

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

Audit Report

MINIMUM CONDITIONS FOR STATE AID PROGRAM

Education Code sections 66010.2, 66010.7, 66721.5, 66731, 66732, 66736, 66738, 66740, 66742, 70902, 78015, and 78016 as added and/or amended by various legislation, 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 2019



BETTY T. YEE
California State Controller

June 3, 2019

Daniel Walden, Ph.D., Superintendent/President
Victor Valley Community College District
18422 Bear Valley Road
Victorville, CA 92395

Dear Dr. Walden:

The State Controller's Office (SCO) audited the costs claimed by Victor Valley 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 \$37,609,330 for the mandated program. Our audit found that \$318,538 is allowable and \$37,290,792 is unallowable. The costs are unallowable because the district claimed unallowable salaries and benefits, overstated materials and supplies costs, and overstated indirect costs. The State paid the district \$5,796,321.

Following issuance of this 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.

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: Dennis Henderson, President, Board of Trustees
Victor Valley Community College District
John Nahlen, Interim Vice-President, Administrative Services
Victor Valley Community College District
Shawntee Milton, Director, Fiscal Services
Victor Valley Community College District
Christian Osmeña, Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Frances Parmelee, Assistant Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Wrenna Finche, Director of Fiscal Standards and Accountability
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Chris Ferguson, Assistant Program Budget Manager
Education Systems Unit
California Department of Finance
Keith Nezaam, Staff Finance Budget Analyst
Education Systems Unit
California Department of Finance
Evelyn Calderon-Yee, Bureau Chief
Local Government Programs and Services Division
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Follow-up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	4
Schedule—Summary of Program Costs	5
Findings and Recommendations	11

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Victor Valley 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 \$37,609,330 for the mandated program. Our audit found that \$318,538 is allowable and \$37,290,792 is unallowable. The costs are unallowable because the district claimed unallowable salaries and benefits, overstated materials and supplies costs, and overstated indirect costs. The State paid the district \$5,796,321.

Background

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
- Chapters 1188 and 1198, Statutes of 1991
- Chapter 365, Statutes of 1998
- 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 reimbursable activities 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, 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;
- Reviewed all supporting time documents related to the counseling/counseling support staff costs claimed for the audit period. The district did not provide source documents to support the actual hours worked. Instead, the district provided corroborating documents showing estimated staff time (in percentages) for each fiscal year of the audit period;
- Reviewed all class schedules and college catalogs to ensure that the correct number of pages were claimed for reimbursement under each reimbursable activity (i.e., transfer centers, standards of scholarship, curriculum, degrees and certificates, and open courses);
- Traced total printing costs for the class schedules to supporting documentation for fiscal year (FY) 2003-04, FY 2004-05, and FY 2006-07 through FY 2010-11. We also traced total printing costs for the college catalogs to supporting documentation for FY 2003-04;
- Reviewed all indirect cost rates claimed and recalculated the rates using the Controller's methodology (FAM-29C) for FY 2008-09, FY 2009-10, and FY 2011-12. For the remaining fiscal years of the audit period, we used the audited rates from the district's Enrollment Fee Collection and Waivers Program. The district incorrectly applied its FAM-29C 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; and
- Reviewed potential sources of offsetting revenues/reimbursements for the audit period. We inquired with district staff and reviewed single audit reports (with accompanying financial statements) for other sources of funding.

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 outlined in our audit objective. We did not find that the district claimed costs that were funded by other sources; however, we did find that the district claimed unsupported and ineligible costs, as quantified in the accompanying Schedule and described in the Findings and Recommendations section of this audit report.

For the audit period, Victor Valley Community College District claimed \$37,609,330 for costs of the legislatively mandated Minimum Conditions for State Aid Program. Our audit found that \$318,538 is allowable and \$37,290,792 is unallowable. The payment information is as follows:

- For the FY 2001-02 through FY 2003-04 claims, the State paid the district \$5,796,321. Our audit found that \$45,229 is allowable.
- For the FY 2004-05 through FY 2011-12 claims, the State made no payments to the district. Our audit found that \$273,309 is allowable. The State will pay that amount, contingent upon available appropriations.

Following issuance of this 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 April 8, 2019. On April 18, 2019, Shawntee Milton, Director, Fiscal Services, responded by email stating that the district will not submit a response to the draft audit report.

Restricted Use

This audit report is solely for the information and use of Victor Valley 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 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 3, 2019

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	\$ 850,640	\$ -	\$ (850,640)	
Standards of scholarship	533,794	-	(533,794)	
Curriculum	110,619	-	(110,619)	
Open courses	124,558	-	(124,558)	
Subtotal, Salaries and benefits	<u>1,619,611</u>	<u>-</u>	<u>(1,619,611)</u>	Finding 1
Materials and supplies				
Transfer centers	5,148	-	(5,148)	
Standards of scholarship	1,928	-	(1,928)	
Curriculum	14,788	-	(14,788)	
Degrees and certificates	10,874	-	(10,874)	
Open courses	14,480	-	(14,480)	
Subtotal, Materials and supplies	<u>47,218</u>	<u>-</u>	<u>(47,218)</u>	Finding 2
Total direct costs	1,666,829	-	(1,666,829)	
Indirect costs	992,498	-	(992,498)	Finding 3
Total program costs	<u>\$ 2,659,327</u>	<u>-</u>	<u>\$ (2,659,327)</u>	
Less amount paid by the State ³		<u>(2,659,327)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,659,327)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 903,805	\$ -	\$ (903,805)	
Standards of scholarship	567,156	-	(567,156)	
Curriculum	117,532	-	(117,532)	
Open courses	132,342	-	(132,342)	
Subtotal, Salaries and benefits	<u>1,720,835</u>	<u>-</u>	<u>(1,720,835)</u>	Finding 1
Materials and supplies				
Transfer centers	6,402	-	(6,402)	
Standards of scholarship	2,371	-	(2,371)	
Curriculum	12,448	-	(12,448)	
Degrees and certificates	15,174	-	(15,174)	
Open courses	12,211	-	(12,211)	
Subtotal, Materials and supplies	<u>48,606</u>	<u>-</u>	<u>(48,606)</u>	Finding 2
Total direct costs	1,769,441	-	(1,769,441)	
Indirect costs	949,901	-	(949,901)	Finding 3
Total program costs	<u>\$ 2,719,342</u>	<u>-</u>	<u>\$ (2,719,342)</u>	
Less amount paid by the State ³		<u>(2,719,342)</u>		
Amount paid in excess of allowable costs claimed		<u>\$ (2,719,342)</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 956,970	\$ -	\$ (956,970)	
Standards of scholarship	600,519	-	(600,519)	
Curriculum	124,446	-	(124,446)	
Open courses	140,128	-	(140,128)	
Subtotal, Salaries and benefits	<u>1,822,063</u>	<u>-</u>	<u>(1,822,063)</u>	Finding 1
Materials and supplies				
Transfer centers	5,647	-	(5,647)	
Standards of scholarship	2,118	360	(1,758)	
Curriculum	16,942	-	(16,942)	
Degrees and certificates	15,060	2,789	(12,271)	
Open courses	14,824	33,746	18,922	
Subtotal, Materials and supplies	<u>54,591</u>	<u>36,895</u>	<u>(17,696)</u>	Finding 2
Total direct costs	1,876,654	36,895	(1,839,759)	
Indirect costs	982,274	8,334	(973,940)	Finding 3
Total program costs	<u>\$ 2,858,928</u>	45,229	<u>\$ (2,813,699)</u>	
Less amount paid by the State ³		(417,652)		
Amount paid in excess of allowable costs claimed		<u>\$ (372,423)</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,010,135	\$ -	\$ (1,010,135)	
Standards of scholarship	633,880	-	(633,880)	
Curriculum	131,360	-	(131,360)	
Open courses	147,912	-	(147,912)	
Subtotal, Salaries and benefits	<u>1,923,287</u>	<u>-</u>	<u>(1,923,287)</u>	Finding 1
Materials and supplies				
Transfer centers	5,670	-	(5,670)	
Standards of scholarship	1,564	-	(1,564)	
Curriculum	14,274	-	(14,274)	
Degrees and certificates	12,318	-	(12,318)	
Open courses	12,710	30,422	17,712	
Subtotal, Materials and supplies	<u>46,536</u>	<u>30,422</u>	<u>(16,114)</u>	Finding 2
Total direct costs	1,969,823	30,422	(1,939,401)	
Indirect costs	877,211	13,431	(863,780)	Finding 3
Total program costs	<u>\$ 2,847,034</u>	43,853	<u>\$ (2,803,181)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 43,853</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,063,300	\$ -	\$ (1,063,300)	
Standards of scholarship	667,243	-	(667,243)	
Curriculum	138,273	-	(138,273)	
Open courses	155,698	-	(155,698)	
Subtotal, Salaries and benefits	<u>2,024,514</u>	<u>-</u>	<u>(2,024,514)</u>	Finding 1
Materials and supplies				
Transfer centers	5,358	-	(5,358)	
Standards of scholarship	1,855	-	(1,855)	
Curriculum	15,455	-	(15,455)	
Degrees and certificates	12,777	-	(12,777)	
Open courses	13,601	-	(13,601)	
Subtotal, Materials and supplies	<u>49,046</u>	<u>-</u>	<u>(49,046)</u>	Finding 2
Total direct costs	2,073,560	-	(2,073,560)	
Indirect costs	<u>942,816</u>	<u>-</u>	<u>(942,816)</u>	Finding 3
Total program costs	<u>\$ 3,016,376</u>	<u>-</u>	<u>\$ (3,016,376)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,151,340	\$ -	\$ (1,151,340)	
Standards of scholarship	722,490	-	(722,490)	
Curriculum	149,722	-	(149,722)	
Open courses	168,590	-	(168,590)	
Subtotal, Salaries and benefits	<u>2,192,142</u>	<u>-</u>	<u>(2,192,142)</u>	Finding 1
Materials and supplies				
Transfer centers	9,389	-	(9,389)	
Standards of scholarship	2,889	-	(2,889)	
Curriculum	27,446	-	(27,446)	
Degrees and certificates	22,390	-	(22,390)	
Open courses	24,557	53,471	28,914	
Subtotal, Materials and supplies	<u>86,671</u>	<u>53,471</u>	<u>(33,200)</u>	Finding 2
Total direct costs	2,278,813	53,471	(2,225,342)	
Indirect costs	<u>1,064,943</u>	<u>27,377</u>	<u>(1,037,566)</u>	Finding 3
Total program costs	<u>\$ 3,343,756</u>	<u>80,848</u>	<u>\$ (3,262,908)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 80,848</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,230,583	\$ -	\$ (1,230,583)	
Standards of scholarship	772,217	-	(772,217)	
Curriculum	160,027	-	(160,027)	
Open courses	180,192	-	(180,192)	
Subtotal, Salaries and benefits	<u>2,343,019</u>	<u>-</u>	<u>(2,343,019)</u>	Finding 1
Materials and supplies				
Transfer centers	13,092	-	(13,092)	
Standards of scholarship	4,532	-	(4,532)	
Curriculum	41,289	-	(41,289)	
Degrees and certificates	31,219	-	(31,219)	
Open courses	36,758	59,927	23,169	
Subtotal, Materials and supplies	<u>126,890</u>	<u>59,927</u>	<u>(66,963)</u>	Finding 2
Total direct costs	2,469,909	59,927	(2,409,982)	
Indirect costs	1,394,565	-	(1,394,565)	Finding 3
Total program costs	<u>\$ 3,864,474</u>	59,927	<u>\$ (3,804,547)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 59,927</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,321,681	\$ -	\$ (1,321,681)	
Standards of scholarship	875,098	-	(875,098)	
Curriculum	172,309	-	(172,309)	
Degrees and certificates	46,529	-	(46,529)	
Open courses	193,459	-	(193,459)	
Subtotal, Salaries and benefits	<u>2,609,076</u>	<u>-</u>	<u>(2,609,076)</u>	Finding 1
Materials and supplies				
Transfer centers	6,237	-	(6,237)	
Standards of scholarship	1,919	-	(1,919)	
Curriculum	13,433	-	(13,433)	
Degrees and certificates	14,633	-	(14,633)	
Open courses	11,514	52,599	41,085	
Subtotal, Materials and supplies	<u>47,736</u>	<u>52,599</u>	<u>4,863</u>	Finding 2
Total direct costs	2,656,812	52,599	(2,604,213)	
Indirect costs	1,278,448	-	(1,278,448)	Finding 3
Total program costs	<u>\$ 3,935,260</u>	52,599	<u>\$ (3,882,661)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 52,599</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,318,799	\$ -	\$ (1,318,799)	
Standards of scholarship	866,990	-	(866,990)	
Curriculum	172,525	-	(172,525)	
Degrees and certificates	41,331	-	(41,331)	
Open courses	192,938	-	(192,938)	
Subtotal, Salaries and benefits	<u>2,592,583</u>	<u>-</u>	<u>(2,592,583)</u>	Finding 1
Materials and supplies				
Transfer centers	1,408	-	(1,408)	
Standards of scholarship	433	-	(433)	
Curriculum	3,032	-	(3,032)	
Degrees and certificates	3,302	-	(3,302)	
Open courses	2,599	29,643	27,044	
Subtotal, Materials and supplies	<u>10,774</u>	<u>29,643</u>	<u>18,869</u>	Finding 2
Total direct costs	2,603,357	29,643	(2,573,714)	
Indirect costs	1,268,033	-	(1,268,033)	Finding 3
Total program costs	<u>\$ 3,871,390</u>	29,643	<u>\$ (3,841,747)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 29,643</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,383,222	\$ -	\$ (1,383,222)	
Standards of scholarship	921,966	-	(921,966)	
Curriculum	180,771	-	(180,771)	
Degrees and certificates	55,633	-	(55,633)	
Open courses	202,393	-	(202,393)	
Subtotal, Salaries and benefits	<u>2,743,985</u>	<u>-</u>	<u>(2,743,985)</u>	Finding 1
Materials and supplies				
Transfer centers	1,642	-	(1,642)	
Standards of scholarship	719	-	(719)	
Curriculum	5,183	-	(5,183)	
Degrees and certificates	6,056	-	(6,056)	
Open courses	4,465	6,439	1,974	
Subtotal, Materials and supplies	<u>18,065</u>	<u>6,439</u>	<u>(11,626)</u>	Finding 2
Total direct costs	2,762,050	6,439	(2,755,611)	
Indirect costs	1,360,468	-	(1,360,468)	Finding 3
Total program costs	<u>\$ 4,122,518</u>	6,439	<u>\$ (4,116,079)</u>	
Less amount paid by the State ³		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 6,439</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 1,389,062	\$ -	\$ (1,389,062)	
Standards of scholarship	919,460	-	(919,460)	
Curriculum	199,849	-	(199,849)	
Degrees and certificates	83,737	-	(83,737)	
Open courses	200,164	-	(200,164)	
Subtotal, Salaries and benefits	<u>2,792,272</u>	<u>-</u>	<u>(2,792,272)</u>	Finding 1
Materials and supplies				
Transfer centers	3,590	-	(3,590)	
Standards of scholarship	1,701	-	(1,701)	
Curriculum	22,863	-	(22,863)	
Degrees and certificates	567	-	(567)	
Open courses	21,163	-	(21,163)	
Subtotal, Materials and supplies	<u>49,884</u>	<u>-</u>	<u>(49,884)</u>	Finding 2
Total direct costs	2,842,156	-	(2,842,156)	
Indirect costs	1,528,769	-	(1,528,769)	Finding 3
Total program costs	<u>\$ 4,370,925</u>	<u>-</u>	<u>\$ (4,370,925)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs ² :				
Salaries and benefits				
Transfer centers	\$ 12,579,537	\$ -	\$ (12,579,537)	
Standards of scholarship	8,080,813	-	(8,080,813)	
Curriculum	1,657,433	-	(1,657,433)	
Degrees and certificates	227,230	-	(227,230)	
Open courses	1,838,374	-	(1,838,374)	
Subtotal, Salaries and benefits	<u>24,383,387</u>	<u>-</u>	<u>(24,383,387)</u>	Finding 1
Materials and supplies				
Transfer centers	63,583	-	(63,583)	
Standards of scholarship	22,029	360	(21,669)	
Curriculum	187,153	-	(187,153)	
Degrees and certificates	144,370	2,789	(141,581)	
Open courses	168,882	266,247	97,365	
Subtotal, Materials and supplies	<u>586,017</u>	<u>269,396</u>	<u>(316,621)</u>	Finding 2
Total direct costs	24,969,404	269,396	(24,700,008)	
Indirect costs	12,639,926	49,142	(12,590,784)	Finding 3
Total program costs	<u>\$ 37,609,330</u>	<u>318,538</u>	<u>\$ (37,290,792)</u>	
Less amount paid by the State ³		(5,796,321)		
Amount paid in excess of allowable costs claimed		<u>\$ (5,477,783)</u>		

¹ See the Findings and Recommendations section.

² Includes only ongoing activities.

³ Payment amount current as of May 23, 2019.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed \$24,383,387 in salaries and benefits for the audit period. The district claimed costs for five of the seven reimbursable activities: transfer centers, standards of scholarship, curriculum, degrees and certificates, and open courses. We found that the entire amount 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 regarding transfer centers, standards of scholarship, curriculum, degrees and certificates, 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 needed to determine which reimbursable activities were actually performed, or the actual hours spent on each reimbursable activity.
- Most of the claimed activities related to the transfer center were specifically excluded from reimbursement by the Commission when developing 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 an Annual Employee Time Record Sheet to support the staff time spent on publishing policies, procedures, and regulations in college publications. The total hours from each time record were split equally between standards of scholarship, and degrees and certificates. In addition, the district provided a similar document to support the staff time spent on publishing course descriptions in college publications. The total hours from each time record were split in thirds under transfer centers, curriculum, and degrees and certificates. This document identifies the estimated staff time spent (in hours) for each fiscal year of the audit period. The district did not provide source documentation identifying the specific activities performed by each individual; it provided only a description of either “Publish policies, procedures, and regulations in college publications,” or “Publish course descriptions in college publications.”

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	\$ 1,619,611	\$ -	\$ (1,619,611)
2002-03	1,720,835	-	(1,720,835)
2003-04	1,822,063	-	(1,822,063)
2004-05	1,923,287	-	(1,923,287)
2005-06	2,024,514	-	(2,024,514)
2006-07	2,192,142	-	(2,192,142)
2007-08	2,343,019	-	(2,343,019)
2008-09	2,609,076	-	(2,609,076)
2009-10	2,592,583	-	(2,592,583)
2010-11	2,743,985	-	(2,743,985)
2011-12	2,792,272	-	(2,792,272)
Total	\$ 24,383,387	\$ -	\$ (24,383,387)

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

<u>Reimbursable Activity</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Transfer Centers	\$ 12,579,537	\$ -	\$ (12,579,537)
Standards of Scholarship	8,080,813	-	(8,080,813)
Curriculum	1,657,433	-	(1,657,433)
Degrees and Certificates	227,230	-	(227,230)
Open Courses	1,838,374	-	(1,838,374)
Total	\$ 24,383,387	\$ -	\$ (24,383,387)

Section IV of the parameters and guidelines states, 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.

Recommendation

Commencing in FY 2014-15, the district elected to receive 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 block grant funding, we recommend that the district:

- 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—
Overstated materials
and supplies costs**

The district claimed \$586,017 in materials and supplies costs for the audit period. The district claimed costs for five of the seven reimbursable activities: transfer centers, standards of scholarship, curriculum, degrees and certificates, and open courses. We found that \$269,396 is allowable and \$316,621 is unallowable. The costs are unallowable because the district did not adequately support its claimed costs. In addition, the district claimed unsupported publishing costs and non-reimbursable printing costs under certain activities.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 47,218	\$ -	\$ (47,218)
2002-03	48,606	-	(48,606)
2003-04	54,591	36,895	(17,696)
2004-05	46,536	30,422	(16,114)
2005-06	49,046	-	(49,046)
2006-07	86,671	53,471	(33,200)
2007-08	126,890	59,927	(66,963)
2008-09	47,736	52,599	4,863
2009-10	10,774	29,643	18,869
2010-11	18,065	6,439	(11,626)
2011-12	49,884	-	(49,884)
Total	<u>\$ 586,017</u>	<u>\$ 269,396</u>	<u>\$ (316,621)</u>

The following table summarizes the materials and supplies audit adjustment by reimbursable activity:

Reimbursable Activity	Amount Claimed	Amount Allowable	Audit Adjustment
Transfer Centers	\$ 63,583	\$ -	\$ (63,583)
Standards of Scholarship	22,029	360	(21,669)
Curriculum	187,153	-	(187,153)
Degrees and Certificates	144,370	2,789	(141,581)
Open Courses	168,882	266,247	97,365
Total	<u>\$ 586,017</u>	<u>\$ 269,396</u>	<u>\$ (316,621)</u>

Transfer Centers

The district claimed \$63,583 in materials and supplies costs related to transfer centers. We found that the entire amount is unallowable. The costs are unallowable because the district claimed non-reimbursable printing costs for pages related to the current transfer core curriculum in its college catalogs. In addition, the district did not include the text of the transfer core curriculum in class schedules during the audit period.

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

Standards of Scholarship

The district claimed \$22,029 in materials and supplies costs related to standards of scholarship. We found that \$360 is allowable and \$21,669 is unallowable. The costs are unallowable because the district inadvertently included total printing costs for the class schedules with the total printing costs for college catalogs in its calculation of reimbursable publication costs.

As reimbursement is only allowable for publishing the relevant pages in the college catalogs, we separated the total printing costs between the class schedules and college catalogs. The district only identified the college catalog expenditures in FY 2003-04. Therefore, we recalculated the district’s allowable publishing costs for that fiscal year. To calculate the allowable publishing costs for FY 2003-04, we divided the number of reimbursable pages related to standards of scholarship (as described in the parameters and guidelines) by the total number of printed pages; we then multiplied that percentage by the total printing costs that were adequately supported by source documents.

The parameters and guidelines (sections IV.4.b.2, IV.4.b.6, IV.4.b.15, IV.4.b.18, IV.4.b.20b, and IV.4.b.21) allow reimbursement only for publishing the relevant pages in the college catalogs.

Curriculum

The district claimed \$187,153 in materials and supplies costs related to curriculum. We found that the entire amount is unallowable. The costs are unallowable because the reimbursable activity related to providing curriculum information is also covered by the open courses reimbursable activity (i.e., course descriptions).

We also noted that the district incorrectly transferred the total amount claimed from its Allocation of College Catalog Publication Costs (Form 8-CP 1.8-5) to its Total Reimbursable College Publication Costs by Mandate Program – Curriculum (Form 8-CP 1.8-7-3) for FY 2003-04 through FY 2011-12. The district inadvertently included additional line items/costs from the standards of scholarship reimbursable activity in its total amount claimed for curriculum materials and supplies costs.

The parameters and guidelines (section IV.5.b.6) state:

Make available to students through college publications all of the following facts regarding each course offered before they enroll in the course: (1) whether the course is offered as a credit or noncredit course; (2) whether the course is transferable to four-year colleges and universities; and (3) whether the course fulfills a major or general education requirement.

The parameters and guidelines (section IV.5.b.8c) also state:

Identify the prerequisites and co-requisites required to be established for an associate degree credit course in college publications available to students as well as in the course outline of any course for which they are established.

Degrees and Certificates

The district claimed \$144,370 in materials and supplies related to degrees and certificates. We found that \$2,789 is allowable and \$141,581 is unallowable. The costs are unallowable because the district inadvertently included total printing costs for the class schedules with total printing costs for the college catalogs in its calculation of the reimbursable publication costs.

As reimbursement is only allowable for publishing the relevant pages in the college catalogs, we separated the total printing costs between the class schedules and college catalogs. The district only identified the college catalog expenditures in FY 2003-04. Therefore, we recalculated the district's allowable publishing costs for that fiscal year. To calculate the allowable publishing costs for FY 2003-04, we divided the number of reimbursable pages related to degrees and certificates (as described in the parameters and guidelines) by the total number of printed pages; we then multiplied that percentage by the total printing costs that were adequately supported by source documents.

The parameters and guidelines (section IV.6.a) state:

Include in the policy the requirement to condition receipt of an associate degree by a student on the satisfactory completion of at least 60 semester units or 90 quarter units of college work that is fulfilled in a curriculum accepted toward the degree by a college within the district (as shown in its catalog).

The parameters and guidelines (section IV.6.b) also state:

Publish in the college catalog under appropriate headings the policy that is consistent with the subchapter in title 5 of the California Code of Regulations regarding degrees and certificates. (Cal. Code Regs., tit. 5, §55800, Register 91, No. 23; for current requirement see Cal. Code of Regs., tit. 5, §55060, Register 2007, No. 35.)

Title 5, *California Code of Regulations*, section 55060, states that the governing board of each community college district shall adopt policy consistent with the provisions in that article. The policy should be published in the college catalog. This policy is found under Article 6, which applies only to Associate Degrees, not to Certificates.

Therefore, printing costs for any pages that include Certificates are not reimbursable under the mandate.

Open Courses

The district claimed \$168,882 in materials and supplies costs related to open courses. We found that \$266,247 is allowable. The district understated its costs by \$97,365.

The district calculated its reimbursable printing costs by combining the total printing costs for both the class schedules and college catalogs in FY 2003-04. The district did not provide documentation (i.e., detailed general ledgers, invoices) to support the class schedules' total printing costs for FY 2001-02, FY 2002-03, FY 2005-06, and FY 2011-12. In addition, the district did not provide documentation to support the college catalogs' total printing costs for FY 2001-02, FY 2002-03, and FY 2004-05 through FY 2011-12.

For FY 2003-04, we separated the total printing costs between the class schedules and college catalogs. Based on the supporting documentation received, we recalculated the district's allowable publication costs totaling \$260,535 for the class schedules and \$5,712 for the college catalogs. To calculate the allowable publishing costs for each semester/fiscal year, we divided the number of reimbursable pages related to open courses (as described in the parameters and guidelines) by the total number of printed pages; we then multiplied that percentage by the total printing costs that were adequately supported by source documents. This calculation was completed separately for each college publication.

The parameters and guidelines (section IV.7.a) allow reimbursement for publishing a description of each course that is clear and understandable to the prospective student in the official catalog, schedule of classes, and addenda.

Recommendation

Commencing in FY 2014-15, the district elected to receive 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 block grant funding, we recommend that the district:

- 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— Overstated indirect costs

The district claimed indirect costs totaling \$12,639,926 for the audit period. We found that \$49,142 is allowable and \$12,590,784 is unallowable. The costs are unallowable primarily because they are related to the unallowable 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.

For the audit period, the district calculated its indirect cost rates using the SCO's FAM-29C methodology. 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. The district also calculated each fiscal year's indirect cost rate based on actual costs reported in the district's California Community Colleges Annual Financial Budget Report (CCFS-311) from the preceding fiscal year rather than the current fiscal year. In addition, the district incorrectly reported Community Relations (EDP 6710) as indirect costs.

For FY 2001-02 through FY 2007-08, and FY 2010-11, the SCO audited the district's indirect cost rates as part of an audit of the district's Enrollment Fee Collection and Waivers Program. For FY 2001-02 through FY 2006-07, we applied the audited FAM-29C rates to allowable direct costs. For FY 2007-08 and FY 2010-11, we applied the audited FAM-29C rates to allowable salaries and benefits only.

For FY 2008-09, FY 2009-10, and FY 2011-12, we recalculated the district's indirect cost rate using the SCO's FAM-29C methodology and the corresponding CCFS-311 report. We applied the allowable rates to allowable salaries and benefits only.

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) × (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	\$ -	\$ -	31.47%	\$ -	\$ 992,498	\$ (992,498)
2002-03	-	-	30.58%	-	949,901	(949,901)
2003-04	-	36,895	22.59%	8,334	982,274	(973,940)
2004-05	-	30,422	44.15%	13,431	877,211	(863,780)
2005-06	-	-	41.63%	-	942,816	(942,816)
2006-07	-	53,471	51.20%	27,377	1,064,943	(1,037,566)
2007-08	-	N/A	47.16%	-	1,394,565	(1,394,565)
2008-09	-	N/A	48.17%	-	1,278,448	(1,278,448)
2009-10	-	N/A	48.91%	-	1,268,033	(1,268,033)
2010-11	-	N/A	50.61%	-	1,360,468	(1,360,468)
2011-12	-	N/A	52.81%	-	1,528,769	(1,528,769)
Total				\$ 49,142	\$ 12,639,926	\$ (12,590,784)

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 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 2014-15, the district elected to receive 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 block grant funding, we recommend that the district:

- 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.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>