

# **SAN BERNARDINO COMMUNITY COLLEGE DISTRICT**

Audit Report

## **ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM**

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

*July 1, 1998, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

November 2014



**JOHN CHIANG**  
**California State Controller**

November 12, 2014

Donna Ferracone, President  
Board of Trustees  
San Bernardino Community College District  
114 South Del Rosa Drive  
San Bernardino, CA 92408

Dear Ms. Ferracone:

The State Controller's Office audited the costs claimed by the San Bernardino Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code Section 76300; and Title 5, California Code of Regulations, Sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2011.

The district claimed \$10,468,581 for the mandated program. Our audit found that \$33,168 is allowable and \$10,435,413 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, overstated student enrollment numbers, misstated indirect cost rates, claimed unallowable indirect costs, and misstated eligible offsetting revenues. The State paid the district \$363,185. The amount paid exceeds allowable costs claimed by \$330,017.

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/IRCFrm.pdf](http://www.csm.ca.gov/docs/IRCFrm.pdf).

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

cc: Bruce Baron, Chancellor

San Bernardino Community College District

Steve Sutorus, Business Manager

San Bernardino Community College District

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the San Bernardino Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code Section 76300; and Title 5, California Code of Regulations, Sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2011.

The district claimed \$10,468,581 for the mandated program. Our audit found that \$33,168 is allowable and \$10,435,413 is unallowable. The costs are unallowable because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, overstated student enrollment numbers, misstated indirect cost rates, claimed unallowable indirect costs, and misstated eligible offsetting revenues. The State paid the district \$363,185. The amount paid exceeds allowable costs claimed by \$330,017.

## Background

Education Code section 76300; and Title 5, California Code of Regulations, sections 58501-58503, 58611-58613, 58620, and 58630 authorize community college districts to calculate and collect student enrollment fees and to waive student fees in certain instances. The codes also direct community college districts to report the number of, and amounts provided for Board of Governor's Grants (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
- Chapter 153 and 422, Statutes of 1994
- Chapters 63 and 308, Statutes of 1996
- Chapter 72, Statutes of 1999

On April 24, 2003, the Commission on State Mandates (Commission) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The Commission found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on community college districts within the meaning of Article XIII B, Section 6 of the California Constitution and Government Code section 17514.

The Commission found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOGG fee waivers.
- Reporting to the Community Colleges Chancellor the number of and amounts provided for BOGG waivers.
- Adopting procedures that will document all financial assistance provided on behalf of students pursuant to Chapter 9 of Title 5 of the California Code of Regulations; and including in the procedures the rules for retention of support documentation which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

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

## **Objectives, Scope, and Methodology**

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

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

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

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

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

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

## **Conclusion**

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

For the audit period, the San Bernardino Community College District claimed \$10,468,581 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that \$33,168 is allowable and \$10,435,413 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the district \$86,339. Our audit found that all costs claimed are unallowable. The State will offset \$86,339 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 payments to the district. Our audit found that \$33,168 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$33,168, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$101,000. Our audit found that all costs claimed are unallowable. The State will offset \$101,000 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 claims, the State paid the district \$175,846. Our audit found that all costs claimed are unallowable. The State will offset \$175,846 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

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

## **Views of Responsible Officials**

We issued a draft on October 22, 2014. Timothy L. Oliver, Interim Vice Chancellor, Business and Fiscal Services, responded by letter dated November 3, 2014 (Attachment), agreeing with the audit results for Findings 2, 4, and 5 and disagreeing with the audit results for Findings 1 and 3. The final audit report includes the district's response.

**Restricted Use**

This report is solely for the information and use of the San Bernardino Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

November 12, 2014

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

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 361	\$ 361	\$ —	
Staff training	361	361	—	
Calculating and collecting enrollment fees	524,875	25,044	(499,831)	Finding 1
Total direct costs	525,597	25,766	(499,831)	
Indirect costs	269,946	5,388	(264,558)	Finding 3
Total direct and indirect costs	795,543	31,154	(764,389)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(32,576)	(40,486)	(7,910)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	9,332	9,332	Finding 4
Total program costs	<u>\$ 762,967</u>	—	<u>\$ (762,967)</u>	
Less amount paid by the State		(86,339)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (86,339)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 5,897	\$ 5,897	\$ —	
Staff training	5,598	5,598	—	
Calculating and collecting enrollment fees	596,154	31,444	(564,710)	Finding 1
Total direct costs	607,649	42,939	(564,710)	
Indirect costs	276,906	10,129	(266,777)	Finding 3
Total direct and indirect costs	884,555	53,068	(831,487)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(32,875)	(34,203)	(1,328)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	—	—	Finding 4
Total enrollment fee collection	<u>851,680</u>	<u>18,865</u>	<u>(832,815)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	295	295	—	
Staff training	594	594	—	
Waiving student fees	24,360	26,548	2,188	Finding 2
Reporting BOGG fee waiver data to CCCCCO	215	215	—	
Total direct costs	25,464	27,652	2,188	
Indirect costs	11,604	6,523	(5,081)	Finding 3
Total direct and indirect costs	37,068	34,175	(2,893)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(25,465)	(143,589)	(118,124)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	109,414	109,414	Finding 4
Total enrollment fee waivers	<u>11,603</u>	—	<u>(11,603)</u>	
Total program costs	<u>\$ 863,283</u>	18,865	<u>\$ (844,418)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 18,865</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits:				
Prepare policies and procedures	\$ 2,259	\$ 2,259	\$ —	
Staff training	2,259	2,259	—	
Calculating and collecting enrollment fees	<u>656,768</u>	<u>33,560</u>	<u>(623,208)</u>	Finding 1
Total direct costs	661,286	38,078	(623,208)	
Indirect costs	<u>343,075</u>	<u>6,942</u>	<u>(336,133)</u>	Finding 3
Total direct and indirect costs	1,004,361	45,020	(959,341)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(36,790)	(39,914)	(3,124)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>—</u>	<u>—</u>	Finding 4
Total enrollment fee collection	<u>967,571</u>	<u>5,106</u>	<u>(962,465)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	117	117	—	
Staff training	617	617	—	
Waiving student fees	30,242	29,091	(1,151)	Finding 2
Reporting BOGG fee waiver data to CCCCCO	<u>230</u>	<u>230</u>	<u>—</u>	
Total direct costs	31,206	30,055	(1,151)	
Indirect costs	<u>16,190</u>	<u>5,479</u>	<u>(10,711)</u>	Finding 3
Total direct and indirect costs	47,396	35,534	(11,862)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(31,206)	(195,161)	(163,955)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>159,627</u>	<u>159,627</u>	Finding 4
Total enrollment fee waivers	<u>16,190</u>	<u>—</u>	<u>(16,190)</u>	
Total program costs	<u>\$ 983,761</u>	<u>5,106</u>	<u>\$ (978,655)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,106</u>		
<u>July 1, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,175	\$ 1,175	\$ —	
Staff training	1,175	1,175	—	
Calculating and collecting enrollment fees	<u>596,223</u>	<u>34,588</u>	<u>(561,635)</u>	Finding 1
Total direct costs	598,573	36,938	(561,635)	
Indirect costs	<u>281,030</u>	<u>6,970</u>	<u>(274,060)</u>	Finding 3
Total direct and indirect costs	879,603	43,908	(835,695)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(23,010)	(37,230)	(14,220)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>—</u>	<u>—</u>	Finding 4
Total enrollment fee collection	<u>856,593</u>	<u>6,678</u>	<u>(849,915)</u>	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	124	124	—	
Staff training	668	668	—	
Waiving student fees	35,235	35,193	(42)	Finding 2
Reporting BOGG fee waiver data to CCCCCO	245	245	—	
Total direct costs	36,272	36,230	(42)	
Indirect costs	17,030	6,837	(10,193)	Finding 3
Total direct and indirect costs	53,302	43,067	(10,235)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(36,272)	(166,076)	(129,804)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	123,009	123,009	Finding 4
Total enrollment fee waivers	17,030	—	(17,030)	
Total program costs	\$ 873,623	6,678	\$ (866,945)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 6,678		
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,520	\$ 1,520	\$ —	
Staff training	1,520	1,520	—	
Calculating and collecting enrollment fees	634,138	31,818	(602,320)	Finding 1
Total direct costs	637,178	34,858	(602,320)	
Indirect costs	313,365	6,079	(307,286)	Finding 3
Total direct and indirect costs	950,543	40,937	(909,606)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(23,842)	(38,418)	(14,576)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	—	—	Finding 4
Total enrollment fee collection	926,701	2,519	(924,182)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	129	129	—	
Staff training	672	672	—	
Waiving student fees	39,296	70,879	31,583	Finding 2
Reporting BOGG fee waiver data to CCCCCO	251	251	—	
Total direct costs	40,348	71,931	31,583	
Indirect costs	19,843	12,545	(7,298)	Finding 3
Total direct and indirect costs	60,191	84,476	24,285	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(40,348)	(199,814)	(159,466)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	115,338	115,338	Finding 4
Total enrollment fee waivers	19,843	—	(19,843)	
Total program costs	\$ 946,544	2,519	\$ (944,025)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 2,519		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,262	\$ 1,262	\$ —	
Staff training	1,262	1,262	—	
Calculating and collecting enrollment fees	<u>535,160</u>	<u>35,913</u>	<u>(499,247)</u>	Finding 1
Total direct costs	537,684	38,437	(499,247)	
Indirect costs	<u>238,839</u>	<u>7,495</u>	<u>(231,344)</u>	Finding 3
Total direct and indirect costs	776,523	45,932	(730,591)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(54,434)	(52,626)	1,808	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>6,694</u>	<u>6,694</u>	Finding 4
Total enrollment fee collection	<u>722,089</u>	<u>—</u>	<u>(722,089)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	140	140	—	
Staff training	646	646	—	
Waiving student fees	39,093	68,239	29,146	Finding 2
Reporting BOGG fee waiver data to CCCCCO	<u>270</u>	<u>270</u>	<u>—</u>	
Total direct costs	40,149	69,295	29,146	
Indirect costs	<u>17,834</u>	<u>13,513</u>	<u>(4,321)</u>	Finding 3
Total direct and indirect costs	57,983	82,808	24,825	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(40,149)	(241,200)	(201,051)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>158,392</u>	<u>158,392</u>	Finding 4
Total enrollment fee waivers	<u>17,834</u>	<u>—</u>	<u>(17,834)</u>	
Total program costs	<u>\$ 739,923</u>	<u>—</u>	<u>\$ (739,923)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 1,911	\$ 1,911	\$ —	
Staff training	1,711	1,711	—	
Calculating and collecting enrollment fees	<u>581,687</u>	<u>36,329</u>	<u>(545,358)</u>	Finding 1
Total direct costs	585,309	39,951	(545,358)	
Indirect costs	<u>267,018</u>	<u>17,251</u>	<u>(249,767)</u>	Finding 3
Total direct and indirect costs	852,327	57,202	(795,125)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(107,079)	(76,518)	30,561	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	<u>—</u>	<u>19,316</u>	<u>19,316</u>	Finding 4
Total enrollment fee collection	<u>745,248</u>	<u>—</u>	<u>(745,248)</u>	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2004, through June 30, 2005 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	149	149	—	
Staff training	1,213	1,213	—	
Waiving student fees	44,852	81,374	36,522	Finding 2
Reporting BOGG fee waiver data to CCCCCO	282	282	—	
Total direct costs	46,496	83,018	36,522	
Indirect costs	21,211	35,847	14,636	Finding 3
Total direct and indirect costs	67,707	118,865	51,158	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(46,497)	(329,443)	(282,946)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	210,578	210,578	Finding 4
Total enrollment fee waivers	21,210	—	(21,210)	
Total program costs	<u>\$ 766,458</u>	—	<u>\$ (766,458)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 2,750	\$ 2,750	\$ —	
Staff training	487	487	—	
Calculating and collecting enrollment fees	686,376	31,137	(655,239)	Finding 1
Total direct costs	689,613	34,374	(655,239)	
Indirect costs	329,221	15,613	(313,608)	Finding 3
Total direct and indirect costs	1,018,834	49,987	(968,847)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(101,838)	(78,380)	23,458	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	28,393	28,393	Finding 4
Total enrollment fee collection	916,996	—	(916,996)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	168	168	—	
Staff training	632	632	—	
Waiving student fees	42,922	66,821	23,899	Finding 2
Reporting BOGG fee waiver data to CCCCCO	298	298	—	
Total direct costs	44,020	67,919	23,899	
Indirect costs	21,015	30,849	9,834	Finding 3
Total direct and indirect costs	65,035	98,768	33,733	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(44,019)	(301,626)	(257,607)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	202,858	202,858	Finding 4
Total enrollment fee waivers	21,016	—	(21,016)	
Total program costs	<u>\$ 938,012</u>	—	<u>\$ (938,012)</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 <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 754,256	\$ 30,873	\$ (723,383)	Finding 1
Total direct costs	754,256	30,873	(723,383)	
Indirect costs	406,770	14,905	(391,865)	Finding 3
Total direct and indirect costs	1,161,026	45,778	(1,115,248)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(106,784)	(74,775)	32,009	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	28,997	28,997	Finding 4
Total enrollment fee collection	1,054,242	—	(1,054,242)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	41,175	65,572	24,397	Finding 2
Total direct costs	41,175	65,572	24,397	
Indirect costs	22,206	31,658	9,452	Finding 3
Total direct and indirect costs	63,381	97,230	33,849	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(41,175)	(316,658)	(275,483)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	219,428	219,428	Finding 4
Total enrollment fee waivers	22,206	—	(22,206)	
Subtotal	1,076,448	—	(1,076,448)	
Less late filing penalty	—	—	—	
Total program costs	\$ 1,076,448	—	\$ (1,076,448)	
Less amount paid by the State	—	—	—	
Allowable costs claimed in excess of (less than) amount paid	—	\$ —	—	
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 368,768	\$ 34,601	\$ (334,167)	Finding 1
Total direct costs	368,768	34,601	(334,167)	
Indirect costs	198,877	18,858	(180,019)	Finding 3
Total direct and indirect costs	567,645	53,459	(514,186)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(78,756)	(67,676)	11,080	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	14,217	14,217	Finding 4
Total enrollment fee collection	488,889	—	(488,889)	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	49,790	55,657	5,867	Finding 2
Total direct costs	49,790	55,657	5,867	
Indirect costs	26,851	30,333	3,482	Finding 3
Total direct and indirect costs	76,641	85,990	9,349	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(49,789)	(267,643)	(217,854)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	181,653	181,653	Finding 4
Total enrollment fee waivers	26,852	—	(26,852)	
Total program costs	<u>\$ 515,741</u>	—	<u>\$ (515,741)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 426,326	\$ 34,208	\$ (392,118)	Finding 1
Total direct costs	426,326	34,208	(392,118)	
Indirect costs	241,002	17,908	(223,094)	Finding 3
Total direct and indirect costs	667,328	52,116	(615,212)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(70,842)	(70,454)	388	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	18,338	18,338	Finding 4
Total enrollment fee collection	596,486	—	(596,486)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	105,405	89,523	(15,882)	Finding 2
Total direct costs	105,405	89,523	(15,882)	
Indirect costs	59,585	46,865	(12,720)	Finding 3
Total direct and indirect costs	164,990	136,388	(28,602)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(105,405)	(244,205)	(138,800)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	107,817	107,817	Finding 4
Total enrollment fee waivers	59,585	—	(59,585)	
Total program costs	<u>\$ 656,071</u>	—	<u>\$ (656,071)</u>	
Less amount paid by the State		(101,000)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (101,000)</u>		

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2009, through June 30, 2010</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 527,363	\$ 34,838	\$ (492,525)	Finding 1
Total direct costs	527,363	34,838	(492,525)	
Indirect costs	287,307	19,342	(267,965)	Finding 3
Total direct and indirect costs	814,670	54,180	(760,490)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(70,454)	(80,533)	(10,079)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	26,353	26,353	Finding 4
Total enrollment fee collection	744,216	—	(744,216)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	121,063	141,482	20,419	Finding 2
Total direct costs	121,063	141,482	20,419	
Indirect costs	65,955	78,551	12,596	Finding 3
Total direct and indirect costs	187,018	220,033	33,015	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(187,018)	(238,171)	(51,153)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	18,138	18,138	Finding 4
Total enrollment fee waivers	—	—	—	
Total program costs	\$ 744,216	—	\$ (744,216)	
Less amount paid by the State		(175,846)		
Allowable costs claimed in excess of (less than) amount paid		\$ (175,846)		
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Calculating and collecting enrollment fees	\$ 427,810	\$ 30,644	\$ (397,166)	Finding 1
Total direct costs	427,810	30,644	(397,166)	
Indirect costs	240,643	19,643	(221,000)	Finding 3
Total direct and indirect costs	668,453	50,287	(618,166)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(66,919)	(66,919)	—	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	16,632	16,632	Finding 4
Total enrollment fee collection	601,534	—	(601,534)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Waiving student fees	118,694	148,165	29,471	Finding 2
Total direct costs	118,694	148,165	29,471	
Indirect costs	66,765	94,974	28,209	Finding 3
Total direct and indirect costs	185,459	243,139	57,680	

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011 (continued)</u>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(185,459)	(299,631)	(114,172)	Finding 4
Adjustment for unused portion of offsets <sup>2</sup>	—	56,492	56,492	Finding 4
Total enrollment fee waivers	—	—	—	
Total program costs	<u>\$ 601,534</u>	—	<u>\$ (601,534)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 1998, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 17,135	\$ 17,135	\$ —	
Staff training	14,373	14,373	—	
Calculating and collecting enrollment fees	<u>7,315,904</u>	<u>424,997</u>	<u>(6,890,907)</u>	
Total direct costs	7,347,412	456,505	(6,890,907)	
Indirect costs	<u>3,693,999</u>	<u>166,523</u>	<u>(3,527,476)</u>	
Total direct and indirect costs	11,041,411	623,028	(10,418,383)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(806,199)	(758,132)	48,067	
Adjustment for unused portion of offsets <sup>2</sup>	—	168,272	168,272	
Total enrollment fee collection	<u>10,235,212</u>	<u>33,168</u>	<u>(10,202,044)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	1,122	1,122	—	
Staff training	5,042	5,042	—	
Waiving student fees	692,127	878,544	186,417	
Reporting BOGG fee waiver data to CCCCCO	<u>1,791</u>	<u>1,791</u>	<u>—</u>	
Total direct costs	700,082	886,499	186,417	
Indirect costs	<u>366,089</u>	<u>393,974</u>	<u>27,885</u>	
Total direct and indirect costs	1,066,171	1,280,473	214,302	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(832,802)	(2,943,217)	(2,110,415)	
Adjustment for unused portion of offsets <sup>2</sup>	—	1,662,744	1,662,744	
Total enrollment fee waivers	<u>233,369</u>	<u>—</u>	<u>(233,369)</u>	
Subtotal	<u>10,468,581</u>	<u>33,168</u>	<u>(10,435,413)</u>	
Less late filing penalty	—	—	—	
Total program costs	<u>\$ 10,468,581</u>	33,168	<u>\$ (10,435,413)</u>	
Less amount paid by the State		<u>(363,185)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (330,017)</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> 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.

# Findings and Recommendations

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

The district claimed \$7,315,904 in salaries and benefits for the Calculating and Collecting Enrollment Fees cost component during the audit period. We found that \$424,997 in salaries and benefits is allowable and \$6,890,907 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. Also, we noted variations in the number of students used in the district's calculations when compared to the student enrollment data reported to us by the California Community College Chancellor's Office (CCCCO), and the number of students who paid their enrollment fees online rather than in person based on information provided to us by the district.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and Benefits:			
1998-99	\$ 524,875	\$ 25,044	\$ (499,831)
1999-2000	596,154	31,444	(564,710)
2000-01	656,768	33,560	(623,208)
2001-02	596,223	34,588	(561,635)
2002-03	634,138	31,818	(602,320)
2003-04	535,160	35,913	(499,247)
2004-05	581,687	36,329	(545,358)
2005-06	686,376	31,137	(655,239)
2006-07	754,256	30,873	(723,383)
2007-08	368,768	34,601	(334,167)
2008-09	426,326	34,208	(392,118)
2009-10	527,363	34,838	(492,525)
2010-11	427,810	30,644	(397,166)
Total, salaries and benefits	<u>\$ 7,315,904</u>	<u>\$ 424,997</u>	<u>\$ (6,890,907)</u>

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

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

- reimbursable). Preparing a receipt for a payment received. **(Activity 2)**
- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
  - iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
  - v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**
  - vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

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

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

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

#### Salaries and Benefits

For FY 1998-99 through FY 2010-11, the district claimed salaries and benefits for the six reimbursable activities under the Calculating and Collecting Enrollment Fees cost component using time allowances developed from 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 six reimbursable activities per student per year on certification forms developed by the district's mandated cost consultant. Also, for the entire audit period, the district did not provide any source documentation based on actual data to support the estimated time allowances.

The mandated activities took place at the district during the audit period, therefore, we assessed whether or not the time estimates cited by district staff for FY 1998-99 through FY 2010-11 were reasonable. We held discussions with various district representatives in order to determine the

procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Admissions and Records Office that collects enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

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

#### *Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform the reimbursable activities. Based on these certifications, the district developed time allowances ranging from 22 minutes to 56.6 minutes per student for the audit period (as shown in the following table). Based on our observations, we found that the time allowances claimed for these activities for these years were overstated.

We held discussions with various district representatives during the audit in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Admissions and Records 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 eight days of observations at the Admissions and Records Office windows, we observed and documented a total of 665 transactions processed by district staff. Of these, 56 involved the payment of enrollment fees encompassing Activities 1 through 4. The average time to perform all four activities was 3.24 minutes; or 0.81 minutes per activity.

**Activity 5:** Collecting Delinquent Enrollment Fees

#### *Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable Activity 5. Based on these certifications, the district developed time allowances ranging from 2 minutes to 10 minutes per student for the audit period (as shown in the following table).

Currently, the district has a same-day payment policy. Students are required to pay for classes on the same day they register for their classes. If students do not pay their entire fees due by midnight, their classes are dropped for non-payment. After the payment deadline (midnight), the computer system automatically creates a list of students who did not pay their enrollment fees. Later that morning, district staff manually drops all of the student's classes. Due to the current process, student enrollment fees do not become delinquent; therefore, we did not observe the collection of delinquent enrollment fees.

However, staff at the Admissions and Records Office indicated that prior to the same-day payment policy, staff manually processed and collected student delinquent enrollment fees. Also, the Admissions and Records Office Coordinator of the Crafton Hills College indicated that he had spent a significant amount of time performing this activity prior to the same-day payment policy. Based on the explanation of the process, we found that the time claimed is reasonable.

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

*Time Increments*

Using certification forms developed by the district’s mandated cost consultant; district employees estimated the time required to perform reimbursable Activity 6. Based on these certifications, the district developed time allowances ranging from 4.9 minutes to 10.3 minutes per student for the audit period (as shown in the following table).

Management at the Admissions and Records Office indicated that the a refund process for students who paid their enrollment fees and later received a Board of Governors Grant (BOGG) begins at the Financial Aid Office. Financial Aid Office staff indicated that students are required to complete and submit a Request for Refund form at the Financial Aid Office. After the refund form is submitted, staff reviews and forwards the refund form to the Financial Aid Director for approval. Once the Director approves the refund, the form is sent to the District Office for further processing and disbursement. Based on the explanation of the process, we found that the time claimed is 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		5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records	Total	Collecting Delinquent Fees	Providing Refunds
1998-99	12.9	14.1	14.0	14.1	55.1	-	-
1999-2000	14.8	13.9	14.0	13.9	56.6	2.0	10.3
2000-01	14.5	14.0	13.9	13.5	55.9	2.0	10.3
2001-02	12.5	12.7	11.9	12.1	49.2	2.0	8.7
2002-03	12.4	12.5	12.5	13.1	50.5	2.0	10.3
2003-04	11.2	11.1	12.9	11.7	46.9	10.0	8.5
2004-05	10.6	10.7	12.9	11.1	45.3	9.6	8.5
2005-06	10.6	10.7	12.9	11.1	45.3	9.6	8.5
2006-07	10.6	10.7	12.9	11.1	45.3	9.6	8.5
2007-08	5.3	4.9	6.5	5.3	22.0	5.7	4.9
2008-09	5.6	5.2	6.7	5.6	23.1	5.9	5.1
2009-10	5.6	5.2	6.7	5.6	23.1	-	-
2010-11	5.6	5.2	6.7	5.6	23.1	-	-

Fiscal Year	Allowable Minutes						
	Reimbursable Activity						
	1	2	3	4		5	6
	Referencing Student Accounts	Calculating the Fee	Answering Questions	Updating Records	Total	Collecting Delinquent Fees	Providing Refunds
1998-99	0.81	0.81	0.81	0.81	3.24	-	-
1999-2000	0.81	0.81	0.81	0.81	3.24	2.0	10.3
2000-01	0.81	0.81	0.81	0.81	3.24	2.0	10.3
2001-02	0.81	0.81	0.81	0.81	3.24	2.0	8.7
2002-03	0.81	0.81	0.81	0.81	3.24	2.0	10.3
2003-04	0.81	0.81	0.81	0.81	3.24	10.0	8.5
2004-05	0.81	0.81	0.81	0.81	3.24	9.6	8.5
2005-06	0.81	0.81	0.81	0.81	3.24	9.6	8.5
2006-07	0.81	0.81	0.81	0.81	3.24	9.6	8.5
2007-08	0.81	0.81	0.81	0.81	3.24	5.7	4.9
2008-09	0.81	0.81	0.81	0.81	3.24	5.9	5.1
2009-10	0.81	0.81	0.81	0.81	3.24	-	-
2010-11	0.81	0.81	0.81	0.81	3.24	-	-

### Multiplier Calculation

#### *Activities 1 through 4*

For Activities 1 through 4, the district claimed costs by multiplying the number of students (multiplier) by a uniform time allowance and an annual average productive hourly rate. For Activities 1 and 3, the district used the number of total enrolled students as the multiplier. In determining student enrollment, the district used the “Student Headcount by Unit Load” summary report obtained from the California Community College Chancellor’s Office (CCCCO) website (Data Mart). However, this report includes duplicated students by term. The district did not deduct ineligible non-resident and special-admit students (students who attend a community college while in high school pursuant to Education Code section 76001). For Activities 2 and 4, the district used the number of total enrolled students, less the number of BOGG fee waivers granted as the multiplier.

We updated the district’s calculations of eligible students for Activities 1 and 3 based on the number of students enrolled that 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.

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

For FY 1999-2000 to FY 2010-11, the district provided information which included the number of students who paid their fees using the district's online system, by phone, in person, and using a combination of payment methods. Based on the information provided by the district, we determined the percentage of fees paid in person at the Admission and Record Office by dividing the number of fees paid in person and combination of payment methods by the total number of fees paid. We applied the percentage calculated to the net enrollment number (the number of students enrolled, less non-resident students, special-admit students, and BOGG fee waiver recipients) to determine the number of enrollment fees paid in person. We then included the number of refunds claimed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver.

#### *Activity 5*

For Activity 5, the district provided, and we accepted, the number of delinquent student accounts processed for the audit period. The claimed multiplier represented less than one percent of the allowable multiplier.

#### *Activity 6*

For Activity 6, the district provided, and we accepted, the number of refunds processed for the audit period for students who established fee waiver eligibility after paying their enrollment fees. The claimed multiplier represented less than one percent of the allowable multiplier.

### **Calculation of Multiplier Adjustment**

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

<u>Reimbursable Activity</u>	<u>Claimed Multiplier</u>	<u>Allowable Multiplier</u>	<u>Adjusted Multiplier</u>
1	580,678	400,160	(180,518)
2	330,325	133,364	(196,961)
3	580,678	400,160	(180,518)
4	330,325	133,364	(196,961)
5	12,596	12,596	-
6	6,419	6,419	-
Total	<u>1,841,021</u>	<u>1,086,063</u>	<u>(754,958)</u>

### **Calculation of Hours Adjustments**

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

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

Reimbursable Activity	Claimed Hours	Allowable Hours	Adjusted Hours
1	97,323.8	5,402.2	(91,921.6)
2	56,258.0	1,800.4	(54,457.6)
3	106,281.8	5,402.2	(100,879.6)
4	57,373.3	1,800.4	(55,572.9)
5	1,363.0	1,363.0	-
6	856.9	856.9	-
Total	319,456.8	16,625.1	(302,831.7)

### Productive Hourly Rates

We found that the district understated the average productive hourly rates used for Activities 1 through 6 for FY 1998-99 through FY 2004-05. As explained in Finding 5, we recalculated the annual productive hourly rates based on employee salaries and benefits, and the SCO standard of 1,800 productive hours. As a result, we made minor adjustments to the claimed rates for the fiscal years noted above.

### Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that \$424,997 in salaries and benefits is allowable and \$6,890,907 is unallowable.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Adjusted Salaries and Benefits
1	\$ 2,224,628	\$ 141,666	\$ (2,082,962)
2	1,267,393	42,445	(1,224,948)
3	2,470,801	141,666	(2,329,135)
4	1,300,478	42,445	(1,258,033)
5	32,843	35,263	2,420
6	19,761	21,512	1,751
Total	\$ 7,315,904	\$ 424,997	\$ (6,890,907)

### Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

## District's Response

The District claimed \$7,315,904 in salaries and benefits for the staff time to calculate and collect enrollment fees. The draft audit report states \$424,997 (5.8%) is allowable and \$6,890,907 is unallowable. The audit rejects the District calculation of the average staff time required to perform four of the six reimbursable activities and substitutes the auditor's own time-study; rejects the enrollment data reported by the District and substitutes the enrollment data the auditor obtained from the California Community College Chancellor's Office (CCCCO) ; and, removes from the workload calculation the number of students who paid their enrollment fees online rather than in person.

### A. Average activity Time

For the six activities in the Enrollment Fee Collection (EFC) cost component, district staff implementing the mandate individually reported an average time in minutes to perform each activity using forms provided by our mandate consultant. These certified good faith estimates were averaged for similar job positions to establish one average time for each activity. These times are multiplied by relevant enrollment or other workload statistics and then multiplied by relevant staff productive hourly rates.

The draft audit concludes that these good faith estimates are not acceptable "source documentation" of "actual data" and rejects the time estimates for four of the six activities. The audited time for the four activities is 3.24 minutes. The total of the claimed average times for the four activities ranged from 22.0 to 56.6 minutes over the audit period. This 94% reduction in time allowed for in-person enrollment fee collection transactions is the first and largest source of the cost reduction. The audit "time study" for the four activities is based on observing some of the enrollment fee collection process in the Admission and Records offices. The auditor observed 665 transactions, of which 56 involved payment of enrollment fees. By comparison, the District reported 580,678 enrollment fee collection transactions for the audit period. For this reason, and many others, the auditor's observation process does not constitute a quantitatively or qualitatively representative "time study" sample.

For the remaining two activities (5 and 6), the average times were accepted by the auditor. Activity 5, collection of delinquent fees, was not reported for the last two years of the audit period because the District changed to a "same-day" payment policy, thus the auditor was unable to observe the process. Activity 6, the refund process, similarly was not observed by the auditor. The auditor relied upon the staff interview information and accepted the claimed times. Note that the claimed times for these two activities were reported on the same forms and using the same methods that were rejected for Activities 1-4.

### 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 four of the activities the workload multipliers rely upon enrollment statistics with relevant adjustments. As a matter of Controller policy, the audit utilized data obtained from the Chancellor's Office which the auditor modified

for duplicated students by term and different categories of special admission students. The audited amounts are based on a post-facto specific data query from the Chancellor's MIS database that eliminated specific elements (e.g., duplicated students by term and special admit students) not entirely available at the time of the claim preparation. These corrections made by the auditor are not disputed at this time. The workload multipliers were accepted by the auditor for the remaining two activities (5 and 6).

There is the related workload multiplier issue of the number of "online" (internet or phone) transactions in lieu of in-person enrollment fee collection. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no significant online activity, and so was it not factored into the annual claims. Eventually, by FY 2010-11, 75% of the enrollment transactions were occurring "online." District data processing staff was able to provide a reasonable estimate of the percentage of online transactions retroactive to FY 1999-00 that was used by the auditor. However, the audit findings do not replace the time lost from these eliminated in-person transactions with the staff time to operate the online payment collection system. Thus, no costs are recognized for these transactions. This action is a matter of Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

#### SCO's Comments

The finding and recommendation remain unchanged.

The district's response addresses two specific issues:

- Average activity time
- Workload multiplier

#### Average activity time

The district stated that its "good faith estimates" were considered to be "unacceptable source documentation" by the SCO auditors. We agree. Estimates, whether provided in good faith or not, do not comply with the actual cost documentation requirements of the parameters and guidelines. Instead, they are examples of corroborating documentation. The parameters and guidelines state that "corroborating documents cannot be used as a substituted for source documents."

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

During the audit, we assessed the reasonableness of the time estimates used by the district to claim costs for the audit period. Annual survey forms were completed by an average of 17 employees for enrollment fee collection activities during the audit period. We noted that the times recorded by the employees surveyed to complete reimbursable Activities 1 through 4 varied in length as follows:

- Activity 1 (Reference student accounts) – 1 to 20 minutes
- Activity 2 (Calculate/collect enrollment fees) – 1 to 20 minutes
- Activity 3 (Answer student questions) – 3 to 30 minutes
- Activity 4 (Updating student records – 2 to 20 minutes

The district's mandated cost consultant took the time recorded on the survey forms and divided the total time by the number of responses without verifying the accuracy of the time recorded on the survey forms. In addition, all responses were given equal weight even though all employees surveyed did not perform the mandated activities at the same level. Based on this evidence, we determined that the time estimates provided by the district for reimbursable Activities 1 through 4 did not appear to be reasonable.

We held discussions with various district representatives during the audit in order to determine the procedures that they followed to perform the reimbursable activities. We observed district staff in the Admissions and Records 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.

The district's certifications/estimates ranged from a total of 22 to 56.6 minutes for Activities 1 through 4 throughout the 13-year audit period. The results of our observations of district staff performing reimbursable Activities 1 through 4 supported that the time allowances claimed by the district for these activities were overstated. For example, the district's estimates to perform Activities 1 through 4 ranged as high as 56.6 minutes; however, we observed an average time of 3.24 minutes, or 0.81 minutes per activity. We advised district representatives about the results of our observations as early as August 12, 2013, and encouraged the district to contact us if there were any questions. We also later advised the district that it could perform its own time study if it did not agree with the observation results. However, the district did not inquire about our observation results or perform a time study of its own.

The district states in its response that the auditor's observation sample size is not adequate in comparison to the enrollment fee collection transactions performed by the district throughout the audit period. The auditor spent more than a week at the district's Admissions and Records Office observing students paying a variety of fees owed to the district. From the 665 transactions processed by district staff and observed by the SCO auditor, 56 involved the payment of enrollment fees encompassing Activities 1 through 4. The district states that it "reported 580,678 enrollment fee collection transactions for the audit period." However, the

district has not provided any actual cost documentation supporting the time required to perform any of these transactions. Instead, all time increments were supported by estimates. Our observations provided actual source documentation for the reimbursable activities in question and a reasonable basis on which to calculate allowable costs.

The district stated that for Activities 5 and 6, the average times claimed by the district were accepted by the auditor. We agree. As explained by the district, student enrollment fees do not become delinquent under the same-day payment process for Activity 5. Therefore, there is no collection of delinquent enrollment fees to observe. For Activity 6, management at the Admissions and Records Office explained the process of providing a refund for students who establish fee waiver eligibility after the enrollment fee has been collected. For Activities 5 and 6, we accepted the district's explanation of the processes performed to conduct the reimbursable activities as reasonable compared to the time claimed to perform them. In contrast, the time claimed for Activities 1 through 4 did not seem reasonable, as explained above, prompting us to perform independent observations which provided audit evidence that the costs claimed by the district were overstated for Activities 1 through 4.

#### Workload multipliers

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

The district states that "the audit utilized data obtained from the Chancellor's Office which the auditor modified for duplicated students by term and different categories of special admission students." This statement is incorrect. As explained in the audit report, we requested the applicable enrollment statistics from the Chancellor's Office. The data provided by the Chancellor's Office had already eliminated duplicate students by term and also identified nonresident and special part-time students cited in Education Code section 76300, subdivision (f), who are ineligible for reimbursement per the parameters and guidelines. Therefore, we deducted these ineligible students from the total enrollment.

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

It has never been "a matter of SCO policy" to deny consideration of any relevant documentation provided by a claimant to support costs incurred for reimbursable activities. It is the district's responsibility to prepare documentation to support mandated costs incurred. We discussed the implications to the district's claims of students paying their enrollment fees online rather than in person with the district's Business Manager during the early stages of audit fieldwork. However, the district did not

provide any information for us to consider supporting costs associated with running an online system or indicate to us that it would provide such information. The district did not provide any additional support in its response to the draft audit report. We encouraged the district, throughout the course of fieldwork, to provide support for any additional costs it incurred to comply with this mandate.

**FINDING 2—  
Enrollment fee  
waivers: Waiving  
Student Fees cost  
component**

The district claimed \$692,127 in salaries and benefits for the Waiving Student Fees cost component during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h), for students who apply for and are eligible for BOGG fee waivers. We found that \$878,544 in salaries and benefits is allowable. The allowable costs exceed the claimed costs by \$186,417. We noted variations in the number of students used in the district's calculations based on data the district reported to the CCCCO. We also made adjustments to the average productive hourly rates used in the district's claims.

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

Fiscal Year	Claimed Amount	Allowable Amount	Audit Adjustment
Salaries and Benefits:			
1999-00	\$ 24,360	\$ 26,548	\$ 2,188
2000-01	30,242	29,091	(1,151)
2001-02	35,235	35,193	(42)
2002-03	39,296	70,879	31,583
2003-04	39,093	68,239	29,146
2004-05	44,852	81,374	36,522
2005-06	42,922	66,821	23,899
2006-07	41,175	65,572	24,397
2007-08	49,790	55,657	5,867
2008-09	105,405	89,523	(15,882)
2009-10	121,063	141,482	20,419
2010-11	118,694	148,165	29,471
Total, salaries and benefits	<u>\$ 692,127</u>	<u>\$ 878,544</u>	<u>\$ 186,417</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)**
- iv. 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)**
- v. In the case of a denied application, reviewing an evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. **(Activity 12)**

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

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

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

#### Salaries and Benefits

The district claimed salaries and benefits during the audit period in accordance with Education Code section 76300, subdivisions (g) and (h) to waive fees for students who apply for and are eligible for BOGG fee waivers. For FY 1999-00 through FY 2010-11, the district claimed salaries and benefits for the reimbursable activities under the Waiving Student Fees cost component using estimated time it took staff to complete various activities documented on employees' annual survey forms. For the entire audit period, employees estimated, using certification forms developed by the district's mandated cost consultant, the average time in minutes it took them to perform the reimbursable activities per student per year. Also, for the entire audit period, the district did not provide any source documentation based on actual data to support the estimated time allowances.

The mandated activities took place at the district during the audit, therefore, we assessed whether or not the time estimates cited by district staff for FY 1999-00 through FY 2010-11 were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Financial Aid Office process students' BOGG fee waiver applications and documented the average time increments spent by district staff to perform these activities.

#### *Activities 7 through 12 Time Increments*

Using certification forms developed by the district's mandated cost consultant, district employees estimated the time required to perform reimbursable activities 7, 8, 9, and 11. Based on these certifications, the district developed time allowances ranging from 8.3 minutes to 10 minutes per student for the audit period (as shown in the following table). Based on our observations, we found that the time allowances claimed for these activities for these years were reasonable.

During the audit, we held discussions with various district representatives from San Bernardino Valley College and Crafton Hills College to determine the procedures that district staff followed to perform reimbursable activities. Over several days, we observed and documented Financial Aid staff process BOGG fee waivers at San Bernardino Valley College. We observed staff performing reimbursable activities as well as other non-mandated activities at the front counter of the Financial Aid Office. Also, we observed staff perform reimbursable activities at the back counter of the Financial Aid Office. Based on our observations, we found that the time allowances claimed are reasonable.

#### **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						Total	Appeals for Denied Waiver
	7	8	9	10	11	12		
Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications				
1999-2000	1.7	2.1	2.1	-	2.4	8.3	-	
2000-01	1.7	2.1	2.1	-	2.4	8.3	-	
2001-02	1.7	2.1	2.1	-	2.4	8.3	-	
2002-03	1.7	2.1	2.1	-	2.4	8.3	-	
2003-04	1.7	2.1	2.1	-	2.4	8.3	-	
2004-05	1.7	2.1	2.1	-	2.4	8.3	-	
2005-06	1.7	2.1	2.1	-	2.4	8.3	-	
2006-07	1.7	2.1	2.1	-	2.4	8.3	-	
2007-08	2.1	1.7	2.0	-	2.7	8.5	-	
2008-09	2.1	2.1	2.4	-	2.9	9.5	-	
2009-10	2.6	2.1	2.4	-	2.9	10.0	-	
2010-11	2.6	2.1	2.4	-	2.9	10.0	-	

Fiscal Year	Allowable Minutes						Total	Appeals for Denied Waiver
	Reimbursable Activity							
	7	8	9	10	11	12		
	Answering Questions	Receiving Applications	Evaluating Applications	Incomplete Applications	Approved Applications			
1999-2000	1.7	2.1	2.1	-	2.4	8.3	-	
2000-01	1.7	2.1	2.1	-	2.4	8.3	-	
2001-02	1.7	2.1	2.1	-	2.4	8.3	-	
2002-03	1.7	2.1	2.1	-	2.4	8.3	-	
2003-04	1.7	2.1	2.1	-	2.4	8.3	-	
2004-05	1.7	2.1	2.1	-	2.4	8.3	-	
2005-06	1.7	2.1	2.1	-	2.4	8.3	-	
2006-07	1.7	2.1	2.1	-	2.4	8.3	-	
2007-08	2.1	1.7	2.0	-	2.7	8.5	-	
2008-09	2.1	2.1	2.4	-	2.9	9.5	-	
2009-10	2.6	2.1	2.4	-	2.9	10.0	-	
2010-11	2.6	2.1	2.4	-	2.9	10.0	-	

### Multiplier Calculation

For Activities 7, 8, 9, and 11, the district claimed costs by multiplying the number of students who received a BOGG fee waiver by a uniform time allowance and an annual average productive hourly rate. For Activities 7, 8, 9 and 11, the district used the number of students who received a BOGG fee waiver as the multiplier. The district did not claim costs for Activity 10 (incomplete BOGG fee waiver applications) and Activity 12 (appeals of denied BOGG fee waiver applications).

For Activities 7, 8, 9, and 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 CCCC. Using data that the district reported, the CCCC 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.

### 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	171,015	207,984	36,969
8	171,015	207,984	36,969
9	171,015	207,984	36,969
10	-	-	-
11	171,015	207,984	36,969
12	-	-	-
Totals	684,060	831,936	147,876

### Calculation of Hours Adjustments

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

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

Reimbursable Activity	Claimed Hours	Allowable Hours	Adjusted Hours
7	5,702.0	6,860.8	1,158.8
8	5,894.0	7,177.2	1,283.2
9	6,285.2	7,600.0	1,314.8
10	-	-	-
11	7,446.9	8,972.5	1,525.6
12	-	-	-
Total	25,328.1	30,610.5	5,282.4

### Productive Hourly Rates

We found that the district understated the average productive hourly rates used for Activities 7, 8, 9 and 11 for FY 1999-00 through FY 2004-05. As explained in Finding 5, we recalculated the annual productive hourly rates based on employee salaries and benefits, and the SCO standard of 1,800 productive hours. As a result, we made minor adjustments to the claimed rates for the fiscal years noted above.

### Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We found that \$878,544 in salaries and benefits is allowable and \$186,417 exceeds claimed costs.

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

Reimbursable Activity	Claimed Salaries and Benefits	Allowable Salaries and Benefits	Adjusted Salaries and Benefits
7	\$ 158,806	\$ 199,728	\$ 40,922
8	158,795	204,014	45,219
9	171,075	217,499	46,424
10	-	-	-
11	203,451	257,303	53,852
12	-	-	-
Total	\$ 692,127	\$ 878,544	\$ 186,417

### Recommendation

Commencing in FY 2013-14, 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 does not dispute this finding.

SCO's Comments

The finding and recommendation remain unchanged.

**FINDING 3—  
Misstated indirect  
costs**

The district claimed indirect costs during the audit period totaling \$3,693,999 for enrollment fee collection activities and \$366,089 for enrollment fee waiver activities. For enrollment fee collection activities, we found that \$166,523 is allowable and \$3,527,476 is unallowable. The costs are unallowable because the district incorrectly calculated the indirect cost rates using the FAM-29C methodology for the audit period. Also, the district overstated salaries and benefits for enrollment fee collection activities. For enrollment fee waiver activities, we found that \$393,974 is allowable; therefore, allowable costs exceed claimed costs by \$27,885. The allowable costs exceed claimed costs because the district incorrectly calculated the indirect cost rates using the FAM-29C methodology for the audit period. Also, the district understated salaries and benefits for enrollment fee waiver activities.

*Methodology Used by the District to Claim Indirect Cost Rates*

For the audit period, the district claimed indirect costs using the SCO's FAM-29C methodology. The district incorrectly calculated its indirect cost rates by using the prior year's information contained in the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311). Also, the district did not prepare its indirect cost rates in accordance to the SCO's claiming instructions.

*Calculated Indirect Cost Rates*

For FY 1998-99 through FY 2000-01, FY 2009-10, and FY 2010-11, we recalculated indirect cost rates using the SCO FAM-29C methodology. We calculated the rates consistent with the claiming instructions and used the district's pertinent-year information contained in the CCFS-311s.

*Audited Indirect Cost Rates*

For FY 2001-02 and FY 2002-03, we used the audited indirect cost rates from our audit of the district's Health Fee Elimination Program issued on November 10, 2004. For FY 2003-04 through FY 2006-07, we used the audited indirect cost rates from our audit of the Health Fee Elimination Program issued on March 18, 2010. For FY 2007-08 and FY 2008-09, we used the audited indirect cost rates from our audit of the Health Fee Elimination Program issued on April 30, 2013.

*Misstated Indirect Cost Rates*

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

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

Fiscal Year	Claimed	Allowable	Difference
1998-99	51.36%	20.91%	-30.45%
1999-2000	45.57%	23.59%	-21.98%
2000-01	51.88%	18.23%	-33.65%
2001-02	46.95%	18.87%	-28.08%
2002-03	49.18%	17.44%	-31.74%
2003-04	44.42%	19.50%	-24.92%
2004-05	45.62%	43.18%	-2.44%
2005-06	47.74%	45.42%	-2.32%
2006-07	53.93%	48.28%	-5.65%
2007-08	53.93%	54.50%	0.57%
2008-09	56.53%	52.35%	-4.18%
2009-10	54.48%	55.52%	1.04%
2010-11	56.25%	64.10%	7.85%

#### *Enrollment Fee Collection*

The district claimed \$3,693,999 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee collection activities. We found that \$166,523 is allowable and \$3,527,476 is unallowable. The costs are unallowable because of the errors discussed previously and unallowable salaries and benefits identified in Finding 1.

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

Fiscal Year	Enrollment Fee Collection				
	Allowable Costs	Allowable Indirect Cost Rates	Allowable Indirect Costs	Claimed Indirect Costs	Adjusted Indirect Costs
1998-99	\$ 25,766	20.91%	\$ 5,388 <sup>1</sup>	\$ 269,946	\$ (264,558)
1999-2000	42,939	23.59%	10,129 <sup>1</sup>	276,906	(266,777)
2000-01	38,078	18.23%	6,942 <sup>1</sup>	343,075	(336,133)
2001-02	36,938	18.87%	6,970 <sup>1</sup>	281,030	(274,060)
2002-03	34,858	17.44%	6,079 <sup>1</sup>	313,365	(307,286)
2003-04	38,437	19.50%	7,495 <sup>1</sup>	238,839	(231,344)
2004-05	39,951	43.18%	17,251 <sup>1</sup>	267,018	(249,767)
2005-06	34,374	45.42%	15,613 <sup>1</sup>	329,221	(313,608)
2006-07	30,873	48.28%	14,905 <sup>1</sup>	406,770	(391,865)
2007-08	34,601	54.50%	18,858 <sup>2</sup>	198,877	(180,019)
2008-09	34,208	52.35%	17,908 <sup>2</sup>	241,002	(223,094)
2009-10	34,838	55.52%	19,342 <sup>2</sup>	287,307	(267,965)
2010-11	30,644	64.10%	19,643 <sup>2</sup>	240,643	(221,000)
	<u>\$ 456,505</u>		<u>\$ 166,523</u>	<u>\$ 3,693,999</u>	<u>\$ (3,527,476)</u>

<sup>1</sup> Applied base to total direct costs

<sup>2</sup> Applied base to salaries and benefits

*Enrollment Fee Waivers*

The district claimed \$366,089 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We found that \$393,974 is allowable and \$27,885 exceeds claimed costs. The costs are unallowable because of the errors discussed previously and unallowable salaries and benefits identified in Finding 2.

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	\$ 27,652	23.59%	\$ 6,523 <sup>1</sup>	\$ 11,604	\$ (5,081)
2000-01	30,055	18.23%	5,479 <sup>1</sup>	16,190	(10,711)
2001-02	36,230	18.87%	6,837 <sup>1</sup>	17,030	(10,193)
2002-03	71,931	17.44%	12,545 <sup>1</sup>	19,843	(7,298)
2003-04	69,295	19.50%	13,513 <sup>1</sup>	17,834	(4,321)
2004-05	83,018	43.18%	35,847 <sup>1</sup>	21,211	14,636
2005-06	67,919	45.42%	30,849 <sup>1</sup>	21,015	9,834
2006-07	65,572	48.28%	31,658 <sup>1</sup>	22,206	9,452
2007-08	55,657	54.50%	30,333 <sup>2</sup>	26,851	3,482
2008-09	89,523	52.35%	46,865 <sup>2</sup>	59,585	(12,720)
2009-10	141,482	55.52%	78,551 <sup>2</sup>	65,955	12,596
2010-11	148,165	64.10%	94,974 <sup>2</sup>	66,765	28,209
	<u>\$ 886,499</u>		<u>\$ 393,974</u>	<u>\$ 366,089</u>	<u>\$ 27,885</u>

<sup>1</sup> Applied base to total direct costs

<sup>2</sup> Applied base to salaries and benefits

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

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

Recommendation

Commencing in FY 2013-14, 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 indirect costs during the audit period totaling \$3,693,999 for enrollment fee collection activities and \$366,089 for enrollment fee waiver activities. The audit report states that for enrollment fee collection activities, \$166,523 is allowable and \$3,527,476 is unallowable. The major source of the adjustment for enrollment fee collection costs is the reduction of the allowed average time to 3.24 minutes per enrollment in Finding 1. For enrollment fee waiver activities, \$393,974 is allowable which is an increase of \$27,885. The source of this increase is the increase in the number of BOGG transactions in Finding 2. The other sources of the difference result from the auditor's choices using the Controller's FAM-29C methodology.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>	<u>Source</u>
1998-99	51.36%	20.91%	-30.45%	This audit
1999-00	45.57%	23.59%	-21.98%	This audit
2000-01	51.88%	18.23%	-33.65%	This audit
2001-02	46.95%	18.87%	-28.08%	HFE 1 audit
2002-03	49.18%	17.44%	-31.74%	HFE 1 audit
2003-04	44.42%	19.50%	-24.92%	HFE 2 audit
2004-05	45.62%	43.18%	-2.44%	HFE 2 audit
2005-06	47.74%	45.42%	-2.32%	HFE 2 audit
2006-07	53.93%	48.28%	-5.65%	HFE 2 audit
2007-08	53.93%	54.50%	0.57%	HFE 3 audit
2008-09	56.53%	52.35%	-4.18%	HFE 3 audit
2009-10	54.48%	55.52%	1.04%	This audit
2010-11	56.25%	64.10%	7.85%	This audit

**OTHER AUDITS:** For FY 2001-02 through FY 2008-09, the auditor used the audited rate from previous Health Fee Elimination audits. The District accepts the concept of using the indirect cost rates calculated for other mandate audits. However, the District disagrees with those audited rates, and has already filed incorrect reduction claims for those other mandate audits. If the Commission determines the rates were calculated incorrectly, the rates would also have to be changed for this audit.

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

**CHOICE OF YEAR:** Another remaining source of these smaller variances in the rate after FY 2003-04 is that the District uses prior year CCFS-311 and prior year depreciation expenses because the current year audited financial statements, the source of depreciation costs, are not always available when the current year claim is due.

SALARY AND BENEFITS ONLY: The last remaining difference is that beginning FY 2009-10, the indirect cost rate was applied only to salary and benefits and not other direct costs. The Controller has not stated a legal or factual reason to previously apply the rate to all direct costs and to now limit it to salary and benefits.

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

### SCO's Comments

The finding and recommendation remain unchanged.

For the audit period, the district calculated its indirect costs using the SCO's FAM-29C methodology. The district incorrectly calculated its indirect cost rates by using the prior year's information contained in the California Community College Annual Financial Budget Report Expenditures by activity report (CCFS-311). Also, the district did not prepare its indirect cost rates in accordance with the SCO's claiming instructions. For FY 1998-99 through FY 2000-01, FY 2009-10, and FY 2010-11, we recalculated indirect cost rates consistent with the claiming instructions and used the district's pertinent-year information contained in its CCFS-311 reports.

The district disagrees with the SCO's claiming instructions for preparing the FAM-29C that excludes capital costs every year until FY 2004-05. The Enrollment Fee Collections and Waiver Program's parameters and guidelines provide three options for community college districts to claim indirect costs. One of those options is "the rate calculated on State Controller's Form FAM-29C," which is the option that the district chose to use for the entire audit period. Since the district opted to use the FAM-29C methodology, it follows that the district should comply with the SCO's claiming instructions on how to develop and apply the resulting indirect cost rates. Instead, the district opted to apply its own methodology and claim indirect costs.

In its response, the district expresses its disagreement with the SCO's claiming instructions because they "have not been adopted as regulations under the Administrative Procedures Act." However, Title 2, *California Code of Regulations* (CCR), section 1186, allows districts to request that the Commission review the SCO's claiming instructions. The district did not request that the Commission review the SCO's claiming instructions applicable to the Enrollment Fee Collection and Waivers Program. The district may not now request a review of the claiming instructions applicable to the audit period. Title 2, CCR, section 1186, subdivision (j)(2), states, "A request for review filed after the initial claiming deadline must be submitted on or before January 15, following a fiscal

year in order to establish eligibility for reimbursement for that fiscal year.”

The district disagrees with the application of indirect costs “only to salaries and benefits and not other direct costs” using the SCO’s FAM-29C methodology beginning in FY 2009-10. However, the SCO’s claiming instructions direct claimants to use salaries and benefits as the base when developing the indirect cost rate beginning with FY 2007-08. Therefore, the application of the indirect cost rate to salaries and benefits is appropriate.

The district also states in its response that it used “prior-year CCFS-311 reports and prior year depreciation expenses because the current year audited financial statements, the source of depreciation costs, are not always available when the current year claim is due.” We disagree. Initial claims for this mandated program covering FY 1998-99 through FY 2004-05 were due to the SCO on August 1, 2006. The annual claim for FY 2005-06 was due to the SCO on January 16, 2007. Claims filed for FY 2006-07 and beyond were due to the SCO by February 15 of the following calendar year. Title 5, CCR, section 58305, subdivision (d), states “on or before the 10<sup>th</sup> 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. In addition, we used audited financial statements provided by the district as the source for annual depreciation amounts beginning in FY 2004-05. Audited financial statements are based on financial statement data provided by the district to its outside auditors. To issue audited financial statements, the outside auditors verify that the district’s financial statements are materially correct. Therefore, it is not unreasonable to expect that depreciation data relative to June 30 of each year be available for use for mandated cost claiming purposes by January or February of the following fiscal year.

**FINDING 4—  
Misstated offsetting  
reimbursements**

The district claimed offsetting reimbursements totaling \$806,199 for enrollment fee collection and \$832,802 for enrollment fee waivers. We found that offsetting reimbursements were misstated by \$216,339 (overstated by \$249,587 and understated by \$33,248) for enrollment fee collection and understated by \$447,671 for enrollment fee waivers. The offsetting reimbursements were understated because the district did not report the correct amounts that it received from the California Community Colleges Chancellor's Office (CCCCO) 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 \$758,132 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 \$623,028. The district misstated offsetting reimbursements by \$216,339 (overstated by \$249,587 and understated by \$33,248), consisting of offsets applicable to the audit period of \$589,860 less offsets claimed of \$806,199.

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

Enrollment Fee Collection Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs (A)	Claimed Offsets (B)	Actual Offsets Confirmed by the CCCCCO (C)	Offsets Applicable to Audit (D)	Audit Adjustment (E)= (D-B)
1998-99	\$ 31,154	\$ (32,576)	\$ (40,486)	\$ (31,154)	\$ 1,422
1999-2000	53,068	(32,875)	(34,203)	(34,203)	(1,328)
2000-01	45,020	(36,790)	(39,914)	(39,914)	(3,124)
2001-02	43,908	(23,010)	(37,230)	(37,230)	(14,220)
2002-03	40,937	(23,842)	(38,418)	(38,418)	(14,576)
2003-04	45,932	(54,434)	(52,626)	(45,932)	8,502
2004-05	57,202	(107,079)	(76,518)	(57,202)	49,877
2005-06	49,987	(101,838)	(78,380)	(49,987)	51,851
2006-07	45,778	(106,784)	(74,775)	(45,778)	61,006
2007-08	53,459	(78,756)	(67,676)	(53,459)	25,297
2008-09	52,116	(70,842)	(70,454)	(52,116)	18,726
2009-10	54,180	(70,454)	(80,533)	(54,180)	16,274
2010-11	50,287	(66,919)	(66,919)	(50,287)	16,632
<b>Total</b>	<b>\$ 623,028</b>	<b>\$ (806,199)</b>	<b>\$ (758,132)</b>	<b>\$ (589,860)</b>	<b>\$ 216,339</b>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs totals \$168,272 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (40,486)	\$ (31,154)	\$ (9,332)
1999-2000	(34,203)	(34,203)	-
2000-01	(39,914)	(39,914)	-
2001-02	(37,230)	(37,230)	-
2002-03	(38,418)	(38,418)	-
2003-04	(52,626)	(45,932)	(6,694)
2004-05	(76,518)	(57,202)	(19,316)
2005-06	(78,380)	(49,987)	(28,393)
2006-07	(74,775)	(45,778)	(28,997)
2007-08	(67,676)	(53,459)	(14,217)
2008-09	(70,454)	(52,116)	(18,338)
2009-10	(80,533)	(54,180)	(26,353)
2010-11	(66,919)	(50,287)	(16,632)
Total	<u>\$ (758,132)</u>	<u>\$ (589,860)</u>	<u>\$ (168,272)</u>

#### Enrollment Fee Waivers

For the audit period, the district claimed offsetting reimbursements for enrollment fee waivers related to 7% or 2% of the enrollment fees waived and \$0.91 per credit unit waived. We obtained a report from the CCCCCO confirming enrollment fee waivers offsets paid to the district totaling \$2,943,217 for the audit period. We also limited offsetting reimbursements received by the district to allowable direct and indirect costs. Allowable direct and indirect costs applicable to the audit period related to enrollment fee waivers activities totaled \$1,280,473; therefore, this amount represents offsets applicable to the audit period. The district claimed \$832,802. Consequently, the district understated enrollment fee waivers offsets by \$447,671.

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

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs (A)	Claimed Offsets (B)	Actual Offsets Confirmed by the CCCCCO (C)	Offsets Applicable to Audit (D)	Audit Adjustment (E)=(D-B)
1999-2000	\$ 34,175	\$ (25,465)	\$ (143,589)	\$ (34,175)	\$ (8,710)
2000-01	35,534	(31,206)	(195,161)	(35,534)	(4,328)
2001-02	43,067	(36,272)	(166,076)	(43,067)	(6,795)
2002-03	84,476	(40,348)	(199,814)	(84,476)	(44,128)
2003-04	82,808	(40,149)	(241,200)	(82,808)	(42,659)
2004-05	118,865	(46,497)	(329,443)	(118,865)	(72,368)
2005-06	98,768	(44,019)	(301,626)	(98,768)	(54,749)
2006-07	97,230	(41,175)	(316,658)	(97,230)	(56,055)
2007-08	85,990	(49,789)	(267,643)	(85,990)	(36,201)
2008-09	136,388	(105,405)	(244,205)	(136,388)	(30,983)
2009-10	220,033	(187,018)	(238,171)	(220,033)	(33,015)
2010-11	243,139	(185,459)	(299,631)	(243,139)	(57,680)
Total	<u>\$ 1,280,473</u>	<u>\$ (832,802)</u>	<u>\$ (2,943,217)</u>	<u>\$ (1,280,473)</u>	<u>\$ (447,671)</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$1,662,744 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (143,589)	\$ (34,175)	\$ (109,414)
2000-01	(195,161)	(35,534)	(159,627)
2001-02	(166,076)	(43,067)	(123,009)
2002-03	(199,814)	(84,476)	(115,338)
2003-04	(241,200)	(82,808)	(158,392)
2004-05	(329,443)	(118,865)	(210,578)
2005-06	(301,626)	(98,768)	(202,858)
2006-07	(316,658)	(97,230)	(219,428)
2007-08	(267,643)	(85,990)	(181,653)
2008-09	(244,205)	(136,388)	(107,817)
2009-10	(238,171)	(220,033)	(18,138)
2010-11	(299,631)	(243,139)	(56,492)
Total	\$ (2,943,217)	\$ (1,280,473)	\$ (1,662,744)

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

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

Enrollment Fee Collection Program:

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

Enrollment Fee Waiver Program:

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

July 1, 1999 to July 4, 2000:

- For low income students<sup>2</sup> or recipients of public assistance<sup>3</sup>, or dependents or surviving spouses of National Guard soldiers killed in the line of duty<sup>4</sup> as defined:
  - an offset identified in Education Code section 76300, subdivision (m), that requires the community college Board of Governors, from funds in the annual budget act, to allocated to community college two percent (2%) of the fees waived, under subdivision (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and

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

Beginning July 5, 2000:

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

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

#### Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of

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

District's Response

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

SCO's Comments

The finding and recommendation remain unchanged.

**FINDING 5—  
Understated  
productive hourly  
rates for Calculating  
and Collecting  
Enrollment Fees and  
Waiving Student Fees  
cost components**

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

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

For FY 1998-99 through FY 2004-05, the district used 2,080 productive hours in its PHR calculations; however, the district indicated that the SCO's standard productive hours of 1,800 should have been used. Therefore, we recalculated the PHRs using 1,800 productive hours for full-time staff.

The following table summarizes the claimed, allowable, and adjusted average PHR for calculating and collecting enrollment fees by fiscal year:

Fiscal Year	Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Adjusted Average Productive Hourly Rate
1998-99	17.19	19.86	2.67
1999-2000	18.77	21.69	2.92
2000-01	19.08	22.04	2.96
2001-02	19.42	22.44	3.02
2002-03	19.86	22.95	3.09
2003-04	22.54	26.05	3.51
2004-05	23.57	27.24	3.67
2005-06	25.06	25.06	-
2006-07	26.40	26.40	-
2007-08	27.22	27.22	-
2008-09	27.98	27.98	-
2009-10	35.02	35.02	-
2010-11	36.00	36.00	-

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

For FY 1999-2000 through FY 2004-05, the district used 2,080 productive hours in its PHR calculations; however, the district indicated that the SCO's standard productive hours of 1,800 should have been used. Therefore, we recalculated the PHRs using 1,800 productive hours for full-time staff.

The following table summarizes the claimed, allowable, and adjusted average PHR for waving student enrollment fees by fiscal year:

Fiscal Year	Claimed Average Productive Hourly Rate	Allowable Average Productive Hourly Rate	Adjusted Average Productive Hourly Rate
1999-2000	20.28	23.43	3.15
2000-01	20.89	24.14	3.25
2001-02	21.59	24.95	3.36
2002-03	22.07	25.50	3.43
2003-04	23.85	27.55	3.70
2004-05	24.99	28.88	3.89
2005-06	24.57	24.57	-
2006-07	25.87	25.87	-
2007-08	25.60	25.60	-
2008-09	27.37	27.37	-
2009-10	35.32	35.32	-
2010-11	36.29	36.29	-

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

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

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

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

#### Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that productive hourly rates are calculated in accordance with the guidance provided in the SCO’s claiming instructions.

#### District’s Response

The district does not dispute this finding.

#### SCO’s Comments

The finding and recommendation remain unchanged.

**Other Issues – Public records request**

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

District’s Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings.

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**

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November 3, 2014

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

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

Dear Mr. Spano:

This letter is the response of the San Bernardino Community College District to the draft audit report received by e-mail from Santos Carranza dated October 27, 2014, for the above referenced program and fiscal years transmitted by the October 22, 2014, letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Ninety-nine percent of the amounts claimed for reimbursement for all fiscal years audited have been disallowed by the audit. An audit appeal will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates. The District's incorrect reduction claim will be submitted to the Commission after we receive the final audit report.

Before responding to the specific findings, a general statement regarding staff labor time documentation is needed. The majority of the direct costs claimed are the staff time spent to implement the mandated activities. Most of this time is disallowed by the audit. The draft audit report states that the legal basis for these adjustments is the documentation standard contained in the mandate program parameters and guidelines:

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

Thus, the form and scope of the source documents are the stated legal basis for disallowing some but not all of the District time estimates, workload statistics, and productive hourly rates.

It should be remembered that the parameters and guidelines were adopted January 26, 2006, and the first claiming instructions were issued April 3, 2006, which is seven years after the first fiscal year in the audit period. Thus, claimants were not on notice of the activities approved for reimbursement that should be documented until the eighth year of the eligibility period. It would

seem unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate where the desired information is not maintained in the regular course of business. While the District agrees with the audit report recommendation that claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard only for the fiscal year annual claims filed after the initial fiscal year claims.

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

This District utilized forms prepared by its consultant to document staff time spent on the mandates. These forms are in the nature of certified declarations that are within the scope of the parameters and guidelines documentation standards. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed the claimed costs for insufficient documentation. In some cases, average staff time per activity was claimed, and disallowed. The auditor then substituted audited average staff time based on personal observation of the activities as currently implemented. By substituting their own time observations for some of the activities, Controller staff is validating the concept of using average times as an acceptable method for the calculation of the mandate costs. The difference becomes one of fact, how much time to allow for each activity. Also, where the District's reported time and workload statistics were accepted by the auditor for some activities, the Controller is validating the District's good faith method and the mandate consultant's forms as an acceptable method for estimating average time. Since all of these choices are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

**FINDING 1      Enrollment Fee Collection: Calculating and Collecting Enrollment Fees cost component- unallowable ongoing costs**

The District claimed \$7,315,904 in salaries and benefits for the staff time to calculate and collect enrollment fees. The draft audit report states \$424,997 (5.8%) is allowable and \$6,890,907 is unallowable. The audit rejects the District calculation of the average staff time required to perform four of the six reimbursable activities and substitutes the auditor's own time-study; rejects the enrollment data reported by the District and substitutes the enrollment data the auditor obtained from the California Community College Chancellor's Office (CCCCO); and, removes from the workload calculation the number of students who paid their enrollment fees online rather than in person.

A. Average activity time

For the six activities in the Enrollment Fee Collection (EFC) cost component, district staff implementing the mandate individually reported an average time in minutes to perform each activity using forms provided by our mandate consultant. These certified good faith estimates were averaged for similar job positions to establish one average time for each activity. These times are multiplied by relevant enrollment or other workload statistics and then multiplied by relevant staff productive hourly rates.

The draft audit concludes that these good faith estimates are not acceptable "source documentation" of "actual data" and rejects the time estimates for four of the six activities. The audited time for the four activities is 3.24 minutes. The total of the claimed average times for the four activities ranged from 22.0 to 56.6 minutes over the audit period. This 94% reduction in time allowed for in-person enrollment fee collection transactions is the first and largest source of the cost reduction. The audit "time study" for the four activities is based on observing some of the enrollment fee collection process in the Admission and Records offices. The auditor observed 665 transactions, of which 56 involved payment of enrollment fees. By comparison, the District reported 580,678 enrollment fee collection transactions for the audit period. For this reason, and many others, the auditor's observation process does not constitute a quantitatively or qualitatively representative "time study" sample.

For the remaining two activities (5 and 6), the average times were accepted by the auditor. Activity 5, collection of delinquent fees, was not reported for the last two years of the audit period because the District changed to a "same-day" payment policy, thus the auditor was unable to observe the process. Activity 6, the refund process, similarly was not observed by the auditor. The auditor relied upon the staff interview information and accepted the claimed times. Note that the claimed times for these two activities were reported on the same forms and using the same methods that were rejected for activities 1-4.

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 four of the activities the workload multipliers rely upon enrollment statistics with relevant adjustments. As a matter of Controller policy, the audit utilized data obtained from the Chancellor's Office which the auditor modified for duplicated students by term and different categories of special admission students. The audited amounts are based on a post-facto specific data query from the Chancellor's MIS database that eliminated specific elements (e.g., duplicated students by term and special admit students) not entirely available at the time of the claim preparation. These corrections made by the auditor are not disputed at this time. The workload multipliers were accepted by the auditor for the remaining two activities (5 and 6).

There is the related workload multiplier issue of the number of "online" (internet or phone) transactions in lieu of in-person enrollment fee collection. This is the second major source of cost reduction. When this program became a mandate in FY 1998-99, there was no significant online activity, and so was it not factored into the annual claims. Eventually, by FY 2010-11, 75% of the enrollment transactions were occurring "online." District data processing staff was able to provide a reasonable estimate of the percentage of online transactions retroactive to FY 1999-00 that was used by the auditor. However, the audit findings do not replace the time lost from these eliminated in-person transactions with the staff time to operate the online payment collection system. Thus, no costs are recognized for these transactions. This action is a matter of

Controller policy and not subject to individual auditor discretion. This is a matter of statewide concern that can only be resolved by an incorrect reduction claim.

**FINDING 2 Enrollment Fee Waivers: Waiving Student Fees cost component**

The District claimed \$692,127 in salaries and benefits for the staff cost to approve or deny BOGG enrollment fee waivers. The draft audit report states an increase to \$878,544 is allowable. This cost component is calculated in the same manner as the Enrollment Fee Collection cost component. Regarding the average activity times, the District claimed average times for four of the possible six activities ranging from 8.3 to 10.0 minutes over the audit period. The auditor accepted these times based on staff interviews and observation of activities at the Financial Aid office at one of the colleges.

For the four claimed activities, the auditor utilized unduplicated BOGG awards statistics obtained from the Chancellor's Office. This is the source of the increase in allowed costs. The auditor identified an additional 36,969 BOGG transactions over the twelve years claimed, or about 2,800 students each year. These corrections made by the auditor are not disputed.

**FINDING 3 Misstated indirect costs**

The District claimed indirect costs during the audit period totaling \$3,693,999 for enrollment fee collection activities and \$366,089 for enrollment fee waiver activities. The audit report states that for enrollment fee collection activities, \$166,523 is allowable and \$3,527,476 is unallowable. The major source of the adjustment for enrollment fee collection costs is the reduction of the allowed average time to 3.24 minutes per enrollment in Finding 1. For enrollment fee waiver activities, \$393,974 is allowable which is an increase of \$27,885. The source of this increase is the increase in the number of BOGG transactions in Finding 2. The other sources of the difference result from the auditor's choices using the Controller's FAM-29C methodology.

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>	<u>Source</u>
1998-99	51.36%	20.91%	-30.45%	This audit
1999-00	45.57%	23.59%	-21.98%	This audit
2000-01	51.88%	18.23%	-33.65%	This audit
2001-02	46.95%	18.87%	-28.08%	HFE 1 audit
2002-03	49.18%	17.44%	-31.74%	HFE 1 audit
2003-04	44.42%	19.50%	-24.92%	HFE 2 audit
2004-05	45.62%	43.18%	-2.44%	HFE 2 audit
2005-06	47.74%	45.42%	-2.32%	HFE 2 audit
2006-07	53.93%	48.28%	-5.65%	HFE 2 audit
2007-08	53.93%	54.50%	0.57%	HFE 3 audit
2008-09	56.53%	52.35%	-4.18%	HFE 3 audit
2009-10	54.48%	55.52%	1.04%	This audit
2010-11	56.25%	64.10%	7.85	This audit

OTHER AUDITS: For FY 2001-02 through FY 2008-09, the auditor used the audited rate from previous Health Fee Elimination audits. The District accepts the concept of using the indirect cost rates calculated for other mandate audits. However, the District disagrees with those audited rates, and has already filed incorrect reduction claims for those other mandate audits. If the

Commission determines the rates were calculated incorrectly, the rates would also have to be changed for this audit.

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

**CHOICE OF YEAR:** Another remaining source of these smaller variances in the rate after FY 2003-04 is that the District uses prior year CCFs-311 and prior year depreciation expenses because the current year audited financial statements, the source of depreciation costs, are not always available when the current year claim is due.

**SALARY AND BENEFITS ONLY:** The last remaining difference is that beginning FY 2009-10, the indirect cost rate was applied only to salary and benefits and not other direct costs. The Controller has not stated a legal or factual reason to previously apply the rate to all direct costs and to now limit it to salary and benefits.

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

#### **FINDING 4      Misstated offsetting reimbursements**

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

The District claimed offsetting program revenues totaling \$806,199 for enrollment fee collection and \$832,802 for enrollment fee waivers. The draft audit report states that offsetting program revenues were misstated by \$216,339 (overstated by \$249,587 and understated by \$33,248) for enrollment fee collection and understated by \$447,671 for enrollment fee waivers. The offsetting program revenues are only "misstated" because the District claims did not match the same revenue amounts as the Chancellor's Office data for enrollment fee collection or enrollment fee waivers in any fiscal year of the audit period. The auditor's amounts are based on a post-facto data query to the Chancellor's data using seasoned data not available at the time of the claim preparation. Claimants, at the time the annual claims are prepared, must calculate the amounts based on available district enrollment information and the number of units waived, which would be a continuing source of minor differences.

However, the differences here are not minor. There are \$168,272 (\$758,132 total offsets subtract \$589,860 applied offsets) in unused offsets for the enrollment fee collection function. There are \$1,662,744 (\$2,943,217 subtract \$1,280,473) in unused offsets for the enrollment fee waiver function. The magnitude of the excess offsetting program revenues results from the amount of the disallowed activity costs in Findings 1 and 2, since the offset cannot exceed the reimbursable cost. As the amount of audited cost decreases, there is a corresponding decrease in applicable offsetting revenues. If the approved program costs increase as a result of the incorrect reduction claim, these additional offsetting revenue differences will continue to be applied in the same amount until all offsets have been applied.

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

**Finding 5 Understated productive hourly rates**

The draft audit report concludes that the District understated the productive hourly rates for FY 1998-99 through FY 2003-04. The District calculated its average productive hourly rates using a straight average methodology. The District did not weight the involvement of the various employee classifications that performed the reimbursable activities. However, the auditor did not change the weighting. The source of the understatement was that District used 2,080 actual payroll hours instead of 1,800 productive hours for a work-year for the calculation of the productive hourly rate. The District agrees that 1,800 hours is the appropriate number of hours and does not dispute these adjustments. The claimed productive hourly rates for FY 2005-06 through FY 2010-11 utilized the 1,800 hours and were not adjusted by the auditor.

**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.

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,



Timothy L. Oliver  
Interim Vice Chancellor, Business and Fiscal Services  
San Bernardino Community College District

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