

LONG BEACH COMMUNITY COLLEGE DISTRICT

Audit Report

MINIMUM CONDITIONS FOR STATE AID PROGRAM

California Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016 as added and/or amended, and Title 5, California Code of Regulations, section 53203 et seq.

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

June 2020



BETTY T. YEE
California State Controller

June 24, 2020

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Lou Anne Bynum, Interim Superintendent-President
Long Beach Community College District
4901 East Carson Street, Mail Code R 12
Long Beach, CA 90808

Dear Ms. Bynum:

The State Controller's Office audited the costs claimed by Long Beach Community College District for the legislatively mandated Minimum Conditions for State Aid Program for the period of July 1, 2001, through June 30, 2012.

The district claimed \$34,402,336 for costs of the mandated program. Our audit found that \$15,777 is allowable and \$34,386,559 is unallowable. The costs are unallowable because the district claimed overstated salaries and benefits, unallowable materials and supplies costs, unallowable fixed assets, and overstated indirect costs. The State paid the district \$12,694,775.

Following issuance of this audit report, the Local Government Programs and Services Division of the State Controller's Office will notify the district of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Vivian Malauulu, President
Board of Trustees
Long Beach Community College District
Marlene Drinkwine, Vice President, Business Services
Long Beach Community College District
John Thompson, Director, Fiscal Services
Long Beach Community College District
Robert Rapoza, Director, Business Support Services
Long Beach Community College District
Lizette Navarette, Vice Chancellor
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Long Beach Community College District for the legislatively mandated Minimum Conditions for State Aid Program for the period of July 1, 2001, through June 30, 2012.

The district claimed \$34,402,336 for costs of the mandated program. Our audit found that \$15,777 is allowable and \$34,386,559 is unallowable. The costs are unallowable because the district claimed overstated salaries and benefits, unallowable materials and supplies costs, unallowable fixed assets, and overstated indirect costs. The State paid the district \$12,694,775.

Background

California Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016, and Title 5, California Code of Regulations, section 53203 et seq. address the standards for the formation and basic operation of the California Community Colleges.

The sections were added and/or amended by:

- Chapter 973, Statutes of 1988;
- Chapter 1188 and 1198, Statutes of 1991;
- Chapter 365, Statutes of 1998; and
- Chapter 187, Statutes of 2000.

On May 26, 2011, the Commission on State Mandates (Commission) adopted a statement of decision finding that the test claim statutes and regulations impose a partially reimbursable state-mandated program upon community college districts within the meaning of article XIII B, section 6 of the California Constitution and Government Code (GC) section 17514. The Commission separated the activities found to be reimbursable into the following seven program areas:

- Participation in district and college governance
- Transfer centers in community colleges
- Vocational education
- Standards of scholarship
- Curriculum
- Degrees and certificates
- Open courses

The program's parameters and guidelines establish the state mandate and define the reimbursable criteria. The Commission adopted the parameters and guidelines on April 19, 2013. In compliance with GC section 17558, the SCO issues claiming instructions to assist community college districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Minimum Conditions for State Aid Program. Specifically, we conducted this audit 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 audit period was July 1, 2001, through June 30, 2012.

To achieve our objective, we:

- Reviewed the annual mandated cost claims filed by the district for the audit period and identified the significant cost components of each claim as salaries and benefits, materials and supplies costs, fixed asset costs, and indirect costs. Determined whether there were any errors or unusual or unexpected variances from year to year. Reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key district staff. Discussed the claim preparation process with district staff to determine what information was obtained, who obtained it, and how it was used;
- Interviewed district staff who completed an Individual Average Time Record (Individual Counselor Time Percentages) to gain an understanding of the activities performed and to determine whether time percentages were accurately reported;
- Assessed whether the time records related to counseling and counseling support staff provide the level of detail necessary to determine which reimbursable activities were actually performed, and the actual time spent on each reimbursable activity;
- Determined whether the number of course outlines designed and the number of reports that were prepared and submitted to the Chancellor's Office were adequately supported;
- Determined whether the materials and supplies costs claimed related to transfer centers for the audit period were adequately supported and expended for the purpose of the reimbursable activities;
- Determined whether the fixed asset costs claimed related to transfer centers for fiscal year (FY) 2001-02, FY 2002-03, and FY 2008-09 were adequately supported and necessary to implement the reimbursable activities;
- Traced productive hourly rate and benefit rate calculations for all employee classifications performing the mandated activities to supporting information in the district's payroll system;
- Determined whether the indirect cost rates claimed for each fiscal year of the audit period were properly supported and applied to the correct direct cost base; and
- Reviewed potential sources of offsetting revenues and reimbursements for the audit period. We made inquiries with district staff and reviewed single audit reports (with accompanying financial statements) for other sources of funding. No exceptions were noted.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

Conclusion

As a result of performing the audit procedures, we found instances of noncompliance with the requirements described in our audit objective. We did not find that the district claimed costs that were funded by other sources; however, we did find that it claimed unsupported and ineligible costs, as quantified in the Schedule and described in the Findings and Recommendations section of this audit report.

For the audit period, Long Beach Community College District claimed \$34,402,336 for costs of the legislatively mandated Minimum Conditions for State Aid Program. Our audit found that \$15,777 is allowable and \$34,386,559 is unallowable. The payment information is as follows:

- For the FY 2001-02 through FY 2006-07 claims, we found that none of the claimed costs are allowable. The State paid the district \$12,694,775.
- For the FY 2007-08 through FY 2011-12 claims, we found that \$15,777 is allowable. The State made no payments to the district. The State will pay \$15,777, contingent upon available appropriations.

Following issuance of the final audit report, the SCO's Local Government Programs and Services Division will notify the district of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the district's legislatively mandated Minimum Conditions for State Aid Program.

Views of Responsible Officials

We issued a draft audit report on May 13, 2020. On May 22, 2020, we followed up with Robert Rapoza, Director, Business Support Services, by email regarding the district's response to the draft report. Mr. Rapoza responded that the district would not provide a response to the draft report.

Restricted Use

This audit report is solely for the information and use of the Long Beach Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

June 24, 2020

Schedule—
Summary of Program Costs
July 1, 2001, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 501,362	\$ -	\$ (501,362)	
Standards of scholarship	346,687	-	(346,687)	
Curriculum	53,337	-	(53,337)	
Open courses	103,117	-	(103,117)	
Subtotal, salaries and benefits	<u>1,004,503</u>	<u>-</u>	<u>(1,004,503)</u>	Finding 1
Materials and supplies				
Transfer centers	8,553	-	(8,553)	
Subtotal, materials and supplies	<u>8,553</u>	<u>-</u>	<u>(8,553)</u>	Finding 2
Fixed assets				
Transfer centers	7,593	-	(7,593)	
Subtotal, fixed assets	<u>7,593</u>	<u>-</u>	<u>(7,593)</u>	Finding 3
Total direct costs	1,020,649	-	(1,020,649)	
Indirect costs	388,843	-	(388,843)	Finding 4
Total program costs	<u>\$ 1,409,492</u>	<u>-</u>	<u>\$ (1,409,492)</u>	
Less amount paid by the State ³		<u>(1,291,215)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (1,291,215)</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 737,958	\$ -	\$ (737,958)	
Standards of scholarship	510,290	-	(510,290)	
Curriculum	78,506	-	(78,506)	
Open courses	151,779	-	(151,779)	
Subtotal, salaries and benefits	<u>1,478,533</u>	-	<u>(1,478,533)</u>	Finding 1
Materials and supplies				
Transfer centers	127,205	-	(127,205)	
Subtotal, materials and supplies	<u>127,205</u>	-	<u>(127,205)</u>	Finding 2
Fixed assets				
Transfer centers	41,294	-	(41,294)	
Subtotal, fixed assets	<u>41,294</u>	-	<u>(41,294)</u>	Finding 3
Total direct costs	1,647,032	-	(1,647,032)	
Indirect costs	517,635	-	(517,635)	Finding 4
Total program costs	<u>\$ 2,164,667</u>	-	<u>\$ (2,164,667)</u>	
Less amount paid by the State ³		<u>(2,050,353)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,050,353)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 674,930	\$ -	\$ (674,930)	
Standards of scholarship	466,708	-	(466,708)	
Curriculum	71,801	-	(71,801)	
Open courses	138,815	-	(138,815)	
Subtotal, salaries and benefits	<u>1,352,254</u>	-	<u>(1,352,254)</u>	Finding 1
Materials and supplies				
Transfer centers	1,573	-	(1,573)	
Subtotal, materials and supplies	<u>1,573</u>	-	<u>(1,573)</u>	Finding 2
Total direct costs	1,353,827	-	(1,353,827)	
Indirect costs	451,653	-	(451,653)	Finding 4
Total program costs	<u>\$ 1,805,480</u>	-	<u>\$ (1,805,480)</u>	
Less amount paid by the State ³		<u>(1,647,071)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (1,647,071)</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,020,595	\$ -	\$ (1,020,595)	
Standards of scholarship	705,731	-	(705,731)	
Curriculum	108,720	-	(108,720)	
Open courses	209,910	-	(209,910)	
Subtotal, salaries and benefits	<u>2,044,956</u>	-	<u>(2,044,956)</u>	Finding 1
Materials and supplies				
Transfer centers	1,363	-	(1,363)	
Subtotal, materials and supplies	<u>1,363</u>	-	<u>(1,363)</u>	Finding 2
Total direct costs	2,046,319	-	(2,046,319)	
Indirect costs	661,134	-	(661,134)	Finding 4
Total program costs	<u>\$ 2,707,453</u>	-	<u>\$ (2,707,453)</u>	
Less amount paid by the State ³		<u>(2,456,447)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,456,447)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,079,586	\$ -	\$ (1,079,586)	
Standards of scholarship	746,523	-	(746,523)	
Curriculum	115,263	-	(115,263)	
Open courses	222,043	-	(222,043)	
Subtotal, salaries and benefits	<u>2,163,415</u>	-	<u>(2,163,415)</u>	Finding 1
Materials and supplies				
Transfer centers	1,914	-	(1,914)	
Subtotal, materials and supplies	<u>1,914</u>	-	<u>(1,914)</u>	Finding 2
Total direct costs	2,165,329	-	(2,165,329)	
Indirect costs	732,532	-	(732,532)	Finding 4
Total program costs	<u>\$ 2,897,861</u>	-	<u>\$ (2,897,861)</u>	
Less amount paid by the State ³		<u>(2,638,044)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,638,044)</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,390,177	\$ -	\$ (1,390,177)	
Standards of scholarship	961,293	-	(961,293)	
Curriculum	148,323	-	(148,323)	
Open courses	285,923	-	(285,923)	
Subtotal, salaries and benefits	<u>2,785,716</u>	<u>-</u>	<u>(2,785,716)</u>	Finding 1
Materials and supplies				
Transfer centers	2,531	-	(2,531)	
Subtotal, materials and supplies	<u>2,531</u>	<u>-</u>	<u>(2,531)</u>	Finding 2
Total direct costs	2,788,247	-	(2,788,247)	
Indirect costs	<u>1,012,050</u>	<u>-</u>	<u>(1,012,050)</u>	Finding 4
Total program costs	<u>\$ 3,800,297</u>	<u>-</u>	<u>\$ (3,800,297)</u>	
Less amount paid by the State ³		<u>(2,611,645)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,611,645)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,512,999	\$ -	\$ (1,512,999)	
Standards of scholarship	1,046,223	-	(1,046,223)	
Curriculum	161,548	-	(161,548)	
Open courses	311,184	-	(311,184)	
Subtotal, salaries and benefits	<u>3,031,954</u>	<u>-</u>	<u>(3,031,954)</u>	Finding 1
Materials and supplies				
Transfer centers	3,421	-	(3,421)	
Subtotal, materials and supplies	<u>3,421</u>	<u>-</u>	<u>(3,421)</u>	Finding 2
Total direct costs	3,035,375	-	(3,035,375)	
Indirect costs	<u>1,026,923</u>	<u>-</u>	<u>(1,026,923)</u>	Finding 4
Total program costs	<u>\$ 4,062,298</u>	<u>-</u>	<u>\$ (4,062,298)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,680,562	\$ -	\$ (1,680,562)	
Standards of scholarship	1,162,091	-	(1,162,091)	
Curriculum	179,468	-	(179,468)	
Open courses	345,648	-	(345,648)	
Subtotal, salaries and benefits	<u>3,367,769</u>	-	<u>(3,367,769)</u>	Finding 1
Materials and supplies				
Transfer centers	10,074	-	(10,074)	
Subtotal, materials and supplies	<u>10,074</u>	-	<u>(10,074)</u>	Finding 2
Fixed assets				
Transfer centers	576	-	(576)	
Subtotal, fixed assets	<u>576</u>	-	<u>(576)</u>	Finding 3
Total direct costs	3,378,419	-	(3,378,419)	
Indirect costs	<u>1,200,947</u>	-	<u>(1,200,947)</u>	Finding 4
Total program costs	<u>\$ 4,579,366</u>	-	<u>\$ (4,579,366)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,365,349	\$ -	\$ (1,365,349)	
Standards of scholarship	944,124	-	(944,124)	
Curriculum	145,709	-	(145,709)	
Open courses	280,816	-	(280,816)	
Subtotal, salaries and benefits	<u>2,735,998</u>	-	<u>(2,735,998)</u>	Finding 1
Materials and supplies				
Transfer centers	5,693	-	(5,693)	
Subtotal, materials and supplies	<u>5,693</u>	-	<u>(5,693)</u>	Finding 2
Total direct costs	2,741,691	-	(2,741,691)	
Indirect costs	<u>1,007,394</u>	-	<u>(1,007,394)</u>	Finding 4
Total program costs	<u>\$ 3,749,085</u>	-	<u>\$ (3,749,085)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,264,886	\$ -	\$ (1,264,886)	
Standards of scholarship	874,655	-	(874,655)	
Curriculum	136,111	-	(136,111)	
Open courses	260,153	-	(260,153)	
Subtotal, salaries and benefits	<u>2,535,805</u>	-	<u>(2,535,805)</u>	Finding 1
Materials and supplies				
Transfer centers	11,186	-	(11,186)	
Subtotal, materials and supplies	<u>11,186</u>	-	<u>(11,186)</u>	Finding 2
Total direct costs	2,546,991	-	(2,546,991)	
Indirect costs	970,199	-	(970,199)	Finding 4
Total program costs	<u>\$ 3,517,190</u>	-	<u>\$ (3,517,190)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,283,113	\$ -	\$ (1,283,113)	
Standards of scholarship	887,259	-	(887,259)	
Curriculum	155,784	11,011	(144,773)	
Open courses	263,903	-	(263,903)	
Subtotal, salaries and benefits	<u>2,590,059</u>	<u>11,011</u>	<u>(2,579,048)</u>	Finding 1
Materials and supplies				
Transfer centers	6,658	-	(6,658)	
Subtotal, materials and supplies	<u>6,658</u>	-	<u>(6,658)</u>	Finding 2
Total direct costs	2,596,717	11,011	(2,585,706)	
Indirect costs	1,112,430	4,766	(1,107,664)	Finding 4
Total program costs	<u>\$ 3,709,147</u>	<u>15,777</u>	<u>\$ (3,693,370)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 15,777</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 12,511,517	\$ -	\$ (12,511,517)	
Standards of scholarship	8,651,584	-	(8,651,584)	
Curriculum	1,354,570	11,011	(1,343,559)	
Open courses	2,573,291	-	(2,573,291)	
Subtotal, salaries and benefits	<u>25,090,962</u>	<u>11,011</u>	<u>(25,079,951)</u>	Finding 1
Materials and supplies				
Transfer centers	180,171	-	(180,171)	
Subtotal, materials and supplies	<u>180,171</u>	<u>-</u>	<u>(180,171)</u>	Finding 2
Fixed assets				
Transfer centers	49,463	-	(49,463)	
Subtotal, fixed assets	<u>49,463</u>	<u>-</u>	<u>(49,463)</u>	Finding 3
Total direct costs	25,320,596	11,011	(25,309,585)	
Indirect costs	<u>9,081,740</u>	<u>4,766</u>	<u>(9,076,974)</u>	Finding 4
Total program costs	<u>\$ 34,402,336</u>	15,777	<u>\$ (34,386,559)</u>	
Less amount paid by the State ³		<u>(12,694,775)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (12,678,998)</u>		

¹ See the Findings and Recommendations section.

² Includes only ongoing activity.

³ Payment amount current as of March 24, 2020.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$25,090,962 in salaries and benefits for the audit period. The district claimed costs for four of the seven reimbursable activities: transfer centers, standards of scholarship, curriculum, and open courses. We found that \$11,011 is allowable and \$25,079,951 is unallowable. The costs are unallowable for the following reasons:

- The district misinterpreted the program's parameters and guidelines requirement that only actual costs may be claimed. Actual costs must be traceable to and supported by contemporaneous source documents that show the validity of such costs and their relationship to the reimbursable activities. The district claimed costs based on declarations and signed certifications, which are corroborating documents, not source documents.
- The district provided an Individual Average Time Record (Individual Counselor Time Percentages) document to support each counselor's time spent on the reimbursable activities related to transfer centers, standards of scholarship, curriculum, and open courses. This single document identifies the percentage of estimated staff time spent on reimbursable activities for each fiscal year of the audit period. These time records did not provide the level of detail necessary for us to determine which reimbursable activities were actually performed, or the actual hours spent on each reimbursable activity.
- Most of the claimed activities related to transfer centers were specifically excluded from reimbursement by the Commission when it developed the program's parameters and guidelines. Such activities include, but are not limited to, identifying, contacting, and providing transfer support services to underrepresented students; ensuring that students receive accurate and up-to-date academic and transfer information through coordinated transfer counseling services; and monitoring the progress of transfer students to the point of transfer.
- The district provided district cost accounting statistics for Course Outlines (Form 5-CS 1.8-7) for FY 2003-04 through FY 2011-12. This document identifies the number of new or modified course outlines for each fiscal year. However, no other documentation was provided to support the number or the names of the course outlines that were designed during the audit period.
- The district provided district cost accounting statistics for State Reporting – Classification Reporting (Form 5-CS 1.8-3) for FY 2010-11 through FY 2011-12. This document identifies the number of reports that were prepared and submitted to the Chancellor's Office, and the classification of all courses, classes, and activities offered in accordance with Title 5, California Code of Regulations, section 55001(a) and 55002. However, the district provided no documentation that verified the course information for the reports that were prepared and submitted to the Chancellor's Office.
- The district claimed unallowable time spent for employees attending a training course and for teaching the training course related to the course outline approval process in FY 2011-12. The program's parameters and guidelines do not specifically allow districts to claim

- costs for a trainer or for attending a training class related to the course outline approval process.
- The district claimed unallowable time spent by non-subcommittee members to discuss a specific course at a Course Evaluation Subcommittee meeting in FY 2011-12. Per the parameters and guidelines, a district may be reimbursed only for obtaining a recommendation from the district curriculum committee and an approval from the district governing board, as specified, when seeking to offer a course as an associate degree credit course, nondegree credit course, or noncredit course.

The following table summarizes the audit adjustment related to salaries and benefits for each fiscal year of the audit period:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 1,004,503	\$ -	\$ (1,004,503)
2002-03	1,478,533	-	(1,478,533)
2003-04	1,352,254	-	(1,352,254)
2004-05	2,044,956	-	(2,044,956)
2005-06	2,163,415	-	(2,163,415)
2006-07	2,785,716	-	(2,785,716)
2007-08	3,031,954	-	(3,031,954)
2008-09	3,367,769	-	(3,367,769)
2009-10	2,735,998	-	(2,735,998)
2010-11	2,535,805	-	(2,535,805)
2011-12	2,590,059	11,011	(2,579,048)
Total	\$ 25,090,962	\$ 11,011	\$ (25,079,951)

The following table summarizes the audit adjustment related to salaries and benefits by reimbursable activity:

Reimbursable Activity	Amount Claimed	Amount Allowable	Audit Adjustment
Transfer Centers	\$ 12,511,517	\$ -	\$ (12,511,517)
Standards of Scholarship	8,651,584	-	(8,651,584)
Curriculum	1,354,570	11,011	(1,343,559)
Open Courses	2,573,291	-	(2,573,291)
Total	\$ 25,090,962	\$ 11,011	\$ (25,079,951)

The parameters and guidelines (section IV) state, in part:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to 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 costs was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, and declarations. Declarations must include a certification or declaration stating, "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

Specifically for salaries and benefits (section V.A.1), the parameters and guidelines require claimants to report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. They also require claimants to describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The parameters and guidelines (section IV.5.b.4) state, in part:

Get a recommendation [from] the college or district curriculum committee and approval [from] the district governing board, when seeking to offer a course as an associate degree credit course, nondegree credit course, or noncredit course. Recommendation by the college or district curriculum committee and approval by the district governing board are based on the courses meeting the following standards and criteria listed in a) through d).

The parameters and guidelines (section IV.5.b.5) require claimants to develop and keep a course outline of record for associate degree credit courses, nondegree credit courses, and noncredit courses in the official college files that describe the courses, and to make the outline available to each instructor. It also states, in part:

For associate degree credit courses and nondegree credit courses, the course outline shall specify the unit value, scope, objectives, and content of the course in terms of a specific body of knowledge. Also, the course outline shall specify types or provide examples of required reading and writing assignments, other outside-of-class assignments, instructional methodology, and methods of evaluation for determining whether the stated objectives have been met by students.

Recommendation

Commencing in FY 2012-13, the district elected to receive mandate block grant funding pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of receiving mandate block grant funding, we recommend that it:

- Follow the mandated program claiming instructions and parameters and guidelines when preparing its reimbursement claims; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by contemporaneous source documentation.

**FINDING 2—
Unallowable materials
and supplies**

The district claimed \$180,171 in materials and supplies related to transfer centers for the audit period. We found that the entire amount is unallowable. The costs are unallowable because the district did not adequately support its claimed costs.

The district claimed materials and supplies based on the allocation of total transfer center costs per the California Community Colleges Annual Financial and Budget (CCFS-311) Report as described in the mandated cost claim Form 2 (Activity Cost Detail). This document does not provide any detail as to what materials and supplies were used for the purpose of the reimbursable activities.

The following table summarizes the materials and supplies costs audit adjustment for each fiscal year of the audit period:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 8,553	\$ -	\$ (8,553)
2002-03	127,205	-	(127,205)
2003-04	1,573	-	(1,573)
2004-05	1,363	-	(1,363)
2005-06	1,914	-	(1,914)
2006-07	2,531	-	(2,531)
2007-08	3,421	-	(3,421)
2008-09	10,074	-	(10,074)
2009-10	5,693	-	(5,693)
2010-11	11,186	-	(11,186)
2011-12	6,658	-	(6,658)
Total	<u>\$ 180,171</u>	<u>\$ -</u>	<u>\$ (180,171)</u>

The parameters and guidelines (section V.A.2) require claimants to report the cost of materials and supplies that were used or expended for the purpose of the reimbursable activities.

The parameters and guidelines (section IV.2.b.2) allow reimbursement only for printing costs to “include the text of the current transfer core curriculum in the published class schedule for each academic term.”

Recommendation

Commencing in FY 2012-13, the district elected to receive mandate block grant funding pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of receiving mandate block grant funding, we recommend that it:

- Follow the mandated program claiming instructions and parameters and guidelines when preparing its reimbursement claims; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by contemporaneous source documentation.

**FINDING 3—
Unallowable fixed
asset costs**

The district claimed \$49,463 in fixed asset costs related to transfer centers for the audit period. We found that the entire amount is unallowable. The costs are unallowable because the district did not adequately support its claimed costs.

The district claimed fixed assets based on the allocation of total transfer center costs per the district’s CCFS-311 Report as described in the mandated cost claim Form 2 (Activity Cost Detail). This document does not provide any detail as to what fixed assets were purchased to implement the reimbursable activities.

The following table summarizes the fixed assets audit adjustment for each fiscal year of the audit period:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 7,593	\$ -	\$ (7,593)
2002-03	41,294	-	(41,294)
2003-04	-	-	-
2004-05	-	-	-
2005-06	-	-	-
2006-07	-	-	-
2007-08	-	-	-
2008-09	576	-	(576)
2009-10	-	-	-
2010-11	-	-	-
2011-12	-	-	-
Total	<u>\$ 49,463</u>	<u>\$ -</u>	<u>\$ (49,463)</u>

The parameters and guidelines (section V.A.4) require claimants to report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities.

Recommendation

Commencing in FY 2012-13, the district elected to receive mandate block grant funding pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of receiving mandate block grant funding, we recommend that it:

- Follow the mandated program claiming instructions and parameters and guidelines when preparing its reimbursement claims; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by contemporaneous source documentation.

**FINDING 4—
Overstated indirect
costs**

The district claimed indirect costs totaling \$9,081,740 for the audit period. We found that \$4,766 is allowable and \$9,076,974 is unallowable. The costs are unallowable primarily because they are related to the overstated salaries and benefits described in Finding 1. In addition, the district’s

indirect cost rate calculations did not comply with the SCO’s claiming instructions.

The district incorrectly applied its indirect cost rate to salaries and benefits rather than total direct costs (salaries and benefits, and materials and supplies) for FY 2001-02 through FY 2006-07.

For FY 2001-02, FY 2002-03, FY 2003-04, FY 2006-07, FY 2010-11, and FY 2011-12, the district claimed indirect costs based on indirect cost rates prepared using the SCO’s FAM-29C methodology. However, the district did not allocate direct and indirect costs in accordance with the SCO’s claiming instructions. The district incorrectly reported Community Relations (EDP 6710) as indirect costs. The district also calculated its fiscal year’s indirect cost rate based on actual costs reported in the district’s CCFS-311 Report from the preceding fiscal year, rather than the current fiscal year.

For FY 2004-05, FY 2005-06, FY 2007-08, FY 2008-09, and FY 2009-10, the district used the audited FAM-29C rates from two separate audits of the Health Fee Elimination Program.

The SCO previously reviewed the district’s indirect cost rates for FY 2001-02 through FY 2011-12 in four separate audits (three audits of the district’s Health Fee Elimination Program and one audit of the district’s Enrollment Fee Collection and Waivers Program). We applied the audited FAM-29C rates from these four audits to allowable direct costs for FY 2001-02 through FY 2006-07, and allowable salaries and benefits for FY 2007-08 through FY 2011-12.

The following table summarizes the audit adjustment related to indirect costs for each fiscal year of the audit period:

Fiscal Year	(A)		(B)	(C) = (A) x (B)	(D)	(E) = (C) - (D)
	Allowable Salaries and Benefits	Allowable Materials and Supplies	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
2001-02	\$ -	\$ -	18.23% ¹	\$ -	\$ 388,843	\$ (388,843)
2002-03	-	-	17.96% ¹	-	517,635	(517,635)
2003-04	-	-	17.00% ¹	-	451,653	(451,653)
2004-05	-	-	32.33% ¹	-	661,134	(661,134)
2005-06	-	-	33.86% ¹	-	732,532	(732,532)
2006-07	-	-	31.66% ¹	-	1,012,050	(1,012,050)
2007-08	-	N/A	33.87% ²	-	1,026,923	(1,026,923)
2008-09	-	N/A	35.66% ²	-	1,200,947	(1,200,947)
2009-10	-	N/A	36.82% ²	-	1,007,394	(1,007,394)
2010-11	-	N/A	41.81% ²	-	970,199	(970,199)
2011-12	11,011	N/A	43.28% ²	4,766	1,112,430	(1,107,664)
Total				\$ 4,766	\$ 9,081,740	\$ (9,076,974)

¹ Per the SCO Claiming Instructions, the FAM-29C rates for FY 2001-02 through FY 2006-07 are applied to total direct costs.

² Per the SCO Claiming Instructions, the FAM-29C rates for FY 2007-08 through FY 2011-12 are applied to salaries and benefits

The parameters and guidelines (section V.B) state:

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 Educational Institutions"; (2) the rate calculated on State Controller's Form FAM-29C; or (3) a 7% indirect cost rate.

For FY 2001-02 through FY 2006-07, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C)...The FAM-29C methodology uses a direct cost base comprised of salary and benefit costs and operating expenses.

For FY 2007-08 and forward, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C)...The methodology used in form FAM-29C is a direct cost base comprised of salary and benefit costs.

Recommendation

Commencing in FY 2012-13, the district elected to receive mandate block grant funding pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of receiving mandate block grant funding, we recommend that it:

- Follow the mandated program claiming instructions and parameters and guidelines when preparing its reimbursement claims; and
- Ensure that the claimed indirect cost rates are computed in accordance with the SCO's FAM-29C methodology and applied to allowable direct costs.

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