2008-09, the district also used the number of total enrolled

students as the multiplier for Activity 4. In determining student enrollment, the district used the "Student Headcount by Unit Load" summary report obtained from the California Community College Chancellor's Office (CCCCO) website (also known as Data Mart). However, this report includes duplicated students by term. As a result, the district did not deduct ineligible non-resident and special admit students (students who attend a community college while in high school pursuant to Education Code section 76001).

For FY 1998-99 through FY 2005-06 and for FY 2009-10 through FY 2011-12, the district used the number of total enrolled students less the number of Board of Governors Grant (BOGG) fee waivers granted as the multiplier for Activities 2 and 4. For FY 2006-07 and FY 2007-08, the district did not claim a multiplier for Activity 2. For FY 2008-09, the district used the number of totaled enrolled students less the number of BOGG fee waivers granted as the multiplier for Activity 2.

Allowable

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

For FY 1998-99 through FY 2002-03, the district only accepted in-person payments; therefore, we also updated the district's calculations of eligible students for Activities 2 and 4 by deducting the number of BOGG recipients from reimbursable student enrollment confirmed by the CCCCCO. The CCCCCO identifies the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F.

The multiplier that we used for Activities 2 and 4 for FY 1998-99 through FY 2011-12 is the net student enrollment (the number of students enrolled less non-resident students, special admit students, and BOGG fee waiver recipients). We also deducted the number of students who paid their enrollment fees through the district's online system rather than in person beginning with FY 2003-04. The district provided us with information documenting the number of students who paid their fees online. In addition, we added in the number of refunds claimed as part of the multiplier for Activities 2 and 4 for FY 1998-99 through FY 2005-06, and FY 2008-09 through FY 2010-11.

Activity 5

Claimed

For Activity 5 (collecting delinquent enrollment fees), the district claimed costs for collecting delinquent student accounts for FY 1998-99 through FY 2005-06 and FY 2008-09 through FY 2010-11. The district

did not claim costs for collecting delinquent student accounts in its claims for FY 2006-07, FY 2007-08, and FY 2011-12.

The following table summarizes the claimed number of enrollment fees collected, the claimed number of delinquent enrollment fees, and the percent analysis of delinquent collections to total enrollment fees collected.

Fiscal Year	Claimed		Analysis
	Enrolled Students	Delinquent Students	Percent of Delinquent Students
1998-99	62,959	45,174	72%
1999-2000	62,613	46,032	74%
2000-01	60,516	46,368	77%
2001-02	62,923	41,449	66%
2002-03	67,036	49,350	74%
2003-04	61,072	51,985	85%
2004-05	59,525	51,094	86%
2005-06	54,746	39,331	72%
2006-07	-	-	N/A
2007-08	-	-	N/A
2008-09	60,217	3,829	6%
2009-10	63,041	4,767	8%
2010-11	27,389	3,574	13%
2011-12	18,593	-	0%

Allowable

As shown in the table above, the percentage of delinquent fee accounts claimed is high for initial claims filed for FY 1998-99 through FY 2005-06. The district did not provide documentation supporting that 66% to 86% of the district's students had delinquent enrollment fees due for this period. This percentage dropped to an average of 9% per year in the district's annual claims for FY 2008-09 through FY 2010-11, which appears to be reasonable. We accepted the number of delinquent accounts claimed for FY 2008-09 through FY 2010-11. Based on subsequent discussions, the district advised us that we should apply the 9% average student delinquency rate for FY 2008-09 through FY 2010-11 to the earlier years of the audit period.

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 (based on reasonableness), the number of refunds processed for FY 1998-99 through FY 2005-06, and FY 2008-09 through FY 2010-11, for students who established fee waiver eligibility after paying their enrollment fees.

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	915,125	905,192	(9,933)
2	660,630	457,687	(202,943)
3	915,125	905,192	(9,933)
4	802,843	457,687	(345,156)
5	382,953	63,114	(319,839)
6	14,432	14,432	-
Total	<u>3,691,108</u>	<u>2,803,304</u>	<u>(887,804)</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	Hours Claimed	Hours Allowable	Difference
1	48,928	8,599	(40,329)
2	46,065	4,272	(41,793)
3	39,249	8,599	(30,650)
4	42,027	4,272	(37,755)
5	22,768	3,735	(19,033)
6	872	872	-
Develop, procure, maintain and use electronic and information technology for enrollment fee collections ¹	846	-	(846)
	<u>200,755</u>	<u>30,349</u>	<u>(170,406)</u>

¹ The district did not support hours claimed. Further, this activity is not identified in the parameters and guidelines as being reimbursable.

PHR

We found that the district misstated the average PHRs used for Activities 1 through 6. The district overstated its average PHRs for FY 1998-99 through FY 2009-10 and understated its average PHRs for FY 2010-11 and FY 2011-12. For FY 2008-09 and FY 2009-10, the district did not provide actual cost information supporting its PHRs; therefore, we adjusted the PHRs using Consumer Price Index information for those years. As explained in Finding 11, we recalculated the annual average PHRs based on actual salary and benefit information and productive hours for the employees involved in enrollment fee collection activities and made changes to the claimed rates. The district’s Chief Financial Officer provided the information used for the recalculation of the rates. For the district’s employee benefit rate calculations, we used available information from the district’s “Revenues, Expenditures, and Fund Balance Data Report,” which is part of the district’s CCFS-311 Annual Financial Report.

Calculation of Costs by Reimbursable Activities

We applied the audited PHRs to the allowable hours per reimbursable activity. We found that \$1,034,765 in salaries and benefits is allowable and \$6,512,726 is unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
1	\$ 1,851,057	\$ 304,737	\$ (1,546,320)
2	1,700,351	133,415	(1,566,936)
3	1,539,978	304,737	(1,235,241)
4	1,600,991	133,415	(1,467,576)
5	777,996	128,973	(649,023)
6	32,611	29,488	(3,123)
Develop, procure, maintain and use electronic and information technology for enrollment fee collections ¹	44,507	-	(44,507)
	<u>\$ 7,547,491</u>	<u>\$ 1,034,765</u>	<u>\$ (6,512,726)</u>

¹ The district did not support costs claimed. Further, this activity is not identified in the parameters and guidelines as being reimbursable.

Develop, Procure, Maintain and Use Electronic and Information Technology for Enrollment Fee Collection

The district claimed \$44,507 in salaries and benefits for FY 2011-12, based on 846 estimated hours for district staff to develop, procure, maintain, and use electronic and information technology (telecommunications, multimedia, etc.) equipment and software for the purpose of the collection of enrollment fees. The district stated that it captured these hours using survey forms developed by the district's mandated cost consultant. However, the district did not provide us with survey forms to support the hours claimed. Based on the Form 2 the district provided us with its claim, the district claimed the following staff and time increments for performing the activity:

- One Administrative Assistant at 8 hours
- One Administrative Assistant at 15 hours
- One Administrative Assistant at 380 hours
- One Administrative Assistant at 5 hours
- One Registrar at 438 hours

We found that the entire amount claimed is unallowable. The costs are unallowable primarily because the costs claimed are based on estimates. The district did not provide source documentation supporting what specific activities district staff performed and the time required to perform them.

Contract Services

The district claimed \$751,689 for contract services costs incurred under the Calculating and Collecting Enrollment Fee cost component. During the course of the audit, the district provided additional support for contract services costs totaling \$307,867. The district also claimed \$101,546 in contract services costs under the Waiving Student Fees component for FY 2003-04 through FY 2004-05 that should have been claimed under this component (as noted in Finding 7). Therefore, we reclassified those costs under this component. Based on our analysis of the supporting documentation provided by the district, we found that \$593,892 is allowable and \$157,797 is unallowable. The costs are unallowable because the district did not provide supporting documentation for some of the costs claimed and claimed costs that are not related to the mandated program.

The following table summarizes the amounts initially claimed, additional costs claimed during the audit period, reclassified amounts from Finding 7, the amount allowable, and the audit adjustment by fiscal year:

Fiscal Year	Amount Claimed	Additional Costs	Reclassified Costs	Amount Allowable	Audit Adjustment
Contract services:					
2003-04	\$ -	\$ -	\$ 33,084	\$ 33,084	\$ 33,084
2004-05	-	-	34,006	34,006	34,006
2005-06	-	-	34,456	34,456	34,456
2006-07	231,847	23,853	-	66,714	(165,133)
2007-08	267,774	114,516	-	163,632	(104,142)
2008-09	127,104	30,741	-	100,803	(26,301)
2009-10	77,064	51,821	-	74,261	(2,803)
2010-11	23,428	32,365	-	32,365	8,937
2011-12	24,472	54,571	-	54,571	30,099
Total	<u>\$ 751,689</u>	<u>\$ 307,867</u>	<u>\$ 101,546</u>	<u>\$ 593,892</u>	<u>\$ (157,797)</u>

The supporting documentation provided by the district represented costs for the following:

- Maintenance and support services for the district's computer system;
- Registration statements and postage;
- Registration appointment postcards and postage;
- Foreign postage;
- School renewal fees;
- Printing IRS 1098-T forms;
- IRS archive media;
- Student transcript official paper;
- Dean's list letters;
- Loose permits;
- Permit registration cards; and
- Collection agency fees to collect delinquent enrollment fees from students.

For FY 2006-07 and FY 2007-08, the district claimed \$279,821 for computer system maintenance and support services for the district's student, finance, and website for student systems. We found all costs to be unallowable. The district provided a contract agreement dated January 23, 2002, and an amended agreement dated February 4, 2002, supporting the costs incurred. In these agreements, we did not find any information providing a direct relationship between the services provided by the district's vendor and the reimbursable activities surrounding the calculation and collection of student enrollment fees. The district did not provide an explanation of how the services claimed relate to the calculation and collection of student enrollment fees.

We found that costs claimed totaling \$286,025 for registration statements and related postage for sending them to students are allowable. Of that amount, \$101,546 was incorrectly claimed under the Waiving Student Fees cost component, as noted in Finding 7. The registration statements provided a list of classes for which students enrolled as well as the status of their fees paid and fees unpaid as of the statement date. The district used the services of Prestige Graphics, Inc. to prepare and mail these statements to students.

For FY 2006-07 through FY 2009-10, the district claimed \$119,377 for appointment registration postcards and postage for mailings to students. We found these costs to be unallowable. The district provided samples of the postcards sent to the students, which are used to inform students of their assigned date to register for classes. These postcards did not provide students any information relating to the collection of student enrollment fees.

For FY 2006-07 through FY 2009-10, the district claimed \$99,150 for foreign postage, school renewal fees, 1098-T print, and IRS archive media. We found all of these costs to be unallowable. Based on the invoices provided by the district, we did not find any relationship between the costs claimed and the reimbursable activities surrounding the calculation and collection of enrollment fees.

For FY 2007-08, the district claimed \$3,763 for transcript paper, \$1,481 for Dean's list letters, and \$15,861 for loose permits and integrated permit registration statements. We found all of these costs to be unallowable. District staff indicated that the transcripts and Dean's list letters do not relate to the calculation and collection of enrollment fees. In addition, we found that the loose permits and integrated permit registration statements do not have any relationship to the reimbursable activities surrounding the calculation and collection of enrollment fees.

For FY 2008-09, the district claimed \$102,046 for contract services; however, the supporting documentation provided by the district totaled \$102,189; a difference of \$143.

For FY 2010-11, the district did not provide any support for \$23,428 in costs claimed. Also, for FY 2011-12, the district did not provide any support for \$24,472 in costs claimed.

During the course of the audit, the district provided support for costs incurred totaling \$307,867 to collect delinquent enrollment fees from students (\$23,850 paid to Coast Professional, Inc. and \$284,014 paid to Enterprise Recovery System, Inc.).

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 [sic] District staff who implemented the mandate responded to five time surveys conducted over the 14-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the 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 6.6 to 19.1 minutes over the 14 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 220 transactions at the cashier's office over four days, of which 75 involved the payment of enrollment fees encompassing Activities 1 through four. The average observed time to perform all four activities was 2.26 minutes; or .56 minutes per activity.

This 66% 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 is [sic] 905,192 over the 14-year period, of which 75 enrollment payment transactions were observed. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 5, collecting delinquent fees, the District claimed average times of 3.1 to 4.0 minutes per student for the audit period. The audit report allows these claimed averages as acceptable based on staff's explanation of the process.

For Activity 6, providing a refund when fee waiver eligibility is established after enrollment fee collection, the District claimed average

times ranging from 2.6 to 6.2 minutes per student for the eleven years for which these costs were claimed. The audit report allows these claimed averages as acceptable based on observation and staff's explanation of the process.

B. Workload multipliers

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

These 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 2003-04, the District began an internet online method to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the total multiplier by the percentage of students who paid on line [sic]. This method appears reasonable at this time.

For Activity 5, collecting delinquent enrollment fees, the auditor accepted the number of delinquent fees processed for FY 2008-09 through FY 2011-12 finding that the percentage of delinquent accounts was reasonable. However, the auditor rejected the delinquent accounts claimed for FY 1998-99 through FY 2005-06 due to the percentage of delinquent accounts varying from 66% to 86%. For those prior years, the auditor allowed 9%, and [sic] average derived from the last four years of the audit period. This method will be subject to further review by the District for the incorrect reduction claim.

For Activity 6, providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected, the District provided the number of refunds processed and the auditor accepted these statistics.

C. Electronic and information technology for enrollment fee collection

Beginning FY 2003-04, the District started internet online method [sic] to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the number of in-person fee transactions for the portion of the students who paid the enrollment fees online. However, the audit findings do not replace the time lost from these eliminated transactions with the costs to operate the online payment collections. Thus, no costs are recognized in the audit for the online transactions. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

For the FY 2011-12 annual claim, the District claim reduced the enrollment statistic by a percentage for online transactions. The annual claim for that year then included costs of \$44,507, a total of about 846 hours for five employees, for what the District identified as developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection. The time claimed was for purchasing equipment used to process fee transactions, preparing Chancellor's Office MIS reports, tracking student payments, and coordinating with credit card companies. While not specifically identified in the parameters and guidelines as a reimbursable activity, the District believes that the costs claimed were related to operating an online system for students to pay their enrollment fees. Similar costs were not claimed retroactive to FY 2003-04 when the online payment system started since FY 2011-12 was the first annual claim in which the District reduced the number of in-person statistics.

The draft audit states that the entire amount is unallowable primarily because the costs claimed are based on estimates and that the District did not provide any supporting documentation. The District provided documentation in the form of declarations which are acceptable source documentation for annual claims.

D. Contract Services

The District claimed \$751,689 for contract services costs for this the [sic] enrollment fee collection process. The audit concluded that \$593,892 is allowable, (including \$101,546 in contract services which was erroneously reported as part of the enrollment fee waiver process activity for FY 2003-04 through FY 2004-05) and \$157,797 is unallowable because the District did not provide supporting documentation for some of the costs claimed. The specific findings for each of the several contracts are as follows:

- For FY 2006-07 and FY 2007-08, the District claimed \$279,821 for computer system maintenance and support services for the student, finance, and website for student systems. The audit found all costs to be unallowable because there was "no information providing a direct relationship between the services provided by the District's vendor and the reimbursable activities surrounding the calculation and collection of student enrollment fees." The District does not agree with this finding and will provide the additional information for the incorrect reduction claim.
- The audit determined that \$286,025 for registration statements and related postage for sending them to students is allowable. The District agrees with this finding.
- For FY 2006-07 through FY 2009-10, the District claimed \$119,377 for appointment registration postcards and postage for mailings to students. The audit found these costs to be unallowable. The District agrees with this adjustment since the postcards did not provide students any information relating to the collection of student enrollment fees.
- For FY 2006-07 through FY 2009-10, the District claimed \$99,150 for foreign postage, school renewal fees, 1098-T printing, and IRS archive media. The audit found all costs to be unallowable because there was no direct relationship between the services and collection of student enrollment fees. The

District does not agree with this finding and will provide additional information for the incorrect reduction claim.

- For FY 2007-08, the District claimed \$3,763 for transcript paper, \$1,481 for Dean's list letters, and \$15,861 for "loose" permits and integrated permit registration statements. The audit found these costs to be unallowable. The District agrees with this adjustment since permit registration statements do not have any direct relationship to the calculation and collection of enrollment fees.
- The audit determined that the District did not provide any support for \$23,428 in FY 2010-11, and \$24,472 for FY 2011-12. The District does not agree with this finding and will provide additional information for the incorrect reduction claim.

SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses four specific issues:

- Average activity time
- Workload multipliers
- Electronic and information technology for enrollment fee collection
- Contract services

We have addressed our comments in the same order as the issues were presented by the district.

Average activity time

For Activities 1 through 4, the district states that the auditors considered its "good faith time estimates" to be "overstated." We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities were unreasonable. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation. Section IV of the parameters and guidelines states:

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

The district did not provide source documentation based on actual data to support the estimated time allowances or determine if its time estimates

were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, they were not supported in compliance with the documentation requirements identified in the parameters and guidelines.

As the mandated activities took place at the district during the audit period, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. The certificated survey forms were completed by district employees for enrollment fee collection activities during the audit period. We held discussions with various district representatives to determine the procedures that the district employees followed to perform the reimbursable activities. We observed district staff in the Cashier'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 6.6 to 19.1 minutes for Activities 1 through 4 over the 14-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 19.1 minutes, we observed an average time of 2.26 minutes for all four activities, or about 0.56 minutes per activity.

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. We disagree. The auditor spent four days at the Cashier's Office observing students paying a variety of fees owed to the district. We observed 102 transactions processed by district staff, 75 of which involved the payment of enrollment fees encompassing Activities 1 through 4. The district states that it conducted 905,192 student enrollment transactions during the audit period and that our sample, therefore, "does not constitute a representative 'time study' sample." However, the district did not provide source documentation to support the time required to perform these transactions. Instead, all time increments were supported only by estimates. In addition, the district did not provide evidence based on actual cost data or conduct its own time study supporting a different conclusion from ours. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

Workload multiplier

The district states that it does not dispute the corrections made to the workload multiplier for Activities 1 through 4. The district also states that the reduction to the multiplier based on the percentage of students who paid on line appears reasonable.

For Activity 5, we reduced the claimed multiplier for FY 1998-99 through FY 2005-06 because the claimed amounts appeared to be unreasonable, as noted in the audit report. In its response, the district states that the auditor allowed a 9% average for these years based on an

average derived from the last four years of the audit period. The use of a 9% average for those years was a method accepted by the district. During the audit's exit conference, we discussed our concerns about the large percentage of students reported as delinquent in the district's claims filed for the initial filing period. District representatives stated that district policies in place at that time may have allowed students to enroll for classes without paying their enrollment fees and agreed to provide documentation supporting that policy. During that discussion, we noted that if the district was unable to provide such documentation, an option to consider would be applying a 9% average of delinquent students for FY 1998-99 through FY 2005-06, based on the district's average claimed delinquency rate for FY 2008-09 through FY 2011-12. Subsequent to the exit conference, the district did not provide such documentation and advised that we should compute allowable costs based on a 9% average rate of delinquent students.

Electronic and information technology for enrollment fee collection

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 collections. Thus, no costs are recognized in the audit for the online transactions." We agree. The district did not provide support for the costs of operating the district's online payment system.

The district attempted to replace time lost from the eliminated online transactions with the \$44,507 in claimed costs included in its FY 2011-12 claim for what it described in its claim as "developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection." The district includes in its response the specific activities included in this portion of its claim for that year, which include:

- Purchasing equipment used to process fee transactions
- Preparing Chancellor's Office MIS reports
- Tracking student payments
- Coordinating with credit card companies

However, the district did not include any costs in its FY 2011-12 claim for the purchase of equipment to process fee transactions, and preparing MIS reports for the Chancellor's Office is only a reimbursable activity identified for enrollment fee waivers activities. The district did not provide evidence supporting what district staff did to track student payments or coordinate with credit card companies.

The district also states that "The District provided documentation in the form of declarations, which are acceptable source documentation for annual claims." We disagree. For this activity, the district did not provide declarations supporting costs claimed. Instead, the declarations signed by the five district employees claimed for this activity estimated time for "Time spent by staff recording and maintaining records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." However, this activity is the cost of the component of

Adopting Procedures, Recording and Maintaining Records, which is an Enrollment Fee Waivers activity. Allowable costs for this cost component are identified in Finding 6. The only other information provided was the names of certain district employees and the number of hours claimed for the activity on the district's Form 2 claim form for FY 2011-12. The adjustment is based on the requirements of the mandated program, the primary criteria used throughout the audit as the basis for the audit findings.

Contract services

The district expresses agreement in its response regarding audit findings representing unallowable contract services costs totaling \$140,482 as well as its disagreement with audit findings totaling \$426,871. The district did not provide any additional information in its response to the draft audit report supporting the unallowable costs. Instead, the district notes its intention to provide the supporting documentation in its incorrect reduction claim.

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

The district claimed \$47,161 in salaries and benefits during the audit period to prepare district policies and procedures for determining which students are eligible for waiver of the enrollment fees. We found that \$11,479 is allowable and \$35,682 is unallowable. The costs are unallowable primarily because they were based on estimates of time spent by district staff during years in which there were no changes made to state laws requiring the district to update its policies and procedures more than one time.

The district claimed costs to prepare policies and procedures as a result of a changes in state law for FY 2003-04, FY 2005-06, and FY 2009-10 due to changes made in the CCCCCO's Board of Governors Fee Waiver Program and Special Programs Manual. We found that costs claimed for FY 2005-06 and FY 2009-10 were below our materiality threshold; we allowed costs claimed. However, for FY 2003-04, the district claimed \$3,728 based on 55 estimated hours to perform the reimbursable activity. We found that \$869 was allowable based on the average costs claimed for FY 2005-06 and FY 2009-10.

The district claimed unallowable costs for FY 2000-01, FY 2002-03, and FY 2010-11 because the costs were based on estimates of time spent on the reimbursable activities. The district did not support costs claimed with actual cost documentation. In addition, the district did not support that the costs were incurred as a result of changes in state law rather than by discretionary activities undertaken by the district to update its own policies and procedures regarding the processing of BOGG fee waiver applications.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1999-2000	\$ 5,138	\$ 5,138	\$ -
2000-01	3,158	-	(3,158)
2001-02	2,127	2,127	-
2002-03	3,543	-	(3,543)
2003-04	3,728	869	(2,859)
2004-05	1,404	1,404	-
2005-06	1,524	1,524	-
2006-07	-	-	-
2007-08	-	-	-
2008-09	203	203	-
2009-10	214	214	-
2010-11	26,122	-	(26,122)
2011-12	-	-	-
Total	<u>\$ 47,161</u>	<u>\$ 11,479</u>	<u>(35,682)</u>

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

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

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

Recommendation

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

District's Response

The audit report states that FY 2005-06 and FY 2009-10 are below the materiality threshold, and costs were allowed as claimed without evaluation. For the remaining years, there are different audit outcomes even though the method to claim staff time, that is, declarations, was the same every year:

- The costs claimed for FY 1999-00 exceeded the materiality threshold but were allowed in total without explanation.
- The audit identifies FY 2003-04, FY 2005-06, and FY 2009-10 as years in which changes were made in state laws which would result in changes in District policies and procedures. FY 2005-06 and FY 2009-10 were below the materiality level and not evaluated by the auditor. The District claimed \$3,728 for FY 2003-04 for 55 hours of staff time to perform the reimbursable activity. However, the auditor found this amount to be unallowable because the time was "estimated" and instead used the average of the costs claimed in FY 2005-06 and FY 2009-10 (which were both allowed based on being below materiality) to calculate allowable costs for FY 2003-04. Thus, two years of unaudited immaterial "estimated" amounts were averaged and that average replaces the "estimated" amounts in a third year.
- The audit report disallows all costs claimed for FY 2000-01, FY 2002-03, and FY 2010-11. The stated reason was that the costs were based on "estimates" and that the fiscal years are not years in which the state law changes, so it is presumed the work was related to "discretionary" changes to policies and procedures. There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report.

It can be concluded from the different outcomes of the time reported on the staff declaration forms used every year, which are characterized by the audit as "estimates," that the form of staff time reporting is not the true reason for the adjustments. The auditor allowed these declaration forms without further review for some years and not for other years without substantive reasons for the different outcomes. This mandate activity was not observable by the auditor. The District policies and program procedures are the work product for this activity. This staff time should be reinstated because the audit does not state a consistent basis to disallow the staff declarations of time spent on the mandate.

SCO's Comments

The finding and recommendation remain unchanged.

The district states that the basis for this audit finding was not consistent. The district also states in its response that the auditor "allowed" the district's employee declaration forms without further review for some years. We disagree. The district did not provide source documentation based on actual data to support its 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. For years in which costs claimed were less than the materiality threshold for the audit, costs were allowable on that basis alone. The employee declaration forms were not accepted as sufficient documentation.

Regardless, we recognized that allowable costs were incurred by the district for this cost component during the audit period. In the absence of supporting documentation, we determined that costs were allowable as claimed for FY 1999-2000, because it was the first year that costs were claimed by the district for this one-time activity and the amount claimed appeared reasonable. We did not provide any explanation in the audit report because there was no audit finding for FY 1999-2000. For years subsequent to FY 1999-2000, changes were made to the Board of Governors Fee Waiver Program and Special Programs Manual for FY 2003-04, FY 2005-06, and FY 2009-10, based on information that we obtained from the CCCCCO. Costs claimed for FY 2005-06 and FY 2009-10, totaling \$1,738, are allowable due to changes made in state laws for those years. For FY 2003-04, we reviewed the support for the costs claimed and determined that they were based entirely on estimates of time to perform the reimbursable activity. Therefore, we determined an average allowable cost for that year based on claimed costs for the other two years in which changes were made to state laws.

Costs were not allowable for FY 2000-01, FY 2002-03, and FY 2010-11 because no changes were made to state laws for those years which required the district to incur increased costs to update its policies and procedures. The district states that we “presumed” that costs for these years were based on discretionary activities undertaken by the district. Such presumption is based on the fact that the district did not provide any support explaining why costs were incurred for a one-time activity in years during which there were no changes in state laws requiring it to do so.

The Final Staff Analysis and Proposed Parameters and Guidelines (Item 9) addressed during the January 26, 2006 Commission hearing for this mandated program states on page 5 that:

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

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

**FINDING 5—
Enrollment Fee
Waivers: Staff
Training cost
component –
unallowable one-time
costs**

The district claimed \$27,392 in salaries and benefits during the audit period for the activity of training district staff who implement the program on the procedures for determining which students are eligible for waiver of the enrollment fee. We found that \$7,959 is allowable and \$19,433 is unallowable.

The district claimed costs for FY 2000-01 through FY 2002-03, FY 2004-05, and FY 2005-06 based on 596 estimated hours spent by various district staff members to perform the one-time reimbursable activity. The costs are unallowable because the district claimed estimated costs and did not provide documentation related to the nature of the training provided, the length of the training, which employees attended the training, or whether any of the training costs related to the trainers’ time. In addition, the activity is reimbursable only on a one-time basis per employee and costs were claimed for several district staff members multiple times in district claims covering a five-year period. The district did not support that training costs claimed more than once per employee resulted from changes in state law.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-2000	\$ 2,935	\$ 2,935	\$ -
2000-01	3,332	-	(3,332)
2001-02	3,464	-	(3,464)
2002-03	3,612	-	(3,612)
2003-04	2,278	2,278	-
2004-05	3,790	-	(3,790)
2005-06	5,235	-	(5,235)
2008-09	609	609	-
2009-10	427	427	-
2010-11	1,710	1,710	-
Total	\$ 27,392	\$ 7,959	\$ (19,433)

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

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

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

Recommendation

Commencing in FY 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

As in Finding 2, the audit report does not distinguish the amounts between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the audit period. However, at the exit conference, the auditor stated that none of the amounts were adjusted for duplicate training, so this is not a true finding. Regardless, it should be noted that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The name of the supervisors or managers conducting the training would appear in the claims for several years either for individual job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate [sic] of previously claimed training activities.

The audit report also ostensibly disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations which are acceptable source documentation, and were accepted by the auditor for some of the fiscal years. The audit does not indicate how this documentation was not actual cost documentation. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

SCO's Comments

The finding and recommendation remain unchanged.

The district states that "The District provided documentation in the form of declarations, which are acceptable source documentation" and that "the audit does not indicate how this documentation was not actual cost documentation." The district also states that the district's employee declarations "were accepted by the auditor for some of the fiscal years." We disagree. The audit report for this finding references section IV of the parameters and guidelines, which defines actual costs, source documents, and corroborating documents. The district supported costs claimed only with corroborating documents rather than source documents. For years in which costs claimed were less than the materiality threshold for the audit, costs were allowable on that basis alone. The employee declaration forms were not accepted as sufficient documentation.

The district states that that none of the unallowable costs are based on employees who were claimed more than once during the audit period based on the discussion of the audit findings which took place during the audit's exit conference. However, we noted in the audit report that costs are unallowable because the district claimed costs based solely on estimates, did not provide any information related to the nature of training activities conducted during the audit period, *and* claimed some district staff multiple times for an activity that is reimbursable on a one-time basis. The district states that "there should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities." However, we cannot make this determination because the district did not provide any evidence related to the nature of training activities conducted during the audit period, as already noted in the audit report. The district is responsible for supporting claimed costs. As noted in the audit report, the time was estimated. There was no indication of what district staff was trained or if any district staff were trained at all, how long such training lasted, or what specific training was provided.

**FINDING 6—
Enrollment Fee
Waivers: Adopt
Procedures, Record
and Maintain Records
cost component –
unallowable ongoing
costs**

The district claimed \$785,478 in salaries and benefits related to adopting procedures and recording and maintaining records related to enrollment fee waivers. We found that salaries and benefits totaling \$244,606 are allowable and \$540,872 is unallowable. The costs are unallowable because the district did not provide actual source documentation and estimated the amount of time to perform the reimbursable activities. The district did not claim contract services costs incurred under this cost component during the audit period. However, based on documentation provided by the district during the audit, we found that \$1,365 is allowable.

The district claimed costs for FY 1999-2000 through FY 2005-06 and FY 2008-09 through 2010-11 based on 13,654 estimated hours spent by various district staff to perform the reimbursable activities. The district did not include any costs for this activity in its claim for FY 2006-07, FY 2007-08, and FY 2011-12.

Using survey forms developed by the district's mandated cost consultant, various district staff estimated the number of hours spent each year for "time spent by staff to record and maintain records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." However, recording and maintaining records for the payment of enrollment fees is not a reimbursable activity under this cost component.

The majority of hours claimed under this component are for the following staff:

- 7,435 hours for the Dean of Enrollment Services
 - 1,000 hours (per fiscal year) for FY 1999-2000 through FY 2005-06
 - 135 hours for FY 2008-09
 - 140 hours for FY 2009-10
 - 160 hour for FY 2010-11
- 4,132.75 hours for two Financial Aid Technicians
 - 505 hours for FY 1999-2000
 - 680 hours for FY 2002-03
 - 875.25 hours for FY 2003-04
 - 1,022.75 hours for FY 2004-05
 - 1,049.75 hours for FY 2005-06
- 1,124 hours for a Financial Aid Office Assistant
 - 530.5 hours for FY 2000-01
 - 593.5 hours for FY 2001-02
- 424 hours for a Registrar for FY 2010-11
- 372 hours for an Admissions Assistant for FY 2010-11

During the audit, we held discussions with district staff concerning what specific activities they performed for this cost component. One of the district's Financial Aid Directors advised us that meetings were held every year (described as "New Year Roll Meetings"), which were attended by three Financial Aid Directors, three Financial Aid Technicians, and three Office Assistants to review the BOGFW self-service online application, CCCCO updates, tracking, document creation, as well as various other topics. District staff informed us that each of the staff identified spent 40 hours per year attending these meetings, which we determined to be reasonable. We based allowable costs for the audit period on the average allowable productive hourly rates for enrollment fee waivers activities.

The following table summarizes the claimed, allowable, and audit adjustment amounts for salaries and benefits related to adopting procedures, recording, and maintaining records:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-2000	\$ 74,167	\$ 11,348	\$ (62,819)
2000-01	77,623	12,690	(64,933)
2001-02	83,509	14,281	(69,228)
2002-03	96,861	16,003	(80,858)
2003-04	107,275	16,912	(90,363)
2004-05	118,577	17,056	(101,521)
2005-06	134,928	18,003	(116,925)
2006-07	-	19,021	19,021
2007-08	-	21,436	21,436
2008-09	13,705	22,181	8,476
2009-10	21,486	22,445	959
2010-11	57,347	23,696	(33,651)
2011-12	-	29,534	29,534
Total	<u>\$ 785,478</u>	<u>\$ 244,606</u>	<u>\$ (540,872)</u>

Contract Services

The district did not claim any contract services costs incurred under the Adopt Procedures, Record and Maintain Records cost component. During the course of the audit, the district provided support for contract services costs incurred for shredding BOGG fee waiver applications after they had been held by the district for three years. Based on our analysis of the supporting documentation provided by the district, we found that \$1,365 is allowable. The costs are based on the shredding of 10 boxes of BOGG fee waiver applications per campus per year at a quoted price of \$3.50 per box.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Contract services:			
1999-2000	\$ -	\$ 105	\$ 105
2000-01	-	105	105
2001-02	-	105	105
2002-03	-	105	105
2003-04	-	105	105
2004-05	-	105	105
2005-06	-	105	105
2006-07	-	105	105
2007-08	-	105	105
2008-09	-	105	105
2009-10	-	105	105
2010-11	-	105	105
2011-12	-	105	105
Total	<u>\$ -</u>	<u>\$ 1,365</u>	<u>\$ 1,365</u>

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

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

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

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

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

Recommendation

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

District's Response

The District claimed \$785,478 in salaries and benefits related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. The audit report states that \$244,606 is allowable and \$540,872 is unallowable.

The costs that were allowed are the result of discussion with the Director of Financial Aid at one of the colleges regarding the districtwide annual “New Year Roll Meetings” where staff were updated on the BOGFW self-service online application, CCCCC updates, tracking, document creation, as well as various other topics. These meetings were held every year and attended by three Financial Aid Directors, three Financial Aid Technicians, and three Office Assistants. Each of the staff identified spent 40 hours per year attending these meetings, which the auditor determined to be reasonable. The staff time was reported on annual declarations (“survey forms”) as was all the other time claimed for this activity.

The audit report states that the adjustments were made for the following reasons:

Using survey forms developed by the district's mandated cost consultant, various district staff estimated the number of hours spent each year for "time spent by staff recording and maintaining records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." However, recording and maintaining records for the payment of enrollment fees is not a reimbursable activity under this cost component.

The audit report appears to erroneously conclude that the nature of the other activities claimed related to recording enrollment fee payments. The scope of the claimed activities relate to reporting required by the Chancellor's Office regarding all financial assistance and not the amount of enrollment fees collected. The auditor stated at the exit conference that the staff, who reported unallowable time, or the persons currently occupying those positions, were not interviewed. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

SCO's Comments

The finding and recommendation remain unchanged.

In its response to this finding, the district states that the staff time for attending the annual New Year Roll Meetings was reported on its annual declaration forms. However, the documentation provided by the district does not support that conclusion. As noted in the audit report, the district claimed costs for "time spent by staff recording and maintaining records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." This description paraphrases language from the parameters and guidelines without providing any explanation or support for the specific district procedures that district staff completed to perform the reimbursable activities. That is why we held discussions with district representatives to find out what district staff did to perform the reimbursable activities.

The district also states that a portion or the entire audit finding is based on time claimed for the reporting of enrollment fees collected. We disagree. We included the exact language used in the certification forms developed by the district's mandated cost consultant to note that district staff may have been co-mingling their time estimates by including time to perform activities that are not reimbursable with activities that are reimbursable. Regardless, the allowable costs, as noted in the audit report, are based on information provided to us during discussions with district representatives. Throughout the audit period, we expanded audit procedures as necessary to gain an understanding of the different processes relevant to reimbursable activities. However, the district did not provide support based on actual cost documentation.

**FINDING 7—
Enrollment Fee
Waivers: Waiving
Student Fees cost
component –
unallowable ongoing
costs**

The district claimed \$2,528,483 (\$2,426,937 in salaries and benefits and \$101,546 in contract services) for the Waiving Student Fees cost component during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h), for students who apply for and are eligible for BOGG fee waivers. We found that \$729,106 in salaries and benefits are allowable and \$1,799,377 (\$1,697,831 in salaries and benefits and \$101,546 in contract services) are unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities.

We adjusted variations in the number of students used in the district's calculations based on data the district reported to the CCCCO. Additionally, the district misclassified costs claimed for contract services, as they pertain to reimbursable Activity 5, Collecting Delinquent Fees, under the cost component of Calculating and Collecting Enrollment Fees. Therefore, we reclassified and analyzed contract services costs under the Calculating and Collecting Enrollment Fees cost component (See Finding 3). We also adjusted the average PHRs used in the district's claims for FY 1999-2000 through FY 2007-08, and FY 2010-11 and FY 2011-12 based on salary and PHR information the district provided.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-2000	\$ 49,396	\$ 3,741	\$ (45,655)
2000-01	58,547	4,670	(53,877)
2001-02	79,158	6,638	(72,520)
2002-03	84,397	13,768	(70,629)
2003-04	123,441	19,879	(103,562)
2004-05	139,746	22,686	(117,060)
2005-06	155,779	66,797	(88,982)
2006-07	171,545	70,520	(101,025)
2007-08	181,557	77,601	(103,956)
2008-09	412,911	88,097	(324,814)
2009-10	431,815	104,490	(327,325)
2010-11	538,645	115,752	(422,893)
2011-12	-	134,467	134,467
Subtotal, salaries and benefits	<u>\$ 2,426,937</u>	<u>\$ 729,106</u>	<u>\$ (1,697,831)</u>
Contract services:			
2003-04	\$ 33,084	\$ -	\$ (33,084)
2004-05	34,006	-	(34,006)
2005-06	34,456	-	(34,456)
Subtotal, contract services	<u>\$ 101,546</u>	<u>\$ -</u>	<u>\$ (101,546)</u>
Total	<u>\$ 2,528,483</u>	<u>\$ 729,106</u>	<u>\$ (1,799,377)</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 and evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. **(Activity 12)**

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

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

Salaries and Benefits

The district claimed salaries and benefits during the audit period to waive student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h) and to waive fees for students who apply for and are eligible for BOGG fee waivers. For FY 1999-00 through FY 2010-11, the district claimed salaries and benefits for four of the six reimbursable activities (activities 7, 8, 9, and 11) under the Waiving Student Fees cost component. The district did not claim costs under this cost component for FY 2011-12. The district claimed salaries and benefits using time allowances developed from estimated time it took staff to complete various activities through the use of employees' annual survey forms. District employees estimated the average time in minutes it took them to perform the various reimbursable activities claimed per student per year on certification forms developed by the district's mandated cost consultant. To compute the average time increment claimed for each of the four reimbursable activities claimed, all of the employees' time estimates were added together and the total was divided by the number of employees that provided estimates. The district did not provide any source documentation based on actual data to support the estimated time allowances. In addition, the district provided no evidence indicating that the average time increments were verified for reasonableness.

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff for FY 1999-2000 through FY 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 at the Financial Aid Offices who process students' BOGG fee waiver applications. We documented the

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

Activity 7: Answering student questions

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

In addition, district staff indicated that there is a Lab where students are assisted with BOGG fee waivers, Free Application for Federal Student Aid (FAFSA), and Dream Act questions.

Activity 8: Receiving enrollment fee waiver applications

We observed staff at the front counters of the Financial Aid Office review paper BOGG fee waiver applications from students and receive student information through a FAFSA batch process.

District staff receives paper BOGG fee waiver applications in the Financial Aid Office front counters. In addition to paper applications, staff also receives student information in digital form for students who submitted a U.S. Department of Education's FAFSA or through the online Websmart system. District staff noted that for FY 1999-2000 through 2004-05, the district only processed BOGG applications by paper and through the FAFSA system. The district also began receiving applications through Websmart in FY 2005-06. The district processed both paper and online applications through FY 2011-12.

Activity 9: Evaluating waiver applications and verifying documentation

We observed staff at the front counters of the Financial Aid Office receive waiver applications and verify additional supporting documentation brought in by students. Additionally, we observed district staff at the back counter of the Financial Aid Office manually process mock BOGG fee waiver applications, which included online applications in need of additional information and/or online applications with issues. The mock processing was performed to capture the time it took staff to manually process an application that was originally submitted online for which changes were needed. The district's current process allows students to go into the Websmart system to make changes to their online application. However, the process during FY 2005-06 through FY 2011-12 required district staff to manually make the changes for the student (via a paper application). The mock process we observed included reviewing the application, entering student information into the system, phoning students regarding additional documentation needed, and referring to the FAFSA application for income information.

In addition to the mock process, we observed a FAFSA batch process. According to staff, each college runs a batch process to award BOGG fee waivers to eligible students who completed their FAFSA. Also, staff informed us that during the audit period, all applications submitted in paper form were manually processed.

District procedures do not require that students submit any supporting documentation for BOGG fee waivers to be approved. However, the Financial Aid Office staff evaluates FAFSA applications throughout the year. Therefore, while evaluating the FAFSA applications, district staff verifies BOGG fee waiver eligibility through the verification requirements required for FAFSA applications. District staff then sends out notifications to students asking for additional support and students then have 30 days to bring in the supporting documents. District staff indicated that it removes the BOGG if students do not bring in the documents. District staff also indicated that it sends out notifications numerous times about the incomplete application before removing the BOGG.

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

We observed staff at the front counters of the Financial Aid Office advising students of additional information, in the case of incomplete applications, during the evaluation process (Activity 9) mentioned above. If an application was incomplete, the staff guided the student through the various steps to complete the application in order to immediately determine the student's eligibility.

District staff indicated that reports are run to identify incomplete applications. For applications that require additional support, staff sends notifications to the students. Students are given 30 days to submit the required supporting documentation to the Financial Aid Office. As indicated under Activity 9, district staff indicated that it removes the BOGG if students do not bring in the documents. District staff also indicated that it sends out notifications numerous times about the incomplete application before removing the BOGG.

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

The district explained that the paper BOGG fee waiver applications submitted by students are scanned, stored for three years, and shredded thereafter.

Activity 12: Appealing a denied BOGG fee waiver application

District staff district indicated that it instructs students to apply for the FAFSA if they do not qualify for the BOGG fee waiver. Staff indicated that students who disagree with a denied application are provided an "Unusual Circumstance Checklist" or a "Statement of Factor" to complete. Staff also indicated that it advises a student to fix any errors in reported income through the FAFSA. Once the FAFSA correction has been made, the BOGG waiver is granted. District staff also indicated that appeals are done for the FAFSA financial aid process rather than strictly for BOGG fee waiver applications

Activities 7 through 11

Time Increments

District employees estimated the time required to perform the reimbursable activities using certification forms developed by the district's mandated cost consultant. Based on these certifications, the district developed time allowances, per student for FY 1999-2000 through FY 2010-11, ranging from 18.9 minutes to 39.6 minutes for activities 7 through 11. Based on our observations, we found that the time allowances claimed for these years were overstated.

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

For front-counter activities, we observed a total of 100 BOGG fee related inquires, totaling 127.08 minutes. The average time it took staff to perform the front-counter activities is 1.27 minutes. For back-counter activities, we observed staff process 69 BOGG fee waivers through the FAFSA batch process totaling 75 minutes. The average time to process a BOGG fee waiver through the batch process is 1.09 minutes. For back-counter activities, we observed staff manually process ten mock BOGG fee waiver applications, totaling 37.67 minutes. The average time to manually process "Websmart" applications in need of correction is 3.77 minutes.

Based on our observations of Activities 7 through 11, it took district staff an average of 2.36 minutes for FY 1999-2000 through FY 2004-05 and an average of 6.13 for Activities 7 through 11 for FY 2005-06 through FY 2011-12.

Activity 12

Time Increments

The district did not claim time to perform reimbursable activity 12. District staff explained that the district does not have a written appeal process for the denied BOGG fee waiver applications for students to follow.

Calculation of Time Increments Adjustment

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

Fiscal Year	Claimed Minutes						
	Reimbursable Activity						
	7	8	9	10	11	12	
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications	Total	Appeals for Denied Waiver
1999-2000	6.3	5.8	5	-	7.6	24.7	-
2000-01	6.2	5.6	4.9	-	7.4	24.1	-
2001-02	6.1	5.2	4.9	-	7.0	23.2	-
2002-03	5.4	4.9	4.9	-	6.5	21.7	-
2003-04	5.7	4.9	4.8	-	6.3	21.7	-
2004-05	5.7	4.5	4.1	-	6.0	20.3	-
2005-06	5.7	4.5	4.1	-	6.0	20.3	-
2006-07	4.6	4	4.9	-	5.4	18.9	-
2007-08	4.6	4	4.9	-	5.4	18.9	-
2008-09	7.6	9.4	10.6	-	12.0	39.6	-
2009-10	6.5	7.5	9.6	-	11.6	35.2	-
2010-11	7.6	9.4	10.6	-	12.0	39.6	-
2011-12	-	-	-	-	-	-	-

Fiscal Year	Allowable Minutes						
	Reimbursable Activity						
	7	8	9	10	11	12	
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications	Total	Appeals for Denied Waiver
1999-2000	0.48	0.47	0.47	0.47	0.47	2.36	-
2000-01	0.48	0.47	0.47	0.47	0.47	2.36	-
2001-02	0.48	0.47	0.47	0.47	0.47	2.36	-
2002-03	0.48	0.47	0.47	0.47	0.47	2.36	-
2003-04	0.48	0.47	0.47	0.47	0.47	2.36	-
2004-05	0.48	0.47	0.47	0.47	0.47	2.36	-
2005-06	1.23	1.23	1.23	1.22	1.22	6.13	-
2006-07	1.23	1.23	1.23	1.22	1.22	6.13	-
2007-08	1.23	1.23	1.23	1.22	1.22	6.13	-
2008-09	1.23	1.23	1.23	1.22	1.22	6.13	-
2009-10	1.23	1.23	1.23	1.22	1.22	6.13	-
2010-11	1.23	1.23	1.23	1.22	1.22	6.13	-
2011-12	1.23	1.23	1.23	1.22	1.22	6.13	-

Multiplier Calculation

For Activities 7, 8, 9, and 11, the district claimed costs by multiplying the number of BOGG fee waivers based on district records by a uniform time allowance and an annual average PHR. The district used the number of students who received a BOGG fee waiver in its claims for FY 1999-2000 through FY 2010-11. The district did not claim costs for FY 2011-12.

For Activity 10 (incomplete BOGG fee waiver applications) and activity 12 (appeals of denied BOGG fee waiver applications), the district did not claim costs for the audit period.

For Activities 7 through 11, we applied the time required to perform the reimbursable activities by the number of students who received BOGG fee waivers, according to statistics provided by the CCCCO. Using data that the district reported, the CCCCO 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 FY 2011-12, the district did not claim costs for FY 2011-12; however, we found that the district performed the reimbursable activities. Therefore, we applied the time required to perform Activities 7 through 11 by the number of students who received BOGG fee waivers for FY 2011-12.

Calculation of Multiplier Adjustment—Number of BOGG Fee Waivers

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	123,382	195,483	72,101
8	123,382	195,483	72,101
9	123,382	195,483	72,101
10	-	195,483	195,483
11	123,382	195,483	72,101
12	-	-	-
Total	493,528	977,415	483,887

Calculation of Hours Adjustment

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

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

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
7	12,539	3,311	(9,228)
8	12,634	3,301	(9,333)
9	13,795	3,301	(10,494)
10	-	3,278	3,278
11	16,978	3,278	(13,700)
12	-	-	-
Total	55,946	16,469	(39,477)

PHRs

We adjusted the average PHRs claimed for the activities involved with waiving student fees. Consistent with the information presented for Finding 3 (Activities 1 through 6), the district also overstated the annual average PHR in its claims for Activities 7 through 12 for FY 1999-2000 through FY 2009-10 and understated the annual average PHR for FY 2010-11 and FY 2011-12. For FY 2008-09 and FY 2009-10, the district did not provide actual cost information supporting its PHRs; therefore, we adjusted the PHRs using Consumer Price Index information for those years. As explained in Finding 11, we recalculated the annual average PHRs based on actual salary and benefit information and productive hours for the employees involved in enrollment fee waiver activities and made changes to the claimed rates. The district’s Chief Financial Officer provided the information used for the recalculation of the rates. For the district’s employee benefit rate calculations, we used available information from the district’s “Revenues, Expenditures, and Fund Balance Data Report,” which is part of the district’s CCFS-311 Annual Financial Report.

Calculation of Costs by Reimbursable Activity

We applied the audited PHRs to the allowable hours per reimbursable activity. We found that salaries and benefits totaling \$729,106 are allowable and \$1,697,831 are unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
7	\$ 533,183	\$ 146,492	\$ (386,691)
8	547,998	146,190	(401,808)
9	608,692	146,190	(462,502)
10	-	145,117	145,117
11	737,064	145,117	(591,947)
12	-	-	-
Total	<u>\$ 2,426,937</u>	<u>\$ 729,106</u>	<u>\$ (1,697,831)</u>

Contract Services

The district claimed \$101,546 in contract services costs under the Waiving Student Fees cost component. However, the district misclassified costs claimed for contract services, as the costs pertain to reimbursable Activity 5, Collecting Delinquent Fees, under the cost component of Calculating and Collecting Enrollment Fees (Finding 3). Therefore, we reclassified and analyzed contract services costs under Finding 3.

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, District staff who implemented the mandate responded to four annual surveys conducted over the 13-year audit period (FY 1998-99 excluded). Each person estimated their individual average times required to perform each of the four reimbursable activities (the District did not separately claim activities 10 and 12). These individual averages were combined and averaged for each activity. These averages were rejected by the auditor for Activities 7 through 11.

For Activities 7 through 11, wavier application processing, the District claimed average times per student transaction of 21.7 to 24.7 minutes for FY 1999-00 through FY 2004-05 and 18.9 to 39.6 minutes for FY 2005-06 through FY 2011-12. 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 100 BOGG fee-related inquiries totaling 127.08 minutes, or an average of 1.27 minutes. For the additional processing from FAFSA, Activity 11, the auditor observed staff process ten mock BOGG fee waiver applications, totaling 37.67 minutes or an average of 3.77 minutes for applications in need of correction. Thus, the audited average for Activities 7 through 11 is 2.36 minutes for FY 1999-00 through FY 2004-05 and an average of 6.13 for FY 2005-06 through FY 2011-12.

This 68% to 90% reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 195,483 over the 13-year period, of which 169 wavier transactions were observed. The audit report does not state that the procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

B. Workload multipliers

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

C. Contract services

The District claimed \$101,546 for contract services for the enrollment

fee waiver process. The audit concluded that this amount should have been reported in the enrollment fee collection process (Finding 3). The District agrees.

SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses three specific issues:

- Average activity time
- Workload multipliers
- Contract services

We addressed our comments in the same order as presented.

Average activity time

For Activities 7 through 11, the district states that the auditors considered its "good faith time estimates" to be "overstated." We agree. Based on our initial discussions with district staff, we determined that the estimated time allowances claimed for these activities were unreasonable. In addition, estimates do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation. Section IV of the parameters and guidelines states:

Section IV of the parameters and guidelines states:

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

The district did not provide source documentation based on actual data to support the estimated time allowances or determine if its time estimates were reasonable. As a result, all costs were unallowable as claimed because, by substituting corroborating documents for source documents, 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 mandated 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 18.9 to 39.6 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 39.6 minutes, we observed an average time of 2.36 minutes for all five activities for FY 1999-2000 through FY 2004-05 and an average of 6.13 minutes for FY 2005-06 through FY 2011-12.

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. We disagree. We spent five 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 179 BOGG fee-waiver-related activities performed by district staff. Our observations showed that it took the staff members an average time of 2.36 minutes for Activities 7 through 11 during FY 1999-2000 through FY 2004-05, or an average of 0.47 minutes per activity and an average time of 6.13 minutes during FY 2005-06 through FY 2011-12, or an average of 1.23 minutes for each of the five activities. The district states that it conducted 195,483 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 source documentation to support the time required to perform these transactions. Instead, all time increments were supported only by estimates. In addition, the district did not provide evidence based on actual cost data or conduct its own time study supporting a different conclusion from ours. Therefore, our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

Workload multiplier

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

Contract services

The district agrees that the \$101,546 amount claimed for contract services costs should have been claimed under the enrollment fee collection process, as described in Finding 3.

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

The district claimed \$42,753 in salaries and benefits during the audit period related to reporting to the CCCCO the number of, and amounts provided for, BOGG fee waivers. We found that \$41,107 is allowable and \$1,736 is unallowable. The costs are unallowable because the district included employee classifications that do not perform the reimbursable activity and claimed time that was overstated and based on estimated time to perform the reimbursable activity.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ -	\$ -	\$ -
1999-2000	3,391	2,261	(1,130)
2000-01	3,580	2,484	(1,096)
2001-02	3,768	2,658	(1,110)
2002-03	4,059	2,738	(1,321)
2003-04	4,181	2,820	(1,361)
2004-05	4,475	2,890	(1,585)
2005-06	5,040	3,327	(1,713)
2006-07	-	3,469	3,469
2007-08	-	3,595	3,595
2008-09	1,015	3,697	2,682
2009-10	1,641	3,741	2,100
2010-11	11,603	3,638	(7,965)
2011-12	-	3,699	3,699
Total	\$ 42,753	\$ 41,017	\$ (1,736)

For the audit period, the district estimated the time it takes to perform the reimbursable activities. Staff completed Time Record Sheets to estimate the hours claimed by the district ranging from 63 to 261 hours per year.

During our analysis of this component, we noted variations in the number and classifications of district staff and the number of hours claimed per fiscal year. We requested an explanation from the district describing the process of reporting to the CCCCO the number of and amounts provided for BOGG fee waivers. A Financial Aid Technician advised that she spends approximately one to two full working weeks per year performing this activity, usually during the month of October. Based on the district's explanation of the process involved to perform this activity, we determined it is reasonable that a Financial Aid Technician spent 80 hours per fiscal year to perform this activity.

For FY 1999-2000 through FY 2005-06, the district claimed 63 estimated hours each year for the Dean of Enrollment Services and one Financial Aid Technician to perform the reimbursable activity. However, only the Financial Aid Technician would be performing this activity based on our interviews with district staff. Therefore, we calculated allowable costs for these years based on 80 hours per fiscal year for one Financial Aid Technician to perform the reimbursable activity.

For FY 2006-07, FY 2007-08, and FY 2011-12 the district did not claim any costs for this activity. However, based on interviews with the district, we realize that the district incurred costs to perform this activity. Therefore, we calculated allowable costs for these years based on 80 hours for one Financial Aid Technician to perform this activity.

For FY 2008-09, the district claimed ten estimated hours spent by the Dean of Enrollment Services to perform the reimbursable activity. For FY 2009-10 the district also claimed ten estimated hours for the Dean of Enrollment Services as well as 11 estimated hours for the Program Supervisor. Therefore, we calculated allowable costs for these years based on 80 hours for one Financial Aid Technician to perform this activity.

For FY 2010-11 the district claimed a total of 261 estimated hours for the following four classifications:

- Registrar – 63 hours
- Admissions Assistant – 180 hours
- Office Assistant – 8 hours
- Dean of Enrollment Services – 10 hours

Based on interviews with the district and on the amounts claimed in the previous fiscal years, the time claimed for FY 2010-11 does not appear to be reasonable. Therefore, we calculated allowable costs for this year based on 80 hours for one Financial Aid Technician to perform this activity.

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

Fiscal Year	Claimed		Allowed
	Number of Staff	Total Hours	Total Hours
1999-2000	2	63	80
2000-01	2	63	80
2001-02	2	63	80
2002-03	2	63	80
2003-04	2	63	80
2004-05	2	63	80
2005-06	2	63	80
2006-07	-	-	80
2007-08	-	-	80
2008-09	1	10	80
2009-10	2	21	80
2010-11	4	261	80
2011-12	-	-	80

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

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

Recommendation

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

District's Response

The District claimed \$42,753 in salaries and benefits costs during the audit period for reporting to the CCCCCO the number of, and amounts received for, BOGG fee waivers. The audit report states that \$41,107 is allowable and \$1,736 is unallowable. The costs were disallowed because the District included employee classifications that do not perform the reimbursable activity and claimed time that was overstated and based on estimated time to perform the reimbursable activity. The auditor discussed the claimed activities with relevant staff and the District believes the finding is a reasonable outcome that accounts for all of the scope of activities claimed.

SCO's Comments

The district does not dispute the audit finding.

FINDING 9— Overstated indirect costs

The district claimed indirect costs during the audit period totaling \$3,727,848 (\$2,569,283 for enrollment fee collection activities and \$1,158,565 for enrollment fee waivers activities). For enrollment fee collection activities, we found that \$375,297 is allowable and \$2,193,986 is unallowable. For enrollment fee waivers activities, we found that \$418,817 is allowable and \$739,748 is unallowable. The costs are unallowable primarily because of the unallowable salaries and benefits identified in Findings 1 through 8.

Indirect Cost Rates Claimed

FY 1998-99 through FY 2008-09, the district claimed indirect costs based on federally approved indirect cost rates using the principles of Title 2, *Code of Federal Regulations*, Part 220 (Office of Management and Budget (OMB) Circular A-21).

For FY 2009-10 through FY 2011-12, the district claimed indirect costs using the SCO's FAM-29C methodology.

Recalculated Indirect Cost Rates

For FY 1998-99 through FY 2008-09, we used the federally approved 30% indirect cost rates claimed by the district.

For FY 2009-10 and FY 2010-11, we used our audited indirect cost rates from our audit of the district's Health Fee Elimination Program claims for those years. We issued our report for that audit on April 17, 2014, and noted that the district claimed indirect costs based on indirect cost rates prepared using the SCO's FAM-29C methodology. However, the district identified community relations costs (account 6710) as indirect costs, which is not in accordance with the SCO's claiming instructions. In addition, the district calculated each fiscal year's indirect cost rate based on actual costs reported in the district's California Community Colleges Annual Financial Budget Report-Expenditures by Activity Report (CCFS-311) from the preceding fiscal year rather than using the reported financial information for the current fiscal year. We recalculated the rate consistent with the SCO's claiming instructions.

For FY 2011-12, the district incorrectly calculated its indirect cost rate by including Community Relations (account 6710) as an indirect cost rather than a direct cost. Also, the district used accumulated depreciation amounts from its FY 2010-11 Annual Financial Report and financial data reported in the district's CCFS-311 report for FY 2010-11 rather than using the financial data from its report for FY 2011-12. We recalculated the indirect cost rate using the SCO's FAM-29C methodology and current-year financial information contained in the district's CCFS-311 report.

Indirect Cost Rate Summary

Based on our calculations, the district understated its indirect cost rates for FY 2009-10 through FY 2011-12.

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

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Audit Adjustment</u>
1998-99	30.00%	30.00%	0.00%
1999-2000	30.00%	30.00%	0.00%
2000-01	30.00%	30.00%	0.00%
2001-02	30.00%	30.00%	0.00%
2002-03	30.00%	30.00%	0.00%
2003-04	30.00%	30.00%	0.00%
2004-05	30.00%	30.00%	0.00%
2005-06	30.00%	30.00%	0.00%
2006-07	30.00%	30.00%	0.00%
2007-08	30.00%	30.00%	0.00%
2008-09	30.00%	30.00%	0.00%
2009-10	41.50%	44.97%	3.47%
2010-11	46.88%	56.16%	9.28%
2011-12	58.80%	60.43%	1.63%

Enrollment Fee Collection

The district claimed \$2,569,283 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that indirect costs were overstated by the net amount of \$2,193,986. The district understated the indirect cost rate for FY 2009-10, FY 2010-11, and FY 2011-12. In addition, the district overstated indirect costs for the audit period because of unallowable salaries and benefits identified in Findings 1 through 3.

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

Fiscal Year	Enrollment Fee Collection				
	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Adjusted Indirect Costs
1998-99	\$ 68,317	30.00%	\$ 20,495	\$ 144,946	\$ (124,451)
1999-2000	68,915	30.00%	20,675	147,367	(126,692)
2000-01	70,576	30.00%	21,173	156,944	(135,771)
2001-02	82,128	30.00%	24,638	161,969	(137,331)
2002-03	91,870	30.00%	27,561	200,895	(173,334)
2003-04	70,089	30.00%	21,027	157,947	(136,920)
2004-05	73,673	30.00%	22,102	211,526	(189,424)
2005-06	69,906	30.00%	20,972	201,202	(180,230)
2006-07	69,581	30.00%	20,874	93,335	(72,461)
2007-08	71,928	30.00%	21,578	102,207	(80,629)
2008-09	78,916	30.00%	23,675	216,873	(193,198)
2009-10	88,283	44.97%	39,701	455,694	(415,993)
2010-11	80,810	56.16%	45,383	172,174	(126,791)
2011-12	75,199	60.43%	45,443	146,204	(100,761)
Total	<u>\$ 1,060,191</u>		<u>\$ 375,297</u>	<u>\$ 2,569,283</u>	<u>\$ (2,193,986)</u>

Enrollment Fee Waivers

The district claimed \$1,158,565 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waiver activities. We found that indirect costs were overstated by the net amount of \$739,748. The district understated the indirect cost rate for FY 2009-10, FY 2010-11, and FY 2011-12. In addition, the district overstated indirect costs for the audit period because of unallowable salaries and benefits identified in Findings 4 through 8.

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

Fiscal Year	Allowable Costs	Enrollment Fee Waivers		Claimed Indirect Costs	Adjusted Indirect Costs
		Allowable Indirect Cost Rates	Allowable Indirect Costs		
1999-2000	\$ 25,423	30.00%	\$ 7,627	\$ 40,507	\$ (32,880)
2000-01	19,844	30.00%	5,953	43,871	(37,918)
2001-02	25,704	30.00%	7,711	51,607	(43,896)
2002-03	32,509	30.00%	9,753	57,742	(47,989)
2003-04	42,758	30.00%	12,827	72,271	(59,444)
2004-05	44,036	30.00%	13,211	80,397	(67,186)
2005-06	89,651	30.00%	26,895	90,752	(63,857)
2006-07	93,010	30.00%	27,903	51,463	(23,560)
2007-08	102,632	30.00%	30,790	54,467	(23,677)
2008-09	114,787	30.00%	34,436	128,533	(94,097)
2009-10	131,317	44.97%	59,053	189,067	(130,014)
2010-11	144,796	56.16%	81,317	297,888	(216,571)
2011-12	167,700	60.43%	101,341	-	101,341
Total	\$ 1,034,167		\$ 418,817	\$ 1,158,565	\$ (739,748)

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

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

Recommendation

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

District’s Response

An indirect cost rate is applied to all reimbursable direct costs to allocate administrative and other costs to the direct mandate program costs. There are no regulations or pertinent generally accepted methods for the calculation of the indirect cost rate, so it is a matter of professional judgment. The district used a federally approved rate for FY 1998-99 through FY 2008-09, which is acceptable to the Controller. However, the claimed rates were understated [sic] three other fiscal years.

Fiscal Year	Claimed	Allowable	Adjustment
2009-10	41.50%	44.97%	3.47%
2010-11	46.88%	56.16%	9.28%
2011-12	58.80%	60.43%	1.63%

For these three years, both the District and the auditor calculated the

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

The other minor differences between the claimed rates and audited rates derive from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable 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 choices are unreasonable, just that they aren't the same choices as used for the Controller's calculations using the same method. Given the minor differences, the District does not dispute the finding.

SCO's Comments

The finding and recommendation remain unchanged.

The district does not dispute the audit finding, although there are several statements included in the district's response that warrant comment.

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 Controller's FAM-29C methodology for FY 2009-10 through FY 2011-12 by using the Controller's FAM-29C forms to document its indirect cost rate calculations. However, the district did not follow the SCO's claiming instructions. We recalculated indirect cost rates under the FAM-29C methodology using the applicable SCO claiming instructions.

The district states that "The District utilized prior year CCSF-311 reports because the current (annual claim) year CCSF-311 report and CPA audited financial statement depreciation expense are not always available when the annual claims are prepared." We disagree. For FY 2009-10 through FY 2011-12, 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, as noted in the audit report. Claims filed for these years were due to the SCO by February 15 of the following calendar year. Title 5, *California Code of Regulations*, 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.

We used audited financial statements provided by the district as the source for annual depreciation amounts used in the FAM-29C indirect cost rate calculation. Audited financial statements are based on financial statement data provided by the district to its outside auditors. To issue audited financial statements, the outside auditors verified that the district's financial statements were materially correct. Therefore, it is not unreasonable to expect that depreciation data relative to June 30 of each year be available for mandated cost claiming purposes by February of the following fiscal year.

**FINDING 10—
Misstated offsetting
reimbursements**

The district claimed offsetting reimbursements totaling \$788,778 for enrollment fee collection and \$2,256,488 for enrollment fee waivers. We found that offsetting reimbursements were understated by \$703,328 for enrollment fee collection and overstated by a net \$802,139 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 \$1,502,613 during the audit period. We limited offsetting reimbursements received by the district to allowable direct and indirect costs.

Allowable direct and indirect costs applicable for the audit period related to enrollment fee collection activities totaled \$2,029,380. The district understated offsetting reimbursements by \$703,328, which consists of offsets applicable to the audit period totaling \$1,492,106 less offsets claimed totaling \$788,778.

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

Enrollment Fee Collection Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1998-99	\$ 88,812	\$ (22,371)	\$ (78,146)	\$ (78,146)	\$ (55,775)
1999-2000	89,590	(18,962)	(72,624)	(72,624)	(53,662)
2000-01	91,749	(18,024)	(67,004)	(67,004)	(48,980)
2001-02	106,766	(15,881)	(67,036)	(67,036)	(51,155)
2002-03	119,431	(16,874)	(70,815)	(70,815)	(53,941)
2003-04	124,200	(35,734)	(100,160)	(100,160)	(64,426)
2004-05	129,781	(75,866)	(133,547)	(129,781)	(53,915)
2005-06	125,334	(72,111)	(132,075)	(125,334)	(53,223)
2006-07	157,169	(76,873)	(116,757)	(116,757)	(39,884)
2007-08	257,138	(62,499)	(106,613)	(106,613)	(44,114)
2008-09	203,394	(59,204)	(111,341)	(111,341)	(52,137)
2009-10	202,245	(132,386)	(141,850)	(141,850)	(9,464)
2010-11	158,558	(133,005)	(133,005)	(133,005)	-
2011-12	175,213	(48,988)	(171,640)	(171,640)	(122,652)
Total	\$ 2,029,380	\$ (788,778)	\$ (1,502,613)	\$ (1,492,106)	\$ (703,328)

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$10,507 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (78,146)	\$ (78,146)	\$ -
1999-2000	(72,624)	(72,624)	-
2000-01	(67,004)	(67,004)	-
2001-02	(67,036)	(67,036)	-
2002-03	(70,815)	(70,815)	-
2003-04	(100,160)	(100,160)	-
2004-05	(133,547)	(129,781)	(3,766)
2005-06	(132,075)	(125,334)	(6,741)
2006-07	(116,757)	(116,757)	-
2007-08	(106,613)	(106,613)	-
2008-09	(111,341)	(111,341)	-
2009-10	(141,850)	(141,850)	-
2010-11	(133,005)	(133,005)	-
2011-12	(171,640)	(171,640)	-
Total	\$ (1,502,613)	\$ (1,492,106)	\$ (10,507)

Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$2,282,520 for the audit period. We 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 \$1,454,349. The district overstated offsetting reimbursements by \$802,139, which consists of

offsets applicable to the audit period totaling \$1,454,349 less offsets claimed totaling \$2,256,488.

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

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs	Claimed Offsets (A)	Actual Offsets Confirmed by the CCCCO	Offsets Applicable to Audit (B)	Audit Adjustment (B-A)
1999-2000	\$ 33,155	\$ (73,669)	\$ (113,430)	\$ (33,155)	\$ 40,514
2000-01	25,902	(89,402)	(103,046)	(25,902)	63,500
2001-02	33,520	(106,091)	(92,768)	(33,520)	72,571
2002-03	42,367	(123,813)	(105,877)	(42,367)	81,446
2003-04	55,690	(180,971)	(140,979)	(55,690)	125,281
2004-05	57,352	(216,397)	(203,409)	(57,352)	159,045
2005-06	116,651	(214,235)	(186,704)	(116,651)	97,584
2006-07	121,018	(171,545)	(204,541)	(121,018)	50,527
2007-08	133,527	(181,557)	(198,590)	(133,527)	48,030
2008-09	149,328	(326,966)	(197,476)	(149,328)	177,638
2009-10	190,475	(277,568)	(217,940)	(190,475)	87,093
2010-11	226,218	(294,274)	(245,301)	(226,218)	68,056
2011-12	269,146	-	(272,459)	(269,146)	(269,146)
Total	\$ 1,454,349	\$ (2,256,488)	\$ (2,282,520)	\$ (1,454,349)	\$ 802,139

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$828,171 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (113,430)	\$ (33,155)	\$ (80,275)
2000-01	(103,046)	(25,902)	(77,144)
2001-02	(92,768)	(33,520)	(59,248)
2002-03	(105,877)	(42,367)	(63,510)
2003-04	(140,979)	(55,690)	(85,289)
2004-05	(203,409)	(57,352)	(146,057)
2005-06	(186,704)	(116,651)	(70,053)
2006-07	(204,541)	(121,018)	(83,523)
2007-08	(198,590)	(133,527)	(65,063)
2008-09	(197,476)	(149,328)	(48,148)
2009-10	(217,940)	(190,475)	(27,465)
2010-11	(245,301)	(226,218)	(19,083)
2011-12	(272,459)	(269,146)	(3,313)
Total	\$ (2,282,520)	\$ (1,454,349)	\$ (828,171)

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

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

Enrollment Fee Collection Program:

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

Enrollment Fee Waiver Program:

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

July 1, 1999 to July 4, 2000:

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

Beginning July 5, 2000:

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

of duty as defined] of section 76300;

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

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommended that the district report the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its mandated cost claims based on information provided by the CCCCCO.

District's Response

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

There is no dispute of these audited potential revenue offset amounts at this time. However, the revenue offsets should only be offset to the relevant mandated activity costs, rather than to the total audited costs. Specifically, in Finding 3 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for

online transaction percentages retroactive to FY 2003-04. However, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit applies the offset to all enrollment fee collection costs, both in-person and online generated. 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 costs and revenues as required by generally accepted accounting principles. For example, for FY 2011-12, the District reduced the reported offsetting revenue to \$48,988, an amount proportional to only those enrollment fee collections made in person and not online. The audit report should be changed to make a similar reduction to the offsetting revenues for each fiscal year that included online enrollment fee collection.

As a new issue not addressed by the audit, the District went to "basic aid" funding status in FY 2011-12 and never received the 2% credit for collection of the enrollment fees. Every college district gets to keep 100% of the enrollment fees collected. A revenue-limit college district uses 98% of those fees towards their revenue limit, along with their property taxes. The state funds the revenue-limit district the difference between local funding (fees and property taxes) and the revenue limit. A basic aid district receives no state funds since their enrollment fees plus their property taxes exceed the revenue limit. The audited 2% offset for FY 2011-12 of \$171,640 should be changed to \$0.

SCO's Comments

The finding and recommendation remain unchanged.

The district does not dispute the "potential" revenue offset amounts. However, the district states that the audited revenue offsets for FY 2003-04 through FY 2011-12 should be reduced by the same percentage of online transaction costs "in order to properly match revenues and costs." In other words, the 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 2% of the revenue from enrollment fees received by the district from students and were intended to cover the costs incurred by the district to implement the program of calculating and collecting enrollment fees from students. The specific program costs subject to mandate reimbursement are those identified in Section IV.A. of the parameters and guidelines (Reimbursable Activities – Enrollment Fee Collection). The costs claimed by the district for FY 2003-04 through FY 2011-12 under this section of the parameters and guidelines included the one-time activities of preparing policies and procedures and staff training 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 applied only to reimbursable Activity 2 (Calculating and Collecting the Fee) and Activity 4 (Updating Written and Computer Records). To determine the allowable costs, we applied the time increments required to perform these activities by the number of students appearing in-person to pay their enrollment fees based on the applicable productive hourly rates of district staff that performed these activities.

Based on the results of our audit, the district has already been fully reimbursed for the costs to implement the program of calculating and collecting fees from students for FY 2003-04 through FY 2011-12 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.

We followed up with representatives of the CCCCCO concerning the district's statement the no offsetting reimbursements should be deducted from claimed costs applicable to FY 2011-12 enrollment fee collection activities. The CCCCCO has not responded to our inquiries as of the issuance of this report. Based on our understanding of the process, the district still benefited from the use of the 2% of enrollment fees to fund enrollment fee collection costs. We will revisit this issue if information subsequently provided by the CCCCCO supports the district's position.

**FINDING 11—
Misstated PHRs and understated benefit rates for Calculating and Collecting Enrollment Fees, and Waiving Student Fees cost components**

For the audit period, the district calculated average PHRs separately for employees involved in calculating and collecting enrollment fees and for employees involved in waiving student fees. The district calculated its average PHRs using a straight average methodology based on 1,650 annual productive hours per employee. However, the district did not provide support for its determination that all district employees only worked 1,650 productive hours per year. We also noted various discrepancies and errors made in the district's PHR calculations related to enrollment fee collection and enrollment fee waivers activities for each fiscal year of the audit period (FY 1998-99 through FY 2011-12). Accordingly, we adjusted the PHR averages for each year of the audit period.

To calculate the PHRs for the entire audit period, the district used an estimated standard 25% employee benefit rate instead of the actual employee benefit rates. The use of a standard employee benefit rate for claiming mandated costs is not allowed for this mandated program.

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

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

The SCO's claiming instructions state that one of three options may be

used to compute PHRs:

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

If the district calculates PHRs using actual annual productive hours or weighted-average productive hours for each job title, the SCO claiming instructions require it to maintain documentation on how these hours were computed.

PHRs

For the audit period, the district calculated an average PHR for the employees involved in enrollment fee collection and enrollment fee waivers activities by calculating each employee's PHR, adding up the total of individual PHRs, and dividing by the number of employees. During the course of the audit, we requested source documents containing the actual salary and benefit data for district staff implementing the Enrollment Fee Collection and Waivers Program for each fiscal year of the audit period. The district provided five Excel spreadsheets containing payroll information for staff included in the district's claims for both enrollment fee collection and enrollment fee waivers activities.

Upon review of the supporting information, we noted various errors in the data provided. The data included staff's salary amounts and PHRs which resulted from a district calculation. In those calculations, the district multiplied staff's salary by a 25% employee benefit rate and divided the total by 1,650 productive hours. The district did not provide any support for its actual employee benefit rates or actual annual productive hours. In addition, the district's spreadsheets did not contain support for employee payroll information for FY 2008-09 and FY 2009-10. We also noted additional discrepancies which are described below.

Enrollment Fee Collection

For enrollment fee collection, we noted discrepancies for each fiscal year of the audit period except for FY 2007-08. The discrepancies included the following:

- Employee names claimed not appearing in the supporting documentation;
- Employee names claimed appearing in the supporting documentation, but their salary information is not listed;
- The supporting documentation lists claimed employees as "not an employee in Banner";
- The supporting documentation lists claimed employees as "not employed"; and
- Each of the five staff claimed for FY 2009-10 are Financial Aid

Office staff, not Cashier's Office staff.

We noted a total of 102 separate discrepancies for the audit period. We sent the district an Excel spreadsheet titled "PHR follow-up questions" via email on March 4, 2015, and requested clarification for the discrepancies that we noted. The spreadsheet listed each discrepancy and provided a space for clarification and/or corrections. However, the district has not responded to the requested information. In the absence of corrections or additional supporting documentation for the enrollment fee collection staff to clarify the discrepancies noted, we omitted these staff in our recalculation of PHRs.

Consistent with the SCO claiming instructions, in the absence of support for the number of actual annual productive hours spent by district staff, we used 1,800 productive hours for each employee when recalculating PHRs. For the FY 2008-09 and FY 2009-10 salary amounts, we applied Consumer Price Index information to audited salary rates for FY 2007-08.

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

Fiscal Year	Enrollment Fee Collection		Difference
	Claimed Average Productive Hourly Rate	Audited Average Productive Hourly Rate	
1998-99	\$ 28.14	\$ 23.95	\$ (4.19)
1999-2000	28.82	25.10	(3.72)
2000-01	30.38	26.33	(4.05)
2001-02	31.70	28.96	(2.74)
2002-03	34.44	30.96	(3.48)
2003-04	37.20	33.86	(3.34)
2004-05	38.34	34.99	(3.35)
2005-06	39.23	37.46	(1.77)
2006-07	43.85	40.31	(3.54)
2007-08	44.08	40.41	(3.67)
2008-09	45.31	41.14	(4.17)
2009-10	49.23	41.63	(7.60)
2010-11	43.51	45.64	2.13
2011-12	42.93	44.75	1.82

Enrollment Fee Waivers

For enrollment fee waivers, we noted discrepancies for each fiscal year of the audit period except for FY 2005-06 and FY 2010-11. The discrepancies included the following:

- Employee names claimed did not appearing in the supporting documentation;
- Employee names claimed appeared in the supporting documentation; however, their salary information was not listed;
- The supporting documentation lists claimed employees as “not employed”;
- The supporting documentation lists more than one salary amount for a claimed employee; and
- The supporting documentation lists claimed employees as “not employed–student assistant.”

We noted a total of 38 separate discrepancies for the audit period. We sent the district an Excel spreadsheet titled “PHR follow-up questions” via email on March 4, 2015, and asked for clarification of the discrepancies that we noted. The spreadsheet listed each discrepancy and provided a space for clarification and/or corrections. However, the district has not responded to the requested information. In the absence of corrections or additional supporting documentation for the enrollment fee waivers staff to clarify the discrepancies noted, we omitted these staff from our recalculation of PHRs. Consistent with the SCO claiming instructions, in the absence of actual annual productive hours, we used 1,800 productive hours for each employee when recalculating PHRs. For the FY 2008-09 and FY 2009-10 salary amounts, we applied Consumer Price Index information to audited salary rates for FY 2007-08.

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

Fiscal Year	Enrollment Fee Waivers		Difference
	Claimed Average Productive Hourly Rate	Audited Average Productive Hourly Rate	
1999-2000	24.26	22.89	(1.37)
2000-01	26.79	25.67	(1.12)
2001-02	30.55	29.49	(1.06)
2002-03	34.70	33.02	(1.68)
2003-04	36.87	35.46	(1.41)
2004-05	39.01	35.45	(3.56)
2005-06	40.46	37.51	(2.95)
2006-07	46.81	40.64	(6.17)
2007-08	49.30	45.39	(3.91)
2008-09	47.71	46.21	(1.50)
2009-10	47.05	46.76	(0.29)
2010-11	50.10	50.66	0.56
2011-12	50.84	51.21	0.37

Employee Benefit Rates

The district provided documentation supporting its use of an estimated standard 25% employee benefit rate which was applied to direct salaries for all staff claimed during the audit period. In order to determine the actual benefit rates, we obtained the district's Governmental Fund Group—Revenues, Expenditures, and Fund Balance Data Report from the CCCCCO for those fiscal years that this report was available, which included FY 2009-10 through FY 2011-12. This report is part of the district's Annual Financial and Budget Report (CCFS-311). We used salaries and benefits data from these reports to calculate the actual district-wide benefit rates. For the remaining fiscal years in which this report was not available, we used the 25% benefit rate that the district claimed. Based on our review of benefit rates for FY 2009-10 through FY 2011-12, we believe that the employee benefit rates for the prior fiscal years may also be understated.

The following table summarizes the claimed benefit rates, recalculated rates, and audit adjustments:

Fiscal Year	Benefit Rate Adjustments		Difference
	Claimed Rate	Allowable Rate	
1998-99	25.00%	25.00%	0.00%
1999-2000	25.00%	25.00%	0.00%
2000-01	25.00%	25.00%	0.00%
2001-02	25.00%	25.00%	0.00%
2002-03	25.00%	25.00%	0.00%
2003-04	25.00%	25.00%	0.00%
2004-05	25.00%	25.00%	0.00%
2005-06	25.00%	25.00%	0.00%
2006-07	25.00%	25.00%	0.00%
2007-08	25.00%	25.00%	0.00%
2008-09	25.00%	25.00%	0.00%
2009-10	25.00%	34.58%	9.58%
2010-11	25.00%	37.87%	12.87%
2011-12	25.00%	37.37%	12.37%

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 PHRs are calculated in accordance with the guidance provided in the SCO's claiming instructions.

District's Response

For the audit period, the District calculated productive hourly rates for the salary and benefits for the employees using a District-developed standard 25% employee benefit rate and dividing the salary and benefit amounts by 1,650 productive hours. The District agrees that while the 25% standard rate may be useful for internal reporting and some funding sources, it is not specifically allowed by the parameters and

guidelines for mandate reimbursement. The audit used actual payroll information to determine the percentages. The District also concurs that if a standard number of productive hours is to be used, the preferred standard is 1800, in the absence of actual hours specific to each employee. The audit used the 1,800 hours standard, which is the major source of the audited reduction in the hourly rates. The District concurs with this finding.

SCO's Comment

The district concurs with this finding.

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 for the legislatively mandated program was adopted on April 24, 2003. On page 22 of that document, the Commission states that it agreed that the test claim legislation imposes a partial reimbursable state-mandated program on community college districts for the following activities:

- Calculating and collecting the student enrollment fee for each student except for nonresidents, and except for special part-time students...;
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h);
- Waiving fees for students who apply for and are eligible for BOGG fee waivers;
- Reporting to the CCCCCO the number and amounts provided for BOGG fee waivers; and
- Adopting procedures that will document all financial assistance provided on behalf of student . . . 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 six fiscal years beyond the initial filing period. However, none of the claims filed by the district for the 14

years in the audit period include 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 in determining the allowable portion of claimed costs.

**OTHER ISSUE—
Public records
request**

The district’s response included a public records request.

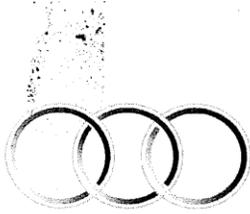
District’s Response

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**



**SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT**

Office of the Executive Vice Chancellor

*Cañada College, Redwood City
College of San Mateo, San Mateo
Skyline College, San Bruno*

May 12, 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 2011-12
San Mateo County Community College District

Dear Mr. Spano:

This letter is the response of the San Mateo Community College District to the draft audit report dated May 1, 2015, received by e-mail on May 1, 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.

About 96 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 spent on implementing the mandate program is needed. The majority of the direct costs claimed is the staff time and most of these costs are 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:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred

for the event or activity in question. Source documents may include, but are not limited, employee time records or time logs, sign in sheets, invoices, and receipts.

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 procedure section 2015.5. 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.

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 of are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

AUDIT FINDINGS

Finding 1 Enrollment Fee Collection: Prepare Policies and Procedures Cost Component – unallowable one-time Costs

The District claimed \$81,052 in salaries and benefits during the audit period for the activity of preparing District policies and procedures for the collection of enrollment fees. The draft audit states that \$22,052 is allowable and \$59,000 is unallowable. The audit adjusted FY 2005-06, FY 2006-07, FY 2010-11, and FY 2011-12 only. The other years were stated to be below the Controller's materiality threshold. The audit report states that the adjustments were made because the District claimed costs for these years based on estimates of time spent performing the reimbursable activities, and did not prove that costs incurred were required by changes in state law rather than by discretionary activities undertaken by the District to update its own policies and procedures.

The parameters and guidelines state that preparing District policies and procedures is reimbursable as a one-time activity. When there is a need to update a policy or procedure, this is a new one-time activity. There is no stated requirement to distinguish this work as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report. There have been numerous changes in state law as a result in changes in the enrollment fee amounts, among other things, over the years. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors.

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

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

The District claimed \$69,451 in salaries and benefits during the audit period for the activity of training staff who implement the program on the procedures for the collection of enrollment fees. The audit report states that \$3,374 is allowable and \$66,077 is unallowable, representing 1,830.5 hours spent by various staff. The audit report allowed all of the claimed time for four fiscal years without review due to materiality and disallowed all of the claimed time for seven fiscal years (no costs were claimed for FY 2006-07 or FY 2007-08). The audit report states that the adjustments were made because the District claimed estimated costs and did not provide documentation related to the subject matter, duration, and employees attending. Further, that costs were claimed for several staff members multiple times in District claims over the audit period.

The audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than

once during the seven fiscal years in the audit period. However, at the exit conference, the auditor stated that none of the amounts were adjusted for duplicate training, so this is not a true finding.

The audit report also ostensibly disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation. The audit does not indicate how this documentation was not actual cost documentation. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

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

The District claimed \$7,547,491 in salaries and benefits and \$751,689 contract services 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, then multiplied by the relevant workload statistic (e.g., the number of students paying an enrollment fee). The audit report adjusts all three components of the calculation.

The draft audit report states \$1,034,765 of claimed salary and benefits is allowable and \$6,512,726 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 for those who paid their enrollment fees online rather than in person. The collective effect of the disallowances is an 85% reduction of the 200,755 claimed mandate program hours to 30,349. There is a reduction of a similar magnitude for the \$7,547,491 in claimed costs for salaries and benefits to \$1,034,765. Based on the audited net enrollment of 905,192 for the audit period, the implied audited average time for all six activities per enrollment is an improbable 2.0 minutes and \$1.14 per enrollment.

A. Average activity time

Using certification forms developed by the District’s mandated cost consultant District staff who implemented the mandate responded to five time surveys conducted over the 14-year audit period. Each person estimated their average individual times required to perform each of the six reimbursable activities. These individual District averages were then averaged for each activity. These averages were rejected by the 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 6.6 to 19.1 minutes over the 14 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 220 transactions at the cashier’s office over four days, of which 75 involved the payment of enrollment fees encompassing Activities 1 through 4. The average observed time to perform all four activities was 2.26 minutes; or 0.56 minutes per activity.

This 66% 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 is 905,192 over the 14-year period, of which 75 enrollment payment transactions were observed. The audit report does not state that the collection procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

For Activity 5, collecting delinquent fees, the District claimed average times of 3.1 to 4.0 minutes per student for the audit period. The audit report allows these claimed averages as acceptable based on staff's explanation of the process.

For Activity 6, providing a refund when fee waiver eligibility is established after enrollment fee collection, the District claimed average times ranging from 2.6 to 6.2 minutes per student for the eleven years for which these costs were claimed. The audit report allows these claimed averages as acceptable based on observation and staff's explanation of the process.

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

These 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 2003-04, the District began an internet online method to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the total multiplier by the percentage of students who paid on line. This method appears reasonable at this time.

For Activity 5, collecting delinquent enrollment fees, the auditor accepted the number of delinquent fees processed for FY 2008-09 through FY 2011-12 finding that the percentage of delinquent accounts was reasonable. However, the auditor rejected the delinquent accounts claimed for FY 1998-99 through FY 2005-06 due to the percentage of delinquent accounts varying between 66% to 86%. For those prior years, the auditor allowed 9%, and average derived from the last four years in the audit period. This method will be subject to further review by the District for the incorrect reduction claim.

For Activity 6, providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected, the District provided the number of refunds processed and the auditor accepted these statistics.

C. Electronic and information technology for enrollment fee collection

Beginning FY 2003-04, the District started internet online method to collect the enrollment fee. Based on information provided by the District during the audit, the auditor reduced the number of in-person fee transactions for the portion of the students who paid the enrollment fees online. However, the audit findings do not replace the time lost from these eliminated transactions with the costs to operate the online payment collections. Thus, no costs are recognized in the audit for the online transactions. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim

For the FY 2011-12 annual claim, the District claim reduced the enrollment statistic by a percentage for online transactions. The annual claim for that year then included costs of \$44,507, a total of about 846 hours for five employees, for what the District identified as developing, procuring, maintaining, and using electronic and information technology for enrollment fee collection. The time claimed was for purchasing equipment used to process fee transactions, preparing Chancellor's Office MIS reports, tracking student payments, and coordinating with credit card companies. While not specifically identified in the parameters and guidelines as a reimbursable activity, the District believes that the costs claimed were related to operating an online system for students to pay their enrollment fees. Similar costs were not claimed for prior years retroactive to FY 2003-04 when the online payment system started since FY 2011-12 was the first annual claim in which the District reduced the number of in-person statistics.

The draft audit states that the entire amount is unallowable primarily because the costs claimed are based on estimates and that the District did not provide any supporting documentation. The District provided documentation in the form of declarations which are acceptable source documentation for annual claims.

D. Contract Services

The District claimed \$751,689 for contract services costs for this the enrollment fee collection process. The audit concluded that \$593,892 is allowable, (including \$101,546 in contract services costs which was erroneously reported as part of the enrollment fee waiver process activity for FY 2003-04 through FY 2004-05) and \$157,797 is unallowable because the District did not provide supporting documentation for some of the costs claimed. The specific findings for each of the several contracts are as follows:

- For FY 2006-07 and FY 2007-08, the District claimed \$279,821 for computer system maintenance and support services for the student, finance, and website for student systems. The audit found all costs to be unallowable because there was no "information providing a direct relationship between the services provided by the District's vendor and the reimbursable activities surrounding the calculation and collection of student enrollment fees." The District does not agree with this finding and will provide the additional information for the incorrect reduction claim.
- The audit determined that \$286,025 for registration statements and related postage for sending them to students is allowable. The District agrees with this finding.
- For FY 2006-07 through FY 2009-10, the District claimed \$119,377 for appointment registration postcards and postage for mailings to students. The audit found these costs to be unallowable. The District agrees with this adjustment since the postcards did not provide students any information relating to the collection of student enrollment fees.

- For FY 2006-07 through FY 2009-10, the District claimed \$99,150 for foreign postage, school renewal fees, 1098-T printing, and IRS archive media. The audit found all costs to be unallowable because there was no direct relationship between the services and collection of student enrollment fees. The District does not agree with this finding and will provide the additional information for the incorrect reduction claim.
- For FY 2007-08, the District claimed \$3,763 for transcript paper, \$1,481 for Dean's list letters, and \$15,861 for "loose" permits and integrated permit registration statements. The audit found these costs to be unallowable. The District agrees with this adjustment since permit registration statements do not have any direct relationship to the calculation and collection of enrollment fees.
- The audit determined that the District did not provide any support for \$23,428 in FY 2010-11, and \$24,472 for FY 2011-12. The District does not agree with this finding and will provide the additional information for the incorrect reduction claim.

Finding 4 Enrollment Fee Waivers: Preparing Policies and Procedures cost component unallowable one-time costs

The District claimed \$47,161 during the audit period to prepare District policies and procedures for determining which students are eligible for a waiver of the enrollment fees. The audit report states that \$11,479 is allowable and \$35,682 is unallowable.

The audit report states that FY 2005-06 and FY 2009-10 are below the materiality threshold, and costs were allowed as claimed without evaluation. For the remaining years, there are different audit outcomes even though the method to claim staff time, that is, declarations, was the same every year:

- The costs claimed for FY 1999-00 exceeded the materiality threshold but were allowed in total without explanation.
- The audit identifies FY 2003-04, FY 2005-06, and FY 2009-10 as years in which changes were made in state law which would result in changes in District policies and procedures. FY 2005-06 and FY 2009-10 were below the materiality level and not evaluated by the auditor. The District claimed \$3,728 for FY 2003-04 for 55 hours of staff time to perform the reimbursable activity. However, the auditor found this amount to be unallowable because the time was "estimated" and instead used the average of the costs claimed in FY 2005-06 and FY 2009-10 (which were both allowed based on being below materiality) to calculate allowable costs for FY 2003-04. Thus, two years of unaudited immaterial "estimated" amounts were averaged and that average replaces the "estimated" amounts in a third year.
- The audit report disallows all costs claimed for FY 2000-01, FY 2002-03, and FY 2010-11. The stated reason was that the costs were based on "estimates" and that the fiscal years are not years in which the state law changes, so it is presumed the work was related to "discretionary" changes to the policies and procedures. There is no stated requirement to distinguish this work

as a result of changes to District procedures (e.g., new accounting system software) or changes in state law as asserted by the draft audit report.

It can be concluded from the different outcomes of the time reported on the staff declaration forms used every year, which are characterized by the audit as "estimates," that the form of staff time reporting is not the true reason for the adjustments. The auditor allowed these declaration forms without further review for some years and not for other years without substantive reasons for the different outcomes. This mandate activity was not observable by the auditor. The District policies and program procedures are the work product for this activity. This staff time should be reinstated because the audit does not state a consistent basis to disallow the staff declarations of time spent on the mandate.

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

The District claimed \$27,392 in salaries and benefits during the audit period for the activity of training staff who implement the program on the procedures for the waiver of enrollment fees. The audit report states that \$7,959 is allowable and \$19,433 is unallowable, representing 596 hours reported by the Financial Aid administrators. The audit report allowed all of the claimed time for FY 1999-00, FY 2003-04, and FY 2008-09 through 2010-11 without explanation. The audit report disallowed all of the claimed time for FY 2000-01 through FY 2002-03, FY 2004-05, and FY 2005-06, because the reported time was based on "estimates" and that the District did not support more than one year of training for some employees as a result of changes in state law.

As in Finding 2, the audit report does not distinguish between the staff time disallowed for trainee staff claimed more than once by name, or for hours claimed without sufficient documentation as to the content of the training. The audit report ostensibly disallows training time for employees who were claimed more than once during the audit period. However, at the exit conference, the auditor stated that none of the amounts were adjusted for duplicate training, so this is not a true finding. Regardless, it should be noted that the content of the training would change over the span of years; thus, new content would be a new one-time activity for any repeat staff members. The name of the supervisors or managers conducting the training would appear in the claims for several years either for individual job training or meetings. There should be no blanket disallowance of staff time for persons whose name appears more than once, whether a new or existing employee, without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

The audit report also ostensibly disallowed claimed time for lack of supporting documentation. The District provided documentation in the form of declarations, which are acceptable source documentation, and were accepted by the auditor for some of the fiscal years. The audit does not indicate how this documentation was not actual cost documentation. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

FINDING 6 Enrollment Fee Waivers: Adopt Procedures, Record and Maintain Records cost component – unallowable ongoing costs

The District claimed \$785,478 in salaries and benefits related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. The audit report states that \$244,606 is allowable and \$540,872 is unallowable.

The costs that were allowed are the result of discussion with the Director of Financial Aid at one of the colleges regarding the districtwide annual "New Year Roll Meetings" where staff were updated on the BOGFW self-service online application, CCCCO updates, tracking, document creation, as well as various other topics. These meetings were held every year and attended by three Financial Aid Directors, three Financial Aid Technicians, and three Office Assistants. Each of the staff identified spent 40 hours per year attending these meetings, which the auditor determined to be reasonable. This staff time was reported on annual declarations ("survey forms") as was all the other time claimed for this activity.

The audit report states that the adjustments were made for the following reasons:

Using survey forms developed by the district's mandated cost consultant, various district staff estimated the number of hours spent each year for "time spent by staff to record and maintain records which document all of the financial assistance provided to students for the payment or waiver of enrollment fees in a manner which will enable an independent determination of the district's certification of the need for financial assistance." However, recording and maintaining records for the payment of enrollment fees is not a reimbursable activity under this cost component.

The audit report appears to erroneously conclude that the nature of the other activities claimed related to recording enrollment fee payments. The scope of the claimed activities relate to reporting required by the Chancellor's Office regarding all financial assistance and not the amount of enrollment fees collected. The auditor stated at the exit conference that the staff, who reported unallowed time, or the persons currently occupying those positions, were not interviewed. This mandate activity was not observable by the auditor. This staff time should be reinstated because there is no basis to disallow the staff declarations of time spent on the mandate.

FINDING 7 Enrollment Fee Waivers: Waiving Student Fees cost component –unallowable ongoing costs

The District claimed \$2,528,483 (\$2,426,937 in salaries and benefits and \$101,546 in contract services) for waiving enrollment fees for students who are eligible for BOGG fee waivers. The District did not claim cost for this activity for FY 2011-12 because the revenue offset exceeded the claimable cost, which was also the audit finding for that year (Finding 10). The cost of staff time to implement this mandate component (Activities 7 through 12) is based on average time to implement each activity, multiplied by the average productive hourly rate for the relevant positions, then multiplied by the relevant workload statistic. The audit report adjusts all three components.

The audit report determined that \$1,697,831 in claimed salaries and benefits is unallowable and \$729,106 is allowable, 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 waiver data obtained by the auditor from the Chancellor's Office.

The collective effect of the disallowances is a 71% reduction of the 55,946 claimed mandate program hours to 16,469. There is a reduction of the same magnitude for the \$2,426,937 in claimed costs to \$729,106. Based on the audited number of waivers of 195,483 for the audit period, the implied audited average time for all six activities per waiver is an improbable 5.1 minutes and \$3.73 per waiver.

A. Average activity time

Using certification forms developed by the District's mandated cost consultant, District staff who implemented the mandate responded to four annual surveys conducted over the 13-year audit period (FY 1998-99 excluded). Each person estimated their individual average times required to perform each of four reimbursable activities (the District did not separately claim activities 10 and 12). These individual averages were combined and averaged for each activity. These averages were rejected by the auditor for Activities 7 through 11.

For Activities 7 through 11, waiver application processing, the District claimed average times per student transaction of 21.7 to 24.7 for FY 1999-00 through FY 2004-05 and 18.9 to 39.6 minutes for FY 2005-06 through FY 2011-12. 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 100 BOGG fee-related inquiries totaling 127.08 minutes, or an average of 1.27 minutes. For the additional processing from FAFSA, Activity 11, the auditor observed 69 applications totaling 75 minutes or 1.09 minutes. The auditor additionally observed staff process ten mock BOGG fee waiver applications, totaling 37.67 minutes, or an average of 3.77 minutes for applications in need of correction. Thus, the audited average for Activities 7 through 11 is 2.36 minutes for FY 1999-00 through FY 2004-05, and an average of 6.13 for FY 2005-06 through 2011-12.

This 68% to 90% reduction in time allowed for in-person transactions is the largest source of the cost reduction. However, the auditor's observation sample size is statistically meaningless. The audited number of waiver transactions is 195,483 over the 13-year period, of which 169 waiver transactions were observed. The audit report does not state that the procedures observed necessarily matched the entire scope of the parameters and guidelines and these procedures may have changed over the years. For these and many other reasons the auditor's observation process does not constitute a representative "time study" sample.

B. Workload multipliers

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

C. Contract Services

The District claimed \$101,546 for contract services costs for the enrollment fee waiver process. The audit concluded that this amount should have been reported in the enrollment fee collection process (Finding 3). The District agrees.

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

The District claimed \$42,753 in salaries and benefits costs during the audit period for reporting to the CCCCCO the number of, and amounts received for, BOGG fee waivers. The audit report states that \$41,107 is allowable and \$1,736 is unallowable. The costs were disallowed because the District included employee classifications that do not perform the reimbursable activity and claimed time that was overstated and based on estimated time to perform the reimbursable activity. The auditor discussed the claimed activities with relevant staff and the District believes the finding is a reasonable outcome that accounts for all of the scope of activities claimed.

FINDING 9 Overstated [sic] 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. There are no regulations or pertinent generally accepted methods for the calculation of the indirect cost rate, so it is a matter of professional judgment. The District used a federally approved rate for FY 1998-99 through FY 2008-09, which is acceptable to the Controller. However, the claimed rates were understated three other fiscal years:

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
2009-10	41.50%	44.97%	3.47%
2010-11	46.88%	56.16%	9.28%
2010-12	58.80%	60.43%	1.63%

For these three years, both the District and the auditor calculated the indirect cost rates using the SCO FAM-29C methodology utilizing data from the California Community College Annual Financial Budget Report Expenditures by Activity Report (CCFS-311) submitted by the District to the Chancellor each year. However, the District used the prior year CCFS-311 and the auditor used the current audit year report. The District utilized prior year CCFS-311 reports because the current (annual claim) year CCFS-311 report and CPA audited financial statement depreciation expense are not always available when the annual claims are prepared. This is a source of minor differences from year-to-year that becomes insignificant because it is applied as a consistent method.

The other minor differences between the claimed rates and audited rates derive from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable 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 the same choices as used for the Controller's calculations using the same method. Given the minor differences, the District does not dispute this finding.

FINDING 10 Misstated offsetting reimbursements

The offsetting amounts are not actually "reimbursements," rather they are funds provided by the state to implement the program and are based on statewide statutory rates and not actual cost of the program to the District. The offsetting 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 claimed offsetting program revenues totaling \$788,778 for enrollment fee collection. The audited amount is \$1,502,613, of which only \$1,492,106 could be applied since only that audited amount of direct and indirect costs remained from the previous findings, leaving \$10,507 that could not be applied. The District claimed offsetting program revenues totaling \$2,256,488 for enrollment fee waiver. The audited amount is \$2,282,520, of which only \$1,454,349 could be applied since only that audited amount of direct and indirect costs remained from the previous findings, leaving \$828,171 that could not be applied. If the incorrect reduction claim results in increases to any of the costs for the previous eight findings, the unused revenue offsets will continue to reduce those costs.

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 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 differences.

There is no dispute of these audited *potential* revenue offset amounts at this time. However, the revenue offsets should only be offset to the relevant mandated activity costs, rather than to the total audited costs. Specifically, in Finding 3 the audited "multiplier calculation" for the enrollment fees collection direct cost determination is reduced for online transaction percentages retroactive to FY 2003-04. However, the claimed and audited costs are both based on "in-person" enrollment fee collections. The audit applies the offset to all enrollment fee collection costs, both in-person and online generated. 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 costs and revenues as required by generally accepted accounting principles. For example, for FY 2011-12, the District reduced the reported offsetting revenue to \$48,988, an amount proportional to only those enrollment fee collections made in person and not online. The audit report should be changed to

make a similar reduction to the offsetting revenues for each fiscal year that included online enrollment fee collection.

As a new issue not addressed by the audit, the District went to "basic aid" funding status in FY 2011-12 and never received the 2% credit for collection of the enrollment fees. Every college district gets to keep 100% of the enrollment fees collected. A revenue-limit college district uses 98% of those fees towards their revenue limit, along with their property taxes. The state funds the revenue-limit district the difference between local funding (fees and property taxes) and the revenue limit. A basic aid district receives no state funds since their enrollment fees plus their property taxes exceed the revenue limit. The audited 2% offset for FY 2011-12 of \$171,640 should be changed to \$0.

Finding 11 Misstated Productive Hourly Rates and understated benefit rates for Calculating and Collecting Enrollment Fees, and Waiving Student Fees cost components

For the audit period the District calculated productive hourly rates for the salary and benefits for the employees using a District-developed standard 25% employee benefit rate and dividing the salary and benefit amounts by 1,650 productive hours. The District agrees that while the 25% standard rate may be useful for internal reporting and some funding sources, it is not specifically allowed by the parameters and guidelines for mandate reimbursement. The audit used actual payroll information to determine the percentages. The District also concurs that if a standard number of productive hours is to be used, the preferred standard is 1800, in the absence of actual hours specific to each employee. The audit used the 1,800 hours standard, which is the major source of the audited reduction in the hourly rates. The District concurs with this finding.

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,



Kathy Blackwood
Executive Vice Chancellor
San Mateo County Community College District

**State Controller's Office
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